

A CRACKLING SAMVAT 2077 IN STORE



Diwali Muhurat Picks: A CRACKLING SAMVAT 2077 IN STORE!

Samvat 2076 began on a solid note with outperformance seen in small and mid cap stocks. The beginning of Samvat 2076 was marked by lower market volatility but there were concerns on the economy as GDP growth rate was slowing. However, market returns and GDP growth rate in India do not have a very strong correlation and the benchmark Nifty touched an all time high of 12,371 in the early part of the year which is now considered Pre COVID.

COVID changed everything for the markets and for the world itself. For a brief period it can be said that COVID even had a humbling effect on people. However, as the old adage goes, the more things change the more they remain same. This is so true in the post COVID era. Even as the world came to a standstill and markets plummeted worldwide with crude even entering a negative zone in one contract closing, a semblance of things are not so bad started to emerge. Markets rallied and as the whole system started developing a coping mechanism for COVID and locked down economies started opening up. The COVID challenge has had many ramifications for the businesses worldwide but it has also brought a lot of opportunities for innovative companies.

Samvat 2077 now looks much brighter and this Diwali has brought festive cheers to many, but still there is a long way to go. It seems more likely that growth is likely to come back strongly looking at the high frequency indicators. The Indian banking system has coped well with the pandemic challenges and it is now flushed with liquidity. Interest rates are low and lending is much likely to pick up strongly in the forthcoming quarters. New home registrations are seeing a solid pick up across the metros and housing loans are surging across the banking system. Even looking at the building materials companies results, the demand scenario looks quite encouraging.

Housing and banking will be growth themes for Samvat 2077. Pick up in the real estate sector will bode well for the economy as a whole as capacity utilization across the system will improve significantly.

Currently, there are ten good COVID vaccine candidates in phase 3 trials and a vaccination can be expected by early 2021 if not earlier. So, Samvat 2077 will also see the vaccination theme playing out across the sectors. Successful vaccination drive will mean complete opening up of the economy and the most affected sectors like travel and tourism will get a boost. More offices, malls and recreation centres will open up and stocks associated with these themes will pick up steam.

Taking all these factors into consideration, our themes for Samvat 2077 are:

- ✓ The small and midcaps are picking up steam and they should deliver solid returns in 2021 as economic uncertainties will reduce and volatility will decline. We believe volatility will decline significantly in 2021 which will lead to a small and mid cap rally.
- ✓ Housing and banking will be major themes to watch out for in 2021 because of correction in real estate prices and lower interest rate regime.
- ✓ Digital and telecommunications will continue to remain major long-term structural themes.
- ✓ Vaccination drive and complete opening up of the economy will be key factors for growth.
- ✓ Growth is now a more certain theme, but growth at a reasonable price will be an even bigger theme to invest which will deliver solid returns over the next one year.

Based on these themes, our Diwali picks are:

ICICI Bank, Canfin Homes, SBI, Bharti Airtel, Tech Mahindra, SIS, Eicher Motors, Dalmia Bharat, Varun Beverages, Dhanuka Agritech and Aarti Industries



Axis Securities Diwali Muhurat Picks: A CRACKLING SAMVAT 2077 IN STORE!

| Company Name | Sector | Stock price | Target Price | Upside (%) | 12 Month Fwd PE | 12 Month Fwd P/BV | Dividend Yield | TR 1M% | TR 3M% | TR 6M% | TR YTD% |
|--------------------------|------------------------|-------------|--------------|------------|-----------------|-------------------|----------------|--------|--------|--------|---------|
| ICICI BANK LTD | Financials | 443 | 504 | 14% | 22.4 | 2.2 | N.A | 16.3 | 23.4 | 29.7 | -17.8 |
| STATE BANK OF INDIA | Financials | 219 | 261 | 19% | 10.3 | 0.8 | N.A | 14.4 | 14.8 | 28.1 | -34.3 |
| CAN FIN HOMES LTD | Financials | 472 | 515 | 9% | 16.3 | 2.4 | 0.0 | 11.7 | 27.9 | 60.1 | 20.7 |
| TECH MAHINDRA LTD | Information Technology | 851 | 975 | 15% | 17.7 | 3.1 | 1.2 | 2.3 | 31.3 | 72.4 | 16.2 |
| BHARTI AIRTEL LTD | Communication Services | 450 | 676 | 50% | 249.9 | 3.8 | 0.4 | 5.4 | -19.0 | -17.3 | -0.9 |
| SECURITY & INTELLIGENCE | Industrials | 375 | 450 | 20% | 22.4 | 3.5 | 0.5 | -0.2 | 3.7 | -0.5 | -22.5 |
| EICHER MOTORS LTD | Consumer Discretionary | 2139 | 2400 | 12% | 41.4 | 5.4 | 0.0 | -2.7 | -1.3 | 54.3 | -4.2 |
| DALMIA BHARAT LTD | Materials | 893 | 1083 | 21% | 42.8 | 1.6 | 0.2 | 16.1 | 13.4 | 73.9 | 11.8 |
| VARUN BEVERAGES LTD | Consumer Staples | 694 | 865 | 25% | 62.5 | 5.7 | 0.4 | 0.6 | -11.6 | 13.1 | -1.7 |
| AARTI INDUSTRIES LIMITED | Materials | 1105 | 1263 | 14% | 36.0 | 5.6 | 0.3 | 9.0 | 4.6 | 0.1 | 33.5 |
| DHANUKA AGRITECH LTD | Materials | 733 | 880 | 20% | 19.6 | 4.1 | 1.6 | -3.5 | -7.0 | 66.3 | 85.2 |

Source: Company, Axis Securities; N.A. – Not available

Covid-19 Vaccine Tracker

Vaccine development is in advance stages across the countries. 44 candidates are working on the development of the Corona vaccine, out of which 10 candidates are now in Phase 3 trial which is a final phase of the vaccine development. Now the discussion is progressed towards the production and the distribution of the vaccine. As per government estimate, one out of five Indian may be vaccinated by July 2021. Government is also preparing a list of “priority population group”, to get the vaccine first.

| Covid Vaccine Tracker | | | |
|-----------------------|-------------------------------------|---|----------------------|
| Country | Candidate | Developer | Phase of Development |
| Russia | Sputnik V | Gamaleya Research Institute, Acellena Contract Drug | Phase3 |
| China | Inactivated vaccine | Wuhan Institute of Biological/ Sinopharm | Phase3 |
| China | CoronaVac | Sinovac | Phase3 |
| US | mRNA-1273 | Moderna | Phase3 |
| China | Ad5-nCoV | CanSino Biologics | Phase3 |
| UK | AZD1222/Covishield | The University of Oxford; AstraZeneca; Serum Institute of India | Phase3 |
| US | BNT162 | Pfizer, BioNTech | Phase3 |
| US | NVX-CoV2373 | Novavax | Phase3 |
| US | JNJ-78436735 (formerly Ad26.COV2-S) | Johnson & Johnson | Phase 3 |
| Australia | Bacillus Calmette-Guerin (BCG) | University of Melbourne | Phase 2/3 |
| India | ZyCoV-D | Zydus Cadila | Phase 2 |
| India | Covaxin | Bharat Biotech; National Institute of Virology | Phase 2 |

Source: RAPS, Axis Securities

High Frequency Indicators: Indicators suggesting upward trend for economic growth

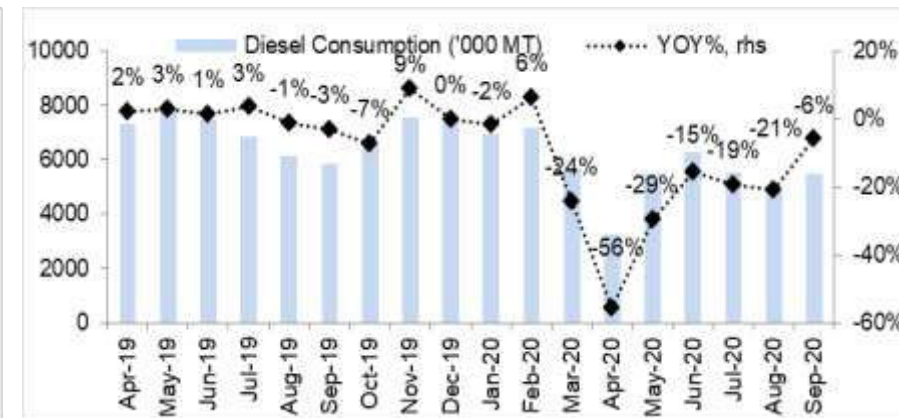
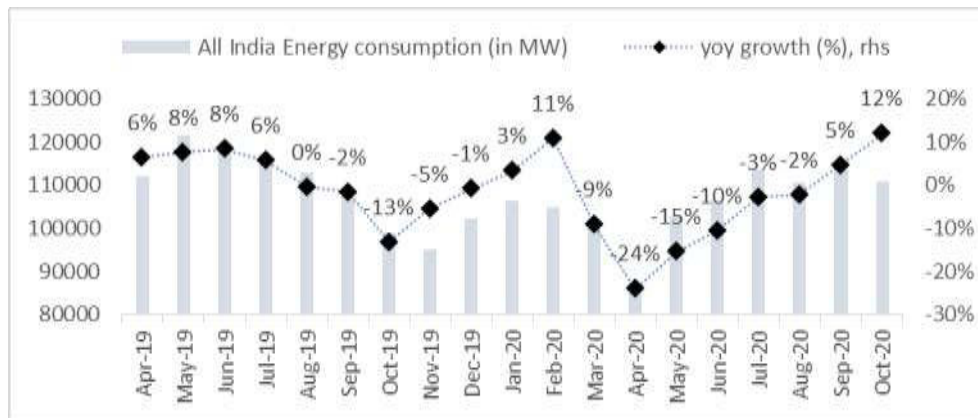
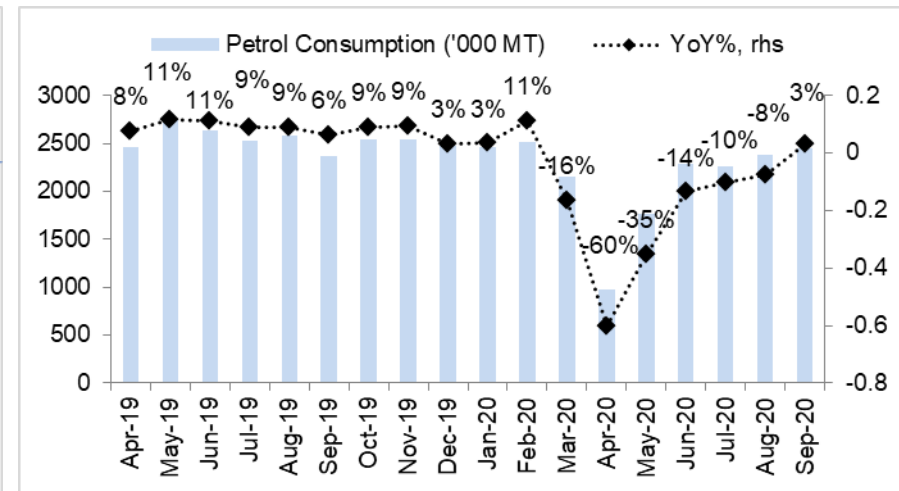
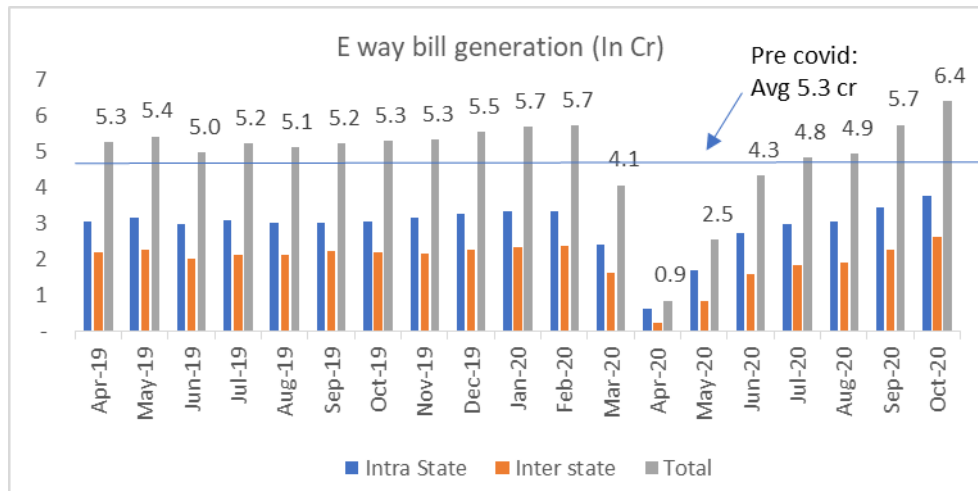
Manufacturing PMI surged to 58.9 in October, continuing its improving trend for third straight month, climbed to highest in over a decade shows improving operating conditions arise after the lifting of lockdown restrictions which turns into increase in new orders and production. Another sign of recovery in the economy with October GST collection crossed Rs 1 lakh cr mark after last seen in Feb 2020. Continuously rising GST collection from last two months indicates the pickup in business activities, also the indication of revival of consumption ahead of festival season. Festive demand drives Automobile sales higher in October. Passenger vehicle sales up in the month of October for the third straight month, highlighting buyout demand during Navratri. Similar trend visible in 2-wheelers, however, demand likely to continue for November onset of upcoming festival Diwali.

| Macro | Month | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 |
|-----------------------------|--------|----------|----------|----------|----------|--------|---------|--------|--------|--------|--------|--------|----------|
| Forex reserves (\$ Bn) | Oct-20 | 451.1 | 457.5 | 471.3 | 481.5 | 475.6 | 479.5 | 493.5 | 506.8 | 534.6 | 541.4 | 542.0 | 560.5 |
| FDI (\$ Mn) | Aug-20 | 1720 | 5065 | 6742 | 4533 | 4075 | 3402 | 2535 | -72 | 3988 | 18482 | | |
| Exports (YoY%) | Sep-20 | -0.3% | -1.8% | -1.7% | 2.9% | -34.6% | -60.3% | -36.5% | -12.4% | -10.2% | -12.7% | 6.0% | |
| Imports (\$ YoY%) | Sep-20 | -12.7% | -8.8% | -0.7% | 2.5% | -28.7% | -58.6% | -51.0% | -47.6% | -28.4% | -26.0% | -19.6% | |
| IIP YoY% | Aug-20 | 2.1% | 0.5% | 2.2% | 5.2% | -18.7% | -57.3% | -33.4% | -15.8% | -10.8% | -8.0% | | |
| CPI YoY% | Sep-20 | 5.5% | 7.4% | 7.6% | 6.6% | 5.8% | 7.2% | 6.3% | 6.2% | 6.7% | 6.7% | 7.3% | |
| WPI YoY% | Sep-20 | 0.6% | 2.8% | 3.5% | 2.3% | 0.4% | -1.6% | -3.4% | -1.8% | -0.3% | 0.2% | 1.3% | |
| PMI Manufacturing | Oct-20 | 51.2 | 52.7 | 55.3 | 54.5 | 51.8 | 27.4 | 30.8 | 47.2 | 46 | 52 | 56.8 | 58.9 |
| PMI Services | Sep-20 | 52.7 | 53.3 | 55.5 | 57.5 | 49.3 | 5.4 | 12.6 | 33.7 | 34.2 | 41.8 | 49.8 | |
| Industry | | | | | | | | | | | | | |
| Cement Production yoy% | Sep-20 | 4.4% | 5.5% | 5.1% | 7.8% | -25.1% | -85.2% | -21.4% | -6.8% | -13.5% | -14.5% | -3.5% | |
| Steel Production yoy% | Sep-20 | 7.0% | 8.7% | 1.6% | 2.9% | -21.9% | -82.8% | -40.4% | -23.3% | -8.3% | -1.7% | 0.9% | |
| Electricity Gen yoy% | Sep-20 | -4.9% | 0.0% | 3.2% | 11.5% | -8.2% | -22.9% | -14.8% | -10.0% | -2.5% | -1.8% | 3.7% | |
| Coal Generation yoy% | Sep-20 | -3.5% | 6.1% | 8.0% | 11.3% | 4.0% | -15.5% | -14.0% | -15.5% | -5.7% | 3.6% | 21.2% | |
| Eight Core Industries yoy% | Sep-20 | 0.7% | 3.1% | 2.2% | 6.4% | -8.6% | -37.9% | -21.4% | -12.4% | -8.0% | -7.4% | -0.8% | |
| GST Collection (RsCrores) | Oct-20 | 1,03,491 | 1,03,184 | 1,10,818 | 1,05,366 | 97,597 | 32,294 | 62,009 | 90,917 | 87,422 | 86,449 | 95,480 | 1,05,155 |
| Tractor Sales YoY% | Sep-20 | -12.8% | 4.0% | 3.3% | 19.6% | -50.2% | -80.1% | 0.5% | 20.2% | 35.9% | 64.8% | 26.7% | |
| Domestic Air Pass YoY % | Sep-20 | 11.2% | 2.6% | 2.2% | 9.0% | -33.1% | | -97.7% | -83.5% | -82.3% | -76.0% | -65.8% | |
| Passenger Vehicles YoY % | Oct-20 | -0.8% | -1.2% | -6.1% | -7.8% | -51.0% | -100.0% | -86.0% | -53.2% | -9.0% | 14.2% | 26.5% | 19.9%* |
| 2 Wheeler's YoY % | Oct-20 | -14.3% | -16.6% | -16.0% | -19.8% | -39.8% | -100.0% | -83.8% | -38.6% | -15.2% | 3.0% | 12.9% | 9.2%* |
| Naukri Job Speak Index YoY% | Sep-20 | 15.2% | 10.5% | 5.8% | 0.0% | -17.8% | -61.6% | -61.2% | -44.4% | -47.3% | -34.7% | -23.0% | |

Source: Bloomberg, RBI, MOSPI, * Provisional numbers, Axis Securities

E-Way bills & Energy demand points to a faster than expected recovery

With ease in lockdown restrictions, economic activities are resuming back to pre Covid levels at a faster than expected recovery. Remarkable 6.4cr E Way bills generated in the month of October, the highest since the introduction of the E-way bill system two years back. With broad level pickup in business and operating activities ahead of the festive season, monthly electricity consumption has increased by 12% yoy shows a sign of recovery in economic activities. **Demand for Petrol and diesel is slowly picking up, petrol consumption has turned positive while diesel is still below 6% vs last year in the month of September while October consumption data likely to be even better.**



Source: Bloomberg, GSTN, POSOCO, PPAC, Axis Securities, October electricity data is provisional

Major theme for 2021: Mean reversion in rolling returns, Midcaps and Small caps are chasing large caps

The small and midcaps are picking up steam and they should deliver solid returns in 2021 as economic uncertainties will reduce and volatility will decline. We believe volatility will decline significantly in 2021 which will lead to a small and mid cap rally. From a valuation perspective, the Midcaps look attractive vs. large caps. The recent spate of IPOs and their success clearly indicates that the appetite for mid and small cap stocks. Our case for two year rolling returns indicates that the market has turned in favour of small and mid cap stocks which are more reasonably valued and offer greater upside potential.



Source: Bloomberg, Axis Securities Note: Data till 30th Oct 2020

Major theme for 2021: Housing & Banking

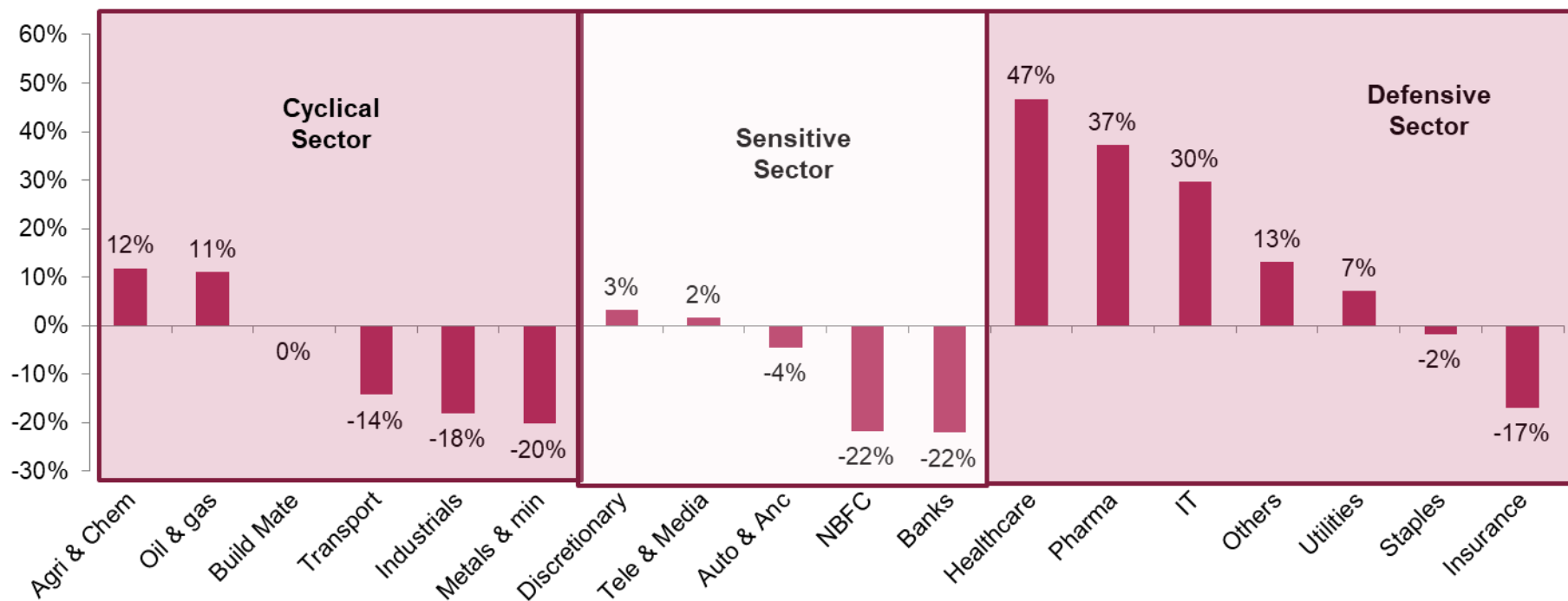
Housing and banking will be major themes to watch out for in 2021 because of correction in real estate prices and lower interest rate regime.

Defensive: IT, Staples, Pharma, Healthcare, Utilities, Insurance

Cyclical: Oil & gas, Industrials, Metals, Building Materials, Agri& Chemicals, Transport

Sensitive: Banks, NBFC, Discretionary, Auto, Telecom

Sectorwise YTD returns of Top 500 Stocks



Source: Bloomberg, NSE, Axis Securities Note: Data till 30th Oct 2020

ICICI BANK – WELL POSITIONED FOR GROWTH

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

Key Rationale

- ICICI Bank reported a strong Q2FY21 performance with easing concerns on asset quality. Commentary on asset quality was encouraging with collection efficiency at ~97% pre-Covid levels and overdue buckets across segments up only 1-4%. Covid provisions are ~Rs 87bn which are adequate with normalisation in credit costs by FY22E.
- The bank reported a domestic loan growth of 10% YoY led by 13% increase in retail loans. Fee income jump of ~49%QoQ is also comforting.
- ICICIB has a robust funding franchise and its cost of funds at ~4% is amongst the lowest in its peer set, implying low risk of adverse portfolio selection. Scale-up of unsecured portfolio and a higher share of domestic loans should support stable NIM
- **Key risks:** Significant deterioration in retail asset quality, Delay in resolution of stressed assets

Key Financials (Standalone)

| Y/E Mar (Rs Cr) | NII (Rs) | PPOP (Rs) | PAT (Rs) | EPS (Rs) | ABV (Rs) | P/ABV (x) | ROAA (%) | NNPA (%) |
|-----------------|----------|-----------|----------|----------|----------|-----------|----------|----------|
| FY19 | 27,015 | 23,438 | 3,363 | 5.2 | 127.3 | 2.7 | 0.4 | 2.3 |
| FY20 | 33,267 | 28,101 | 7,931 | 12.3 | 144.7 | 2.3 | 0.8 | 1.5 |
| FY21E | 38,165 | 35,374 | 14,544 | 21.1 | 173.6 | 1.9 | 1.3 | 1.8 |
| FY22E | 44,840 | 39,380 | 18,153 | 26.3 | 195.2 | 1.6 | 1.4 | 1.7 |

Source: Company, Axis Securities

Key Rationale

- **At Inflection point:** We maintain our positive view on ICICI Bank and believe ICICIB offers the best risk-reward among our bank coverage given a healthy, sustainable earnings outlook. Asset quality is likely to strengthen following adequate provisioning and guidance of lower credit costs. A strong liability profile, better asset mix, and healthy CAR could make ICICIB well positioned to come through this challenging period with relatively lower degree of stress
- **Valuation:** ICICI Bank is well placed with stable NIM, low cost of funds and healthy capital adequacy. The recent capital raise has improved Tier I to 17.9% which provides adequate balance sheet buffer. We believe valuations are undemanding for the stock given strong liability franchise and leveraging opportunities across group products. We remain positive on the stock and maintain BUY with SOTP of Rs 504 (1.9x Core ABV FY22E and Subsidiaries value at 141/-)

CMP
443

Target Price
504

Upside
14%

| Income Statement | | (Rs Cr) | | | |
|----------------------------|---------------|---------------|---------------|---------------|--|
| Y/E March | FY19 | FY20 | FY21E | FY22E | |
| Net Interest Income | 27,015 | 33,267 | 38,165 | 44,840 | |
| Other Income | 14,512 | 16,449 | 18,717 | 19,409 | |
| Total Income | 41,527 | 49,716 | 56,882 | 64,249 | |
| Total Operating Exp | 18,089 | 21,614 | 21,508 | 24,869 | |
| PPOP | 23,438 | 28,101 | 35,374 | 39,380 | |
| Provisions & Contingencies | 19,661 | 14,053 | 16,529 | 14,682 | |
| PBT | 3,777 | 14,048 | 18,845 | 24,698 | |
| Provision for Tax | 414 | 6,117 | 4,301 | 6,545 | |
| PAT | 3,363 | 7,931 | 14,544 | 18,153 | |

Source: Company, Axis Research

| Balance Sheet | | (Rs Cr) | | | |
|--------------------------------|-----------------|------------------|------------------|------------------|--|
| Y/E March | FY19 | FY20 | FY21E | FY22E | |
| SOURCES OF FUNDS | | | | | |
| Share Capital | 1,290 | 1,295 | 1,380 | 1,380 | |
| Reserves | 1,07,074 | 1,15,206 | 1,43,582 | 1,59,743 | |
| Shareholder's Funds | 1,08,363 | 1,16,501 | 1,44,962 | 1,61,123 | |
| Total Deposits | 6,52,920 | 7,70,969 | 8,67,244 | 9,71,923 | |
| Borrowings | 1,65,325 | 1,62,900 | 1,37,843 | 1,51,394 | |
| Other Liabilities & Provisions | 37,852 | 47,995 | 57,594 | 60,949 | |
| Total Liabilities | 9,64,459 | 10,98,365 | 12,07,642 | 13,45,389 | |
| APPLICATION OF FUNDS | | | | | |
| Cash & Bank Balance | 80,296 | 1,19,156 | 1,17,547 | 1,46,623 | |
| Investments | 2,07,733 | 2,49,532 | 3,01,552 | 3,16,195 | |
| Advances | 5,86,647 | 6,45,290 | 7,02,467 | 7,89,687 | |
| Fixed Assets | 7,931 | 8,410 | 8,621 | 9,052 | |
| Other Assets | 81,852 | 75,978 | 77,455 | 83,832 | |
| Total Assets | 9,64,459 | 10,98,365 | 12,07,642 | 13,45,389 | |

Source: Company, Axis Research

Valuation ratios

(%)

| Y/E March | FY19 | FY20 | FY21E | FY22E |
|---------------------|-------|-------|-------|-------|
| EPS | 5.2 | 12.3 | 21.1 | 26.3 |
| Earnings growth (%) | -51% | 135% | 72% | 25% |
| Adj. BVPS | 127.3 | 144.7 | 173.6 | 195.2 |
| ROAA (%) | 0.36 | 0.77 | 1.26 | 1.42 |
| ROAE (%) | 3.2 | 7.1 | 11.1 | 11.9 |
| Core P/ABV (x) | 2.7 | 2.3 | 1.9 | 1.6 |
| Dividend Yield (%) | 0.3 | 0.0 | 0.5 | 0.7 |

PROFITABILITY

| | | | | |
|-------------------------|-----|-----|-----|-----|
| Yield on Advances (%) | 8.7 | 9.3 | 8.7 | 9.2 |
| Yield on Investment (%) | 6.2 | 6.4 | 6.2 | 6.2 |
| Cost of Funds (%) | 4.7 | 4.7 | 4.3 | 4.4 |
| Cost of Deposits (%) | 4.4 | 4.6 | 4.2 | 4.3 |
| NIM (%) | 4.1 | 4.6 | 4.4 | 4.7 |

OPERATING EFFICIENCY

| | | | | |
|---------------------------|------|------|------|------|
| Cost/Avg. Asset Ratio (%) | 2.3 | 2.4 | 2.1 | 2.2 |
| Cost-Income Ratio (%) | 43.6 | 43.5 | 37.8 | 38.7 |

Source: Company, Axis Research

Balance Sheet Structure Ratios

(%)

| Y/E March | FY19 | FY20 | FY21E | FY22E |
|------------------------------|------|------|-------|-------|
| Loan Growth (%) | 14.5 | 10.0 | 8.9 | 12.4 |
| Deposit Growth (%) | 16.4 | 18.1 | 12.5 | 12.1 |
| C/D Ratio (%) | 89.8 | 83.7 | 81.0 | 81.3 |
| Equity/Assets (%) | 11.2 | 10.6 | 12.0 | 12.0 |
| Equity/Advances (%) | 18.5 | 18.1 | 20.6 | 20.4 |
| CASA (%) | 16.9 | 16.1 | 17.6 | 17.5 |
| Total Capital Adequacy Ratio | 15.1 | 14.7 | 16.4 | 16.4 |
| Tier I CAR | 14.5 | 10.0 | 8.9 | 12.4 |

ASSET QUALITY

| | | | | |
|--------------------------|--------|--------|--------|--------|
| Gross NPLs | 45,676 | 40,829 | 48,166 | 51,148 |
| Net NPLs | 13,450 | 9,923 | 12,298 | 13,512 |
| Gross NPLs (%) | 7.8 | 6.3 | 6.9 | 6.5 |
| Net NPLs (%) | 2.3 | 1.5 | 1.8 | 1.7 |
| Coverage Ratio (%) | 70.6 | 75.7 | 74.5 | 73.6 |
| Provision/Avg. Loans (%) | 3.1 | 1.5 | 2.2 | 1.9 |

ROAA TREE

| | | | | |
|---------------------|-------|-------|--------|--------|
| Net Interest Income | 2.9% | 3.2% | 3.3% | 3.5% |
| Non Interest Income | 1.6% | 1.6% | 1.6% | 1.5% |
| Operating Cost | 2.0% | 2.1% | 1.9% | 1.9% |
| Provisions | 2.1% | 1.4% | 1.4% | 1.2% |
| Provisions for NPAs | 0.0% | 0.6% | 0.4% | 0.5% |
| Tax | 0.36% | 0.77% | 1.26% | 1.42% |
| ROAA | 8.6 | 9.2 | 8.8 | 8.3 |
| Leverage (x) | 8.63 | 9.17 | 9.41 | 9.38 |
| ROAE | 3.15% | 7.05% | 11.14% | 12.30% |

Source: Company, Axis Research

STATE BANK OF INDIA – BEST AMONG PSU BANKS

State Bank of India (SBIN) is the largest public sector bank in terms of assets, deposits, branches, number of customers, and employees having pan-India presence. As of March '20, SBIN has a network of 22,141 branches and 58,555 ATMS. It has a market share of ~22.8/19.7% market share in deposits/ advances.

Key Rationale

- **Asset quality:** Pre-Covid, the bank had been witnessing healthy improvement on the asset quality front. Amidst the Covid crisis and moratorium close in Aug '20, impact on asset quality was keenly watched. In Q2FY21, bank stated that collection efficiency stands at ~97% which is in-line with large private banks. Also, FY21 estimated slippages (including restructuring) are ~2.5% which is manageable.
- **Liability franchise strong and improved NIM:** Despite competition from peers, SBIN's CASA franchise is at 45% of deposits, better than that of some large private banking peers. NIMs have improved to 3.12% in Q2FY21. We expect NIMs to be stable at ~3% over FY21-23E.
- **Non banking subsidiaries to boost overall performance:** Apart from core banking, SBI's subsidiaries will continue to add further value. It has strong presence in credit cards, insurance (life and general), asset management, etc. Most of these are generating stable returns and boosting overall performance.

Key Financials (Standalone)

| Y/E Mar (Rs Cr) | NII (Rs) | PPOP (Rs) | PAT (Rs) | EPS (Rs) | ABV (Rs) | P/ABV (x) | ROAA (%) | NNPA (%) |
|--------------------|-------------|--------------|-------------|-------------|-------------|--------------|-------------|-------------|
| 2020 | 98,100 | 68,100 | 6,900 | 7.7 | 222.4 | 0.9 | 0.2 | 2.2 |
| 2021E | 1,09,382 | 74,181 | 17,578 | 19.5 | 192.0 | 0.9 | 0.4 | 2.2 |
| 2022E | 1,15,944 | 76,620 | 24,980 | 27.8 | 215.4 | 0.8 | 0.7 | 1.9 |
| 2023E | 1,27,539 | 84,071 | 33,031 | 36.7 | 250.1 | 0.7 | 0.7 | 1.8 |

Source: Company, Axis Securities

Key Rationale

- **Outlook:** We believe key positive of SBIN which will drive its performance are i) Being the largest bank in India the bank has business strengths making it a beneficiary of liquidity with huge deposit inflow during uncertain times resulting in lower cost of funds. ii) Asset quality has improved on book clean –up efforts over the last few years resulting in lower slippages and NPA decline. iii) PCR has improved to 67%. Provisions for legacy stress is mostly over iv) Subsidiaries performance has been improving
- **Valuation:** Among PSU banks, SBIN remains the best play on the gradual recovery in the Indian economy, with a healthy PCR, robust capitalization, a strong liability franchise and improved core operating profitability. Subsidiaries' performance was also stable in Q2FY21. We maintain Buy on the stock with target price of Rs 261 (SOTP basis core book at 0.6x and subsidiaries at Rs 111)
- **Key risks:** Significant deterioration in asset quality, Delay in resolution of stressed assets

CMP
219

Target Price
261

Upside
19%

| Income Statement | | (Rs Cr) | | | |
|----------------------------|---------|---------|---------|---------|--|
| Y/E March | FY19 | FY20 | FY21E | FY22E | |
| Net Interest Income | 98,100 | 109,382 | 115,944 | 127,539 | |
| Other Income | 45,200 | 42,940 | 44,014 | 47,975 | |
| Total Income | 143,300 | 152,322 | 159,958 | 175,514 | |
| Total Operating Exp | 75,200 | 78,141 | 83,338 | 91,443 | |
| Staff expenses | 45,700 | 47,757 | 49,189 | 54,108 | |
| Other operating expenses | 29,500 | 30,975 | 33,143 | 35,795 | |
| PPOP | 68,100 | 74,181 | 76,620 | 84,071 | |
| Provisions & Contingencies | 43,100 | 50,427 | 42,863 | 39,434 | |
| PBT | 25,000 | 23,754 | 33,757 | 44,637 | |
| Provision for Tax | 18,100 | 6,176 | 8,777 | 11,606 | |
| PAT | 6,900 | 17,578 | 24,980 | 33,031 | |

Source: Company, Axis Research

| Balance Sheet | | (Rs Cr) | | | |
|--------------------------------|-----------|-----------|-----------|-----------|--|
| Y/E March | FY20 | FY21E | FY22E | FY23E | |
| SOURCES OF FUNDS | | | | | |
| Share Capital | 900 | 900 | 900 | 900 | |
| Reserves | 207,400 | 224,978 | 249,958 | 282,989 | |
| Shareholder's Funds | 208,300 | 225,878 | 243,358 | 276,389 | |
| Total Deposits | 3,241,600 | 3,436,096 | 3,745,345 | 4,082,426 | |
| Borrowings | 314,700 | 285,126 | 282,821 | 294,522 | |
| Other Liabilities & Provisions | 186,800 | 196,140 | 211,831 | 228,778 | |
| Total Liabilities | 3,951,400 | 4,143,240 | 4,483,354 | 4,882,114 | |
| APPLICATION OF FUNDS | | | | | |
| Cash & Bank Balance | 251,100 | 242,241 | 221,458 | 170,756 | |
| Investments | 1,047,000 | 1,151,700 | 1,220,802 | 1,294,050 | |
| Advances | 2,325,300 | 2,395,059 | 2,658,515 | 3,004,123 | |
| Fixed Assets & Other Assets | 328,000 | 354,240 | 382,579 | 413,186 | |
| Total Assets | 3,951,400 | 4,143,240 | 4,483,354 | 4,882,114 | |

Source: Company, Axis Research

| Valuation ratios | | | | (%) |
|----------------------|-------|-------|-------|-------|
| Y/E March | FY19 | FY20E | FY21E | FY22E |
| EPS | 7.7 | 19.5 | 27.8 | 36.7 |
| Earnings Growth (%) | 666.7 | 154.7 | 42.1 | 32.2 |
| DPS | 0.0 | 0.0 | 3.0 | 3.0 |
| BVPS | 231.4 | 251.0 | 270.4 | 307.1 |
| Adj. BVPS | 222.4 | 192.0 | 215.4 | 250.1 |
| ROAA (%) | 0.2 | 0.4 | 0.7 | 0.7 |
| ROAE (%) | 3.5 | 7.5 | 11.9 | 11.9 |
| P/E (x) | 28.6 | 11.2 | 7.9 | 6.0 |
| P/ABV (x) | 0.9 | 0.9 | 0.8 | 0.7 |
| Dividend Yield (%) | 0.0 | 0.0 | 1.4 | 1.4 |
| PROFITABILITY | | | | |
| NIM (%) | 2.9 | 3.1 | 3 | 3 |
| Cost-Income Ratio | 52.5 | 51.3 | 52.1 | 52.1 |

Source: Company, Axis Research

| Balance Sheet Structure Ratios | | | | (%) |
|--------------------------------|------|-------|-------|-------|
| Y/E March | FY19 | FY20E | FY21E | FY22E |
| Loan Growth (%) | 6.4 | 3.0 | 11.0 | 13.0 |
| Deposit Growth (%) | 11.3 | 6.0 | 9.0 | 9.0 |
| C/D Ratio (%) | 71.7 | 69.7 | 71.0 | 73.6 |
| CASA | 44 | 44 | 43 | 43 |
| Tier 1 | 11 | 10.8 | 10.8 | 11.1 |
| CAR | 13.1 | 13.3 | 13 | 12.9 |
| ASSET QUALITY | | | | |
| Gross NPLs (%) | 6.2 | 6.5 | 5.9 | 5.4 |
| Net NPLs (%) | 2.2 | 2.2 | 1.9 | 1.8 |
| Coverage Ratio (%) | 65.2 | 67.8 | 68.8 | 67.2 |
| Credit cost | 1.8 | 2.0 | 1.5 | 1.4 |

Source: Company, Axis Research

CAN FIN HOMES – STEADY PLAYER

CAN FIN HOMES (CANF) is a 33year old retail focused housing finance company, promoted by Canara Bank (30% stake). It is focused largely in Tier II/III cities with 90% of loan book for housing and rest for non housing. It has 163 branches and 21 Affordable Housing centres across India.

Key Rationale

- Can Fin Homes (CANF) has been a consistent performer well cushioned by comfortable liquidity and stable asset quality compared to other HFCs. Balance sheet remains strongly capitalized with a tier-1 ratio of 22.5%.
- In Q2FY21, company's performance was marked by peak NIMs (4.1%, though not sustainable as indicated by management) and lower provisions (at 15cr down 66% QoQ; Prov/PPOP at ~8% vs 26% in Q1). While loan growth remained moderate at 6% YoY, fresh disbursements picked up to Rs 825cr vs 401cr QoQ. We expect loan growth to pick steadily in the coming quarters.
- Collection efficiency stands at ~93% (excluding prepayments/foreclosures). Costs control was maintained with C-I at 11.9% vs 15.4/11.2% YoY/QoQ.
- Delinquency pool for the company is significantly lower compared to the industry in both HL and LAP. Asset quality risk emanating from job losses and salary cuts is low.
- Management indicated H2FY21 could see an increase in NPAs but provisions are adequate given its AUM mix. High proportion of salaried and low builder loan exposure (0.03% of book) will support asset quality with lower loan losses.

Key Financials (Standalone)

| Y/E Dec (Rs Cr) | NII (Rs Cr) | PPOP (Rs Cr) | Net Profit (Rs Cr) | EPS (Rs) | ABV (%) | P/ABV (%) | ROAA (%) | NNPA (%) |
|-----------------|-------------|--------------|--------------------|----------|---------|-----------|----------|----------|
| 2019 | 530 | 471 | 297 | 22.3 | 127.7 | 3.5 | 1.7 | 0.5 |
| 2020 | 675 | 579 | 376 | 28.3 | 153.1 | 2.9 | 1.9 | 0.5 |
| 2021E | 784 | 675 | 441 | 33.1 | 184.8 | 2.4 | 2.0 | 0.8 |
| 2022E | 862 | 738 | 517 | 38.8 | 223.7 | 2.0 | 2.2 | 0.6 |

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

Key Rationale

- **Outlook:** CANF is one of the better positioned players in the housing finance sector with a strong balance sheet, low NPAs, granular loan book and sound underwriting standards. It's ability to improve NIMs even in tough environment reflects its entrenched business model, even as book size is much smaller than peers. Focus of the company remains on collections in the near-term rather than growth. Given the low-ticket size segment that CANF operates in, coupled with low cost of funds the company is positioned well to arrest balance transfers to some extent.
- **Valuation.** While loan growth moderation is expected along-with slight asset quality deterioration on account of Covid-19, we expect the company to recover faster than its peers due to its loan mix and negligible developer exposure. Lower cost of funds should aid the company in maintaining NIMs while the loan mix profile skewed towards salaried segment will help in maintaining asset quality. We expect lower provisions and built in improved NIM for FY21E. We remain positive on the stock given its loan book profile, stable liquidity position and robust CAR (25%) and recommend BUY with target price of Rs 515 (2.3x FY22ABV)
- **Key risks:** Lack of Demand pick-up

CMP
472

Target Price
515

Upside
9%

| Profit & Loss | | (Rs Cr) | | | |
|----------------------------|-------------|----------------|--------------|--------------|--|
| Y/E DEC | FY19 | FY20 | FY21E | FY22E | |
| Net Interest Income | 530 | 675 | 784 | 862 | |
| Other Income | 32 | 12 | 8 | 10 | |
| Total Income | 562 | 686 | 792 | 872 | |
| Total Operating Exp | 92 | 108 | 117 | 134 | |
| PPOP | 471 | 579 | 675 | 738 | |
| Provisions & Contingencies | 1 | 60 | 79 | 40 | |
| PBT | 470 | 518 | 596 | 698 | |
| Provision for Tax | 173 | 142 | 155 | 182 | |
| PAT | 297 | 376 | 441 | 517 | |

Source: Company, Axis Research

| Balance Sheet | | (Rs Cr) | | | |
|-------------------------------|---------------|----------------|---------------|---------------|--|
| Y/E DEC | FY19 | FY20 | FY21E | FY22E | |
| SOURCES OF FUNDS | | | | | |
| Share capital | 27 | 27 | 27 | 27 | |
| Reserves and surplus | 1,756 | 2,123 | 2,564 | 3,056 | |
| Shareholders' funds | 1,782 | 2,150 | 2,591 | 3,082 | |
| Total Borrowings | 16,694 | 18,748 | 18,785 | 20,513 | |
| Other Liabilities, provisions | 303 | 145 | 158 | 150 | |
| Total | 18,780 | 21,044 | 22,295 | 24,739 | |
| APPLICATION OF FUNDS | | | | | |
| Cash & Bank Balance | 420 | 392 | 402 | 442 | |
| Investments | 16 | 24 | 24 | 24 | |
| Advances | 18,285 | 20,526 | 21,757 | 24,151 | |
| Fixed Assets & Other Assets | 59 | 101 | 111 | 122 | |
| Total assets | 18,780 | 21,044 | 22,295 | 24,739 | |

Source: Company, Axis Research

| Key indicators | (Rs Cr) | | | |
|-------------------------|---------|-------|-------|-------|
| | FY19 | FY20 | FY21E | FY22E |
| Cash Flow | | | | |
| VALUATION RATIOS | | | | |
| EPS | 22.3 | 28.3 | 33.1 | 38.8 |
| Earnings Growth (%) | 79.9 | 26.8 | 17.2 | 17.2 |
| BVPS | 134 | 161.7 | 194.8 | 231.7 |
| Adj. BVPS | 127.7 | 153.1 | 184.8 | 223.7 |
| ROAA (%) | 1.7 | 1.9 | 2 | 2.2 |
| ROAE (%) | 18.2 | 19.1 | 18.5 | 19.2 |
| P/E (x) | 21.0 | 16.5 | 14.1 | 12.0 |
| P/ABV (x) | 3.5 | 2.9 | 2.4 | 2.0 |
| PROFITABILITY | | | | |
| Yield on Advances | 10 | 10.4 | 10.1 | 10.2 |
| Cost of Borrowings | 7.6 | 7.6 | 7.3 | 7.5 |
| NIM (%) | 3.1 | 3.5 | 3.8 | 3.5 |
| Cost-Income Ratio | 16.3 | 15.7 | 14.7 | 15.4 |

Source: Company, Axis Research

| Balance Sheet Structure Ratios | (%) | | | |
|--------------------------------|------|------|-------|-------|
| | FY19 | FY20 | FY21E | FY22E |
| Key Ratios | | | | |
| Loan Growth (%) | 16.9 | 12.3 | 6 | 11 |
| CAR | 16.4 | 22.3 | 24.3 | 22.1 |
| Tier 1 | 14.6 | 20.5 | 22.8 | 20.8 |
| ASSET QUALITY | | | | |
| Gross NPLs (%) | 0.6 | 0.8 | 1.3 | 1 |
| Net NPLs (%) | 0.5 | 0.5 | 0.8 | 0.6 |
| PCR | 27.5 | 28.8 | 35 | 37 |
| Credit costs | 0 | 0.3 | 0.4 | 0.2 |

Source: Company, Axis Research

TECH MAHINDRA – STRONG BROAD BASED GROWTH

Tech Mahindra is India's leading IT services provider to many business conglomerate. Tech Mahindra is headquartered in Mumbai (India) and has strong presence across geographies like North America, Europe, Middle East, Australia etc. The company provides specialized IT services to its clients across verticals like Communications, Healthcare, and BFSI etc.

Key Rationale

- **Strong Q2 FY21 performance aided by capabilities:** Q2 revenue recovery of 2.9% QoQ cc was equally split between demand traction and easing of supply-side issues. Management expects demand momentum led by acceleration in Digital to aid further growth. Growth is expected to be in both: (i) Communications led by transformation of IT, network, systems, processes over the next 3-9 months and (ii) Enterprise led by traction in Digital with near term momentum expected to be led by Manufacturing, Retail and Utilities; there is a possibility of increased furloughs in Q3, but management has not witnessed any indication of it currently.
- **Strong deal wins and pipeline reflect demand acceleration:** Net new deal wins recovered to \$ 421 mn in Q2 (Q1FY21\$ 209mn, Q4FY20:\$ 513 mn) and large number of medium sized deals were closed in Q2. Moreover, deal pipeline is trending at all-time high led by (i) advanced stage discussions within network and core transformation within Communications and (ii) Data and Digital within Enterprise. Reflects demand acceleration.
- Tech Mahindra posted robust broad based growth. Its Telecommunication vertical grew by 3.1% QoQ, Technologies Media & Entertainment vertical grew by 13.5% QoQ, BFSI vertical grew by 9.7% QoQ, and Retail Transportations & Entertainment grew by 8.1% QoQ.

Key Financials (Consolidated)

| Y/E Mar (Rs Cr) | Net Sales (Rs) | EBIDTA (Rs) | Net Profit (Rs) | FDEPS (Rs) | Change (%) | PER (x) | RoE (%) | RoCE (%) | Debt/Equity (%) |
|-----------------|----------------|-------------|-----------------|------------|------------|---------|---------|----------|-----------------|
| FY20 | 36,354 | 5,832 | 4,130 | 48.0 | 8 | 13.2 | 20% | 19% | 0 |
| FY21E | 37,548 | 6,563 | 4,230 | 50.0 | 4% | 14.2 | 21% | 19% | 0 |
| FY22E | 42,354 | 7,498 | 4,852 | 55.0 | 10% | 12.3 | 22% | 19% | 0 |
| FY23E | 47,860 | 10,495 | 5,531 | 62.7 | 14% | 10.3 | 25% | 21% | 0 |

Source: Company, Axis Securities

Key Rationale

- **Initial traction in 5G; may pick up in FY22:** Management sees initial traction in 5G both on (i) Communications side where traction is visible in modernization IT, network, process and systems, and (ii) Enterprise side where it signed 3 Manufacturing 5G solutions in Europe and 1 in US. While timing of pickup is difficult to predict, management expects 5G growth to pick up in FY22 or at most in FY23. We expect initial traction and pipeline build-up to aid network and core modernization for 5G within Communications in FY22. We see 5G for Enterprise as a longer term opportunity and expect it to pick up in FY23 and beyond.
- **Strong and sustainable margin growth:** Q2 operating margin expanded 410 bps to 14.2%. Margin expansion was aided mainly by (i) stabilization of demand and supply side constraints (+160 bps), (ii) offshore, utilization and sub-contracting cost (+160 bps) and (iii) normalization of seasonality in mobility business and absence of visa costs (+70 bps).
- **Valuations** We believe Tech Mahindra has a resilient business structure from a long term perspective. We recommend **BUY** and assign 16x P/E multiple to its FY23E earnings of Rs. 62.7, which gives a **TP of Rs. 975 per share.**

CMP
851

Target Price
975

Upside
15%

Profit & Loss (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|--------------------------|---------------|---------------|---------------|---------------|
| Net sales | 36,354 | 37,548 | 42,354 | 47,860 |
| Growth, % | 5% | 3% | 13% | 13% |
| Other income | 1,090 | 1,232 | 1,380 | 1,561 |
| Total income | 3,744 | 3,878 | 4,373 | 4,942 |
| Employee expenses | 18,718 | 20,767 | 22,858 | 23,099 |
| Other Operating expenses | 6,561 | 7,611 | 8,307 | 9,194 |
| EBITDA (Core) | 5,832 | 6,563 | 7,498 | 10,495 |
| Growth, % | -8% | 13% | 14% | 40% |
| Margin, % | 16% | 17% | 18% | 22% |
| Depreciation | 1,379 | 1,438 | 1,273 | 1,584 |
| EBIT | 4,453 | 5,126 | 6,225 | 8,911 |
| Growth, % | -14% | 15% | 21% | 43% |
| Margin, % | 12% | 14% | 15% | 19% |
| Interest paid | 185 | 133 | 104 | 95 |
| Pre-tax profit | 5,358 | 6,225 | 7,501 | 10,377 |
| Tax provided | 1,268 | 1,666 | 2,008 | 3,228 |
| Profit after tax | 4,089 | 4,559 | 5,494 | 7,149 |
| Net Profit | 4,130 | 4,230 | 4,852 | 5,531 |
| Growth, % | -4% | 2% | 15% | 14% |
| Net Profit (adjusted) | 4,130 | 4,230 | 4,852 | 5,531 |

Source: Company, Axis Research

Balance Sheet (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Cash & bank | 1,722 | 3,154 | 5,518 | 10,459 |
| Debtors | 7,370 | 8,336 | 9,225 | 10,209 |
| Other current assets | 6,590 | 6,590 | 6,590 | 6,590 |
| Total current assets | 22,065 | 24,803 | 28,359 | 34,007 |
| Net fixed assets | 1,971 | 1,243 | 431 | 431 |
| CWIP | 276 | 276 | 276 | 276 |
| Other Non current assets | 752 | 752 | 752 | 752 |
| Deffered tax assets | 609 | 609 | 609 | 609 |
| Total Non Current Assets | 361 | 288 | 207 | 207 |
| | 0 | 0 | 0 | 0 |
| Total assets | 33,543 | 35,964 | 39,321 | 44,341 |
| | 0 | 0 | 0 | 0 |
| Creditors | 2,592 | 2,795 | 2,971 | 3,114 |
| Provisions | 395 | 395 | 395 | 395 |
| Total current liabilities | 9,800 | 9,763 | 9,939 | 10,082 |
| Other liabilities | 42 | 42 | 42 | 42 |
| Paid-up capital | 433 | 433 | 433 | 433 |
| Reserves & surplus | 20,125 | 22,624 | 25,847 | 30,724 |
| Shareholders' equity | 2,056 | 2,306 | 2,628 | 3,116 |
| Total equity & liabilities | 33,543 | 35,964 | 39,321 | 44,341 |

Source: Company, Axis Research

| Cash Flow | | (Rs Cr) | | | |
|--|--------------|----------------|--------------|---------------|--|
| Y/E March | FY20 | FY21E | FY22E | FY23E | |
| Pre-tax profit | 5,358 | 6,225 | 7,501 | 10,377 | |
| Depreciation | 1,379 | 1,438 | 1,273 | 1,584 | |
| Chg in working capital | -820 | -1,306 | -1,192 | -706 | |
| Total tax paid | 1,268 | 1,666 | 2,008 | 3,228 | |
| Cash flow from operating activities | 5,812 | 6,200 | 7,410 | 11,238 | |
| Capital expenditure | 727 | 710 | 673 | 745 | |
| Cash flow from investing activities | -727 | -710 | -673 | -745 | |
| Free cash flow | 5,812 | 6,200 | 7,410 | 11,238 | |
| Dividend (incl. tax) | 3,846 | 2,112 | 2,323 | 2,323 | |
| Cash flow from financing activities | -291 | -281 | -42 | 24 | |
| Net chg in cash | -321 | 1,432 | 2,364 | 4,941 | |

Source: Company, Axis Research

| Ratio Analysis | | (%) | | | |
|--------------------------------|-------------|--------------|--------------|--------------|--|
| Y/E March | FY20 | FY21E | FY22E | FY23E | |
| Per Share data | | | | | |
| EPS (INR) | 48.0 | 50.0 | 55.0 | 62.7 | |
| Growth, % | -2% | 4% | 10% | 14% | |
| Book NAV/share (INR) | 233.6 | 262.0 | 298.6 | 354.1 | |
| FDEPS (INR) | 39 | 42 | 46 | 46 | |
| CEPS (INR) | 62.6 | 68.7 | 77.5 | 99.8 | |
| CFPS (INR) | 36.5 | 43.8 | 42.8 | 42.8 | |
| DPS (INR) | 24 | 21 | 24 | 24 | |
| Return ratios | | | | | |
| Return on assets (%) | 12% | 13% | 14% | 16% | |
| Return on equity (%) | 20% | 21% | 22% | 25% | |
| Return on capital employed (%) | 19% | 19% | 19% | 21% | |
| Turnover ratios | | | | | |
| Asset turnover (x) | 18.4 | 32.6 | 69.8 | 65.0 | |
| Sales/Total assets (x) | 18.4 | 32.6 | 69.8 | 65.0 | |
| Receivables Days | 102.4 | 102.4 | 102.4 | 102.4 | |
| Cash conversion cycle | 25.5 | 5.1 | 5.0 | 2.4 | |
| Liquidity ratios | | | | | |
| Current ratio (x) | 2.2 | 2.4 | 2.7 | 3.2 | |
| Quick Ratio | 1.4 | 1.6 | 1.9 | 2.3 | |
| Net debt/Equity (%) | 0.0 | 0.0 | 0.0 | 0.0 | |
| Leverage Ratio | 2.0 | 2.0 | 1.0 | 1.0 | |
| Valuation | | | | | |
| PER (x) | 13.2 | 14.2 | 12.3 | 11.3 | |
| Price/Book (x) | 3.3 | 2.9 | 2.6 | 2.2 | |
| EV/Net sales (x) | 3.1 | 2.9 | 2.8 | 2.8 | |
| EV/EBITDA (x) | 7.3 | 7.3 | 6.4 | 6.4 | |
| Dividend Yeild | 4.4 | 2.9 | 4.4 | 4.4 | |

Source: Company, Axis Research

BHARTI AIRTEL – AHEAD OF MARKET OPERATING PERFORMANCE

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

Key Rationale

- Bharti Airtel reported solid numbers Q2FY21 beating consensus estimates both on financial and operating parameters. The India wireless business reported robust numbers with an ARPU increase of 3% qoq to Rs 162 which was significantly higher than expectations. Data consumption has continued register very strong growth.
- Jio's ARPU improvement to Rs 145 from 140 was higher than Bharti on account of price hikes but Bharti still has the best quality subscriber.
- The margins for the quarter were quite robust with 47bps qoq improvement but the India business margins improved even more by 156bps qoq and 476bps YoY.
- The Africa business continues to perform well and it has been adding significant value in terms of consistent growth in operating profits and cash flows.
- Capex for the quarter at Rs 67bn was high vs Q1 FY21 as guided by the management it has declined from the peak levels.
- Indian telecom market has seen a major round of tariff hikes in the month of December with all the telecom operators taking tariff hikes. The full impact of tariff hikes was seen Q4FY20 revenues. The ARPU improvement in Q2FY21 was a function of customers upgrading and better post paid sales. However, considering the industry structure further tariff hikes cannot be ruled out in the forthcoming quarters which will lead to consistent EBIDTA improvement. Bharti's management indicated that ARPU will reach Rs 200 over the medium term but timing for tariff hikes is difficult to calibrate.

Key Rationale

- Regulatory challenges are well known and Bharti Airtel is well capitalized to deal with the payouts as it has raised enough capital (Rs 450bn equity in FY20) and has access to debt as there are no major business solvency risks associated with it.
- We maintain our ARPU assumptions and forecast 13%/17% CAGR for Revenue/EBIDTA over the period FY20-23E. Profit growth will be even more significant considering FY20E was a loss for the company. Our forecast is based on significant ARPU improvement from current Rs 162/subs/month (Q2FY20) to Rs 208/subs/month by end of Q4FY23. While the ARPU improvement seems significant but our FY23 ARPU forecast is similar to Q4FY15. Thus, our estimates are conservative considering the concentrated industry structure and far greater level of value provided to the customer.
- Jio has raised Rs 1. 4 trillion bn at an EV of Rs 5.1 trillion through a mix of strategic and PE deals. Jio's valuation is significantly higher than Bharti Airtel's current valuation (Rs 4.1 trillion) which has more lines of services, significantly higher revenues and geographies of operation.
- **Valuation:** We value the company based on SOTP valuation at Rs 676. The value could increase by a further Rs 40/share if Vodafone-Idea shuts down. Our SOTP valuation implies an EV/EBIDTA of 9.5x on FY22E EBIDTA.

CMP
450

Target Price
676

Upside
50%

Key Financials (Consolidated)

| Y/E Mar (Rs Cr) | Net Sales (Rs Cr) | EBIDTA (Rs Cr) | Net Profit | EPS (Rs) | PER (x) | EV/EBIDTA (x) | P/BV (x) | ROE (%) | Debt/Equity (%) |
|-----------------|-------------------|----------------|------------|----------|---------|---------------|----------|---------|-----------------|
| FY20 | 81,068 | 25,819 | (2,330) | (5.8) | NMF | 9.8 | 2.5 | (3.3) | 144.6 |
| FY21E | 87,539 | 36,581 | (38,187) | (74.4) | NMF | 8.6 | 2.9 | (47.8) | 97.5 |
| FY22E | 49,009 | 49,009 | 47,858 | 93.2 | 4.8 | 6.7 | 1.8 | 37.5 | 64.3 |
| FY23E | 61,540 | 61,540 | 54,644 | 106.4 | 4.2 | 5.2 | 1.3 | 30.0 | 44.5 |

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|---------------------------------|-----------------|----------------|----------------|----------------|
| Net sales | 87,539 | 103,293 | 118,820 | 132,428 |
| Growth, % | 8 | 18 | 15 | 11 |
| Total income | 87,539 | 103,293 | 118,820 | 132,428 |
| Raw material expenses | -10,740 | -9,281 | -7,560 | -8,196 |
| Employee expenses | -3,807 | -4,562 | -4,870 | -5,266 |
| Other Operating expenses | -49,503 | -52,899 | -56,036 | -60,428 |
| EBITDA (Core) | 36,581 | 49,009 | 61,540 | 70,654 |
| Growth, % | 41.7 | 34.0 | 25.6 | 14.8 |
| Margin, % | 41.8 | 47.4 | 51.8 | 53.4 |
| Depreciation | -27,690 | -29,335 | -27,910 | -26,110 |
| EBIT | 8,892 | 19,674 | 33,631 | 44,544 |
| Growth, % | 98.9 | 121.3 | 70.9 | 32.4 |
| Margin, % | 10.2 | 19.0 | 28.3 | 33.6 |
| Interest paid | -13,205 | -13,965 | -12,160 | -9,863 |
| Other Non-Operating Income | 288 | 1,176 | 1,046 | 1,038 |
| Non-recurring Items | -40,362 | -42 | 0 | 0 |
| Pre-tax profit | -43,734 | 7,029 | 22,595 | 35,775 |
| Tax provided | 7,238 | -6,516 | -7,908 | -12,521 |
| Profit after tax | -36,496 | 514 | 14,687 | 23,254 |
| Others (Minorities, Associates) | -1,691 | 47,302 | 39,957 | 42,510 |
| Net Profit | -38,187 | 47,816 | 54,644 | 65,763 |
| Growth, % | 1,539.0 | (225.3) | 14.2 | 20.3 |
| Net Profit (adjusted) | (38,187) | 47,858 | 54,644 | 65,763 |
| Unadj. shares (bn) | 513.4 | 513.4 | 513.4 | 513.4 |
| Wtd avg shares (bn) | 513.4 | 513.4 | 513.4 | 513.4 |

Source: Company, Axis Research

Balance Sheet (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Cash & bank | 31,688 | 26,256 | 28,347 | 30,905 |
| Marketable securities at cost | 0 | 0 | 0 | 0 |
| Debtors | 0 | 0 | 0 | 0 |
| Inventory | 0 | 0 | 0 | 0 |
| Loans & advances | 0 | 0 | 0 | 0 |
| Other current assets | 46,983 | 39,561 | 39,781 | 40,009 |
| Total current assets | 78,671 | 65,817 | 68,128 | 70,914 |
| Investments | 0 | 0 | 0 | 0 |
| Gross fixed assets | 243,219 | 237,899 | 236,109 | 234,457 |
| Less: Depreciation | 0 | 0 | 0 | 0 |
| Add: Capital WIP | 0 | 0 | 0 | 0 |
| Net fixed assets | 243,219 | 237,899 | 236,109 | 234,457 |
| Non-current assets | 38,889 | 36,820 | 37,373 | 37,933 |
| Total assets | 363,497 | 384,159 | 392,190 | 409,982 |
| Current liabilities | 131,488 | 109,865 | 108,222 | 106,979 |
| Provisions | 0 | 0 | 0 | 0 |
| Total current liabilities | 131,488 | 109,865 | 108,222 | 106,979 |
| Non-current liabilities | 127,162 | 142,389 | 137,375 | 133,156 |
| Total liabilities | 258,650 | 252,253 | 245,597 | 240,135 |
| Paid-up capital | 2,567 | 2,567 | 2,567 | 2,567 |
| Reserves & surplus | 77,296 | 125,112 | 179,757 | 245,520 |
| Shareholders' equity | 104,848 | 131,906 | 146,593 | 169,846 |
| Total equity & liabilities | 363,497 | 384,159 | 392,190 | 409,982 |

Source: Company, Axis Research

| Cash Flow | | (Rs Cr) | | | |
|--|----------------|----------------|----------------|----------------|--|
| Y/E March | FY20 | FY21E | FY22E | FY23E | |
| Pre-tax profit | -43,734 | 7,029 | 22,595 | 35,775 | |
| Depreciation | 27,690 | 29,335 | 27,910 | 26,110 | |
| Chg in working capital | -41,068 | 14,727 | 1,141 | 1,405 | |
| Total tax paid | 7,796 | -6,345 | -7,508 | -12,034 | |
| Other operating activities | 0 | 0 | 0 | 0 | |
| Cash flow from operating activities | -51,997 | 45,488 | 44,115 | 51,232 | |
| Capital expenditure | -30,201 | -24,016 | -26,120 | -24,457 | |
| Chg in investments | 0 | 0 | 0 | 0 | |
| Chg in marketable securities | -26,806 | 7,422 | -220 | -228 | |
| Other investing activities | 28,523 | -2,603 | -6,560 | -12,647 | |
| Cash flow from investing activities | -1,026 | -26,432 | -32,602 | -37,048 | |
| Free cash flow | -53,023 | 19,056 | 11,514 | 14,184 | |
| Equity raised/(repaid) | 46,628 | 0 | 0 | 0 | |
| Debt raised/(repaid) | 28,202 | 9,078 | -7,305 | -6,877 | |
| Dividend (incl. tax) | 0 | 0 | 0 | 0 | |
| Other financing activities | 0 | 0 | 0 | 0 | |
| Cash flow from financing activities | 84,597 | 35,622 | -7,305 | -6,877 | |
| Net chg in cash | 31,574 | 54,678 | 4,209 | 7,308 | |
| Opening cash balance | 14,923 | 31,688 | 26,256 | 28,347 | |
| Closing cash balance | 31,688 | 26,256 | 28,347 | 30,905 | |

Source: Company, Axis Research

| Ratio Analysis | | (%) | | | |
|--------------------------------|---------|---------|---------|---------|--|
| Y/E March | FY20 | FY21E | FY22E | FY23E | |
| Per Share data | | | | | |
| EPS (INR) | (74.4) | 93.2 | 106.4 | 128.1 | |
| Growth, % | 1,176.2 | (225.3) | 14.2 | 20.3 | |
| Book NAV/share (INR) | 155.6 | 248.7 | 355.1 | 483.2 | |
| FDEPS (INR) | (74.4) | 93.2 | 106.4 | 128.1 | |
| CEPS (INR) | (20.4) | 150.4 | 160.8 | 179.0 | |
| CFPS (INR) | | 39.8 | 81.6 | 96.3 | |
| DPS (INR) | - | - | - | - | |
| Return ratios | | | | | |
| Return on assets (%) | (9.0) | 2.5 | 6.4 | 8.4 | |
| Return on equity (%) | (47.8) | 37.5 | 30.0 | 26.5 | |
| Return on capital employed (%) | (13.8) | 3.5 | 7.8 | 9.8 | |
| Turnover ratios | | | | | |
| Asset turnover (x) | 0.6 | 0.7 | 0.8 | 0.9 | |
| Sales/Total assets (x) | 0.3 | 0.3 | 0.3 | 0.4 | |
| Sales/Net FA (x) | 0.4 | 0.4 | 0.5 | 0.6 | |
| Working capital/Sales (x) | (1.0) | (0.7) | (0.6) | (0.5) | |
| Fixed capital/Sales (x) | 2.7 | 2.2 | 1.9 | 1.7 | |
| Working capital days | (352.3) | (248.4) | (210.2) | (184.6) | |
| Liquidity ratios | | | | | |
| Current ratio (x) | 0.6 | 0.6 | 0.6 | 0.7 | |
| Quick ratio (x) | 0.6 | 0.6 | 0.6 | 0.7 | |
| Interest cover (x) | 0.7 | 1.4 | 2.8 | 4.5 | |
| Total debt/Equity (%) | 144.6 | 97.5 | 64.3 | 44.5 | |
| Net debt/Equity (%) | 104.9 | 77.0 | 48.7 | 32.0 | |
| Valuation | | | | | |
| PER (x) | (6.1) | 4.8 | 4.2 | 3.5 | |
| Price/Book (x) | 2.9 | 1.8 | 1.3 | 0.9 | |
| EV/Net sales (x) | 3.6 | 3.2 | 2.7 | 2.3 | |
| EV/EBITDA (x) | 8.6 | 6.7 | 5.2 | 4.4 | |
| EV/EBIT (x) | 35.5 | 16.8 | 9.5 | 7.0 | |

Source: Company, Axis Research

SECURITIES & INTELLIGENCE SERVICES – BETTER SERVICES MIX, STRONG EXECUTION

Securities and Intelligence services (SIS), is a security services providing company headquartered in Delhi, is a market leader in providing security services across sectors. SIS is having highest market penetrations in India and having strong presence in Australia, New Zealand, and Singapore etc. SIS also provides specialized services like Facility Management, Cash logistics and Electronic security services.

Key Rationale

- **Robust business structure in India:** India business has robust business structure and its revenue base has largely recovered (94% of Mar-20 levels) as key customer sectors like manufacturing, banking and healthcare are back at pre-Covid levels. Stress sectors like retail, entertainment and hospitality accounted for ~8% of segment revenue. SIS's inroads into tier 2 & 3 markets helped it minimize the impact of pandemic. As people starts joining offices demand will likely to witness traction across segments. Higher volumes on account of festivity should aid in reaching pre-Covid EBITDA margin levels.
- **Strong execution from international business:** Despite challenging global macros, international security business (double digit growth both in Q2 and H1) continued to outpace GDP growth rates in matured markets. Growth trajectory was aided by robust growth in Australia on increase in government contracts (account for ~46% of Australia revenue) and strong inflow of ad-hoc contracts for providing security at quarantine centres. This partially offset headwinds from business aviation/retail sectors (decrease in business due to pandemic). Despite pricing pressures, gross margin was maintained, and higher share of ad-hoc contracts (higher margin business) improved segmental EBITDA margin.

Key Financials (Consolidated)

| Y/E Mar (Rs Cr) | Net Sales (Rs Cr) | EBIDTA (Rs Cr) | Net Profit | EPS (Rs) | PER (x) | EV/EBIDTA (x) | P/BV (x) | ROE (%) | DPS (Rs) | Debt/Equity (%) |
|-----------------|-------------------|----------------|------------|----------|---------|---------------|----------|---------|----------|-----------------|
| FY20 | 8485 | 226 | 15.4 | 5.2 | 23.5 | 16% | 15% | 9.7 | 1.2 | 0.5 |
| FY21E | 9139 | 230 | 15.7 | 2.0 | 23.0 | 14% | 14% | 8.8 | 1.2 | 0.4 |
| FY22E | 10190 | 268 | 18.3 | 16.5 | 19.7 | 15% | 14% | 7.4 | 1.4 | 0.3 |
| FY23E | 11457 | 330 | 22.6 | 0.2 | 16.0 | 16% | 16% | 4.4 | 1.5 | 0.3 |

Source: Company, Axis Securities

Key Rationale

- **Recovery expected in Facility management services:** Weakness in revenue was on lower contribution from customer sectors like railway (down ~50% YoY; accounts for ~10% of FM revenue), hospitality, retail and entertainment. Many of these sectors are showing revival in Oct-20 and should result in substantial uptick in volume on festivity. We are also expecting strong rise in demand as railways are likely to start working with full capacity. Gross margin was intact; however, segmental EBITDA margin eroded on weak top-line. Management guided EBITDA margin to be back to historical levels in H2. Higher demand for disinfection and sanitation services under the new hygiene protocols would result in industry consolidation, as clients prefer vendors with scale. This would open multiple cross selling opportunities for SIS; targets to add new customers and increase wallet share of existing ones.
- **Valuations** We believe SIS has a resilient business structure from a long term perspective. We recommend **BUY** and assign 20x P/E multiple to its FY23E earnings of Rs. 22.6, which gives a TP of Rs. 450 per share

CMP
375

Target Price
450

Upside
20%

Profit & Loss (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|--------------|---------------|---------------|
| Net sales | 8,485 | 9,139 | 10,190 | 11,457 |
| Other operating income | 0 | 0 | 0 | 0 |
| Total income | 8,485 | 9,139 | 10,190 | 11,457 |
| Cost of goods sold | 6,980 | 7,457 | 8,402 | 9,446 |
| Contribution (%) | 17.7% | 18.4% | 17.6% | 17.6% |
| Advt/Sales/Distrn O/H | 985.2 | 1,122.7 | 1,141.3 | 1,283.1 |
| Operating Profit | 520 | 560 | 647 | 727 |
| Other income | 53 | 37 | 20 | 23 |
| PBIDT | 574 | 597 | 667 | 750 |
| Depreciation | 128 | 138 | 162 | 162 |
| Interest & Fin Chg. | 152 | 149 | 147 | 147 |
| E/o income / (Expense) | (4) | 0 | 0 | 0 |
| Pre-tax profit | 289 | 310 | 359 | 442 |
| Tax provision | 64 | 79 | 90 | 111 |
| (-) Minority Interests | 0 | 0 | 0 | 0 |
| Associates | 0 | 0 | 0 | 0 |
| Profit after Tax | 226 | 230 | 268 | 330 |
| Other Comprehensive Income | 0.0 | 0.0 | 0.0 | 0.0 |
| PAT after Comprehensive Income | 226 | 230 | 268 | 330 |

Source: Company, Axis Research

Balance Sheet (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|-------------------------|--------------|--------------|--------------|--------------|
| Total assets | 3,412 | 3,567 | 3,809 | 4,130 |
| Net Block | 285.3 | 214.8 | 120.2 | 25.5 |
| CWIP | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments | 1,240.8 | 1,253.2 | 1,265.7 | 1,278.4 |
| Wkg. cap. (excl cash) | 568 | 701 | 902 | (244) |
| Cash / Bank balance | 980 | 1,046 | 1,199 | 2,779 |
| Misc. Assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital employed | 3,412 | 3,567 | 3,809 | 4,130 |
| Equity capital | 73.3 | 73.3 | 73.3 | 73.3 |
| Reserves | 1,475 | 1,685 | 1,930 | 2,260 |
| Minority Interests | 4.5 | 4.6 | 5.4 | 0.0 |
| Borrowings | 949 | 893 | 890 | 886 |
| Def tax Liabilities | 910 | 910 | 910 | 910 |

Source: Company, Axis Research

Cash Flow (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|-------------------------|------------|------------|------------|------------|
| Sources | 643 | 275 | 449 | 528 |
| Cash profit | 506 | 518 | 577 | 639 |
| (-) Dividends | 20 | 20 | 24 | 0 |
| Retained earnings | 486 | 497 | 554 | 639 |
| Issue of equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Oth. Reserves | 126.0 | (12.9) | 50.1 | 43.9 |
| Borrowings | 166 | (8) | (8) | (8) |
| Others | (135) | (201) | (147) | (147) |
| Applications | 643 | 275 | 449 | 528 |
| Capital expenditure | 136.9 | 41.9 | 104.3 | 104.4 |
| Investments | 0.6 | 0.0 | 0.0 | 0.0 |
| Net current assets | 35.4 | 123.5 | 190.8 | 150.0 |
| Change in cash | 469.8 | 109.6 | 153.3 | 157.0 |
| Closing cash | 890 | 999 | 999 | 999 |

Source: Company, Axis Research

Ratio Analysis (%)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|-----------------------------|-------------|------------|-------------|-------------|
| Sales growth | 19.6 | 7.7 | 11.5 | 12.4 |
| OPM | | | | |
| Oper. profit growth | 6.1 | 6.1 | 6.4 | 6.3 |
| COGS / Net sales | 42.5 | 7.6 | 15.6 | 12.4 |
| Overheads/Net sales | 82.3 | 81.6 | 82.5 | 82.5 |
| Depreciation / G. block | 11.6 | 12.3 | 11.2 | 11.2 |
| Effective interest rate (%) | (210.9) | (195.8) | (171.3) | (171.3) |
| | 17.3 | 16.7 | 16.5 | 16.5 |
| Net wkg.cap / Net sales | | | | |
| Net sales / Gr block (x) | 0.06 | 0.07 | 0.08 | 0.03 |
| | 15.7 | 15.0 | 15.1 | 15.4 |
| RoCE | | | | |
| Debt / equity (x) | 0.1 | 0.1 | 0.1 | 0.2 |
| Effective tax rate | 0.47 | 0.38 | 0.33 | 0.27 |
| RoE | 22.0 | 25.6 | 25.2 | 25.2 |
| Payout ratio (Div/NP) | 0.2 | 0.1 | 0.1 | 0.2 |
| | 7.5 | 7.5 | 7.5 | 0.0 |
| EPS (Rs.) | | | | |
| EPS Growth | 15.4 | 15.7 | 18.3 | 22.6 |
| CEPS (Rs.) | 5.2 | 2.0 | 16.5 | 23.1 |
| DPS (Rs.) | 24.2 | 25.2 | 29.4 | 33.6 |

Source: Company, Axis Research

EICHER MOTORS – NEW PRODUCT LAUNCHES, PREMIUMIZATION TO DRIVE GROWTH

Eicher Motors Limited (Eicher), is a leading player in the Indian automobile industry. On a standalone basis, Eicher manufactures and markets motorcycles under the iconic Royal Enfield (RE) brand. It is a market leader with 96% share in the above 250cc premium motorcycle segment in India. Additionally, the company is also in a JV with Sweden's AB Volvo for Volvo Eicher Commercial Vehicles (VECV) Limited.

Key Rationale

- **Leadership in the premium motorcycle segment:** Royal Enfield (RE) commands a 96% market share in the above 250cc premium motorcycles segment in India. Despite its product being in the premium segment and having a higher ticket size, RE is witnessing strong demand even in current subdued economic environment. This can be attributed to Royal Enfield's strong brand pull among its customers and differentiated product offerings.
- **Strengthening its core; multiple levers of growth:** RE is turning more aggressive on product launches and plans to introduce a new bike every quarter over next 3-4 years. A big dealer network expansion is also underway, mainly targeting semi-urban and rural markets, which should fuel the next leg of growth. Exports offer another area of potential growth and the 650-cc bikes launched in 2019 have seen good traction in overseas markets.
- **Key beneficiary of the premiumization trend in Indian 2Ws:** The share of premium segment in Indian 2Ws has been increasing gradually over the years from ~15% in FY14 to ~22.7% in FY20. We believe RE offers one of the most differentiated products in Indian autos, and will be the key beneficiary of premiumization trend in the maturing 2W industry over the long term.

Key Financials (Standalone)

| Y/E Dec (Rs Cr) | Net Sales | EBIDTA | Net Profit | EPS (Rs) | PER (x) | EV/EBIDTA (x) | P/BV (x) | ROE (%) |
|-----------------|-----------|--------|------------|----------|---------|---------------|----------|---------|
| FY20 | 9,077 | 2,204 | 1,904 | 70.0 | 30.3 | 23.0 | 7.0 | 24.7 |
| FY21E | 8,465 | 1,889 | 1,502 | 55.2 | 38.4 | 26.5 | 6.1 | 16.9 |
| FY22E | 10,311 | 2,475 | 1,963 | 72.1 | 29.4 | 19.6 | 5.2 | 19.1 |
| FY23E | 11,721 | 3,024 | 2,414 | 88.7 | 23.9 | 15.4 | 4.5 | 20.1 |

Source: Company, Axis Securities

Key Rationale

- **Outlook:** The Company is now focusing on expanding its addressable market through: a) distribution expansion (through smaller format stores), b) price laddering (by offering multiple 'trim' levels), c) new product launches, and d) mass customizations. Company's VECV business is also expected to gradually pick-up as the CV industry demand recovers on the back up of opening up of the economy and increase in demand from sectors like infra, steel and cement.
- **Valuation:** In our opinion, Company is well-placed to benefit from a potential demand recovery in 2Ws by FY22 given its differentiated products and strong franchise. We expect the company to register Revenue/Ebitda/PAT CAGR of ~9%/~11%/~8% from FY20-FY23E driven by volume CAGR of 5.5% over FY20-23E. We recommend a BUY on the stock with a Target price of Rs 2,400, valuing the RE business at 25x FY23E P/E and VECV business at 9x FY23E EV/EBITDA.
- **Key risks:** Slower than expected demand recovery; failure of new product launches; and increasing competitive intensity in the premium segment

CMP
2,139

Target Price
2,400

Upside
12%

| Profit & Loss | | (Rs Cr) | | | |
|----------------------------|-------|---------|--------|--------|--|
| Y/E Mar | FY20 | FY21E | FY22E | FY23E | |
| Net revenues | 9,077 | 8,465 | 10,311 | 11,721 | |
| Operating expenses | 6,874 | 6,576 | 7,836 | 8,697 | |
| EBIDTA | 2,204 | 1,889 | 2,475 | 3,024 | |
| EBIDTA margin (%) | 24.3 | 22.3 | 24.0 | 25.8 | |
| Other income | 615 | 563 | 659 | 790 | |
| Interest | 11 | 11 | 11 | 11 | |
| Depreciation | 378 | 446 | 516 | 597 | |
| Profit Before Tax | 2,430 | 1,995 | 2,606 | 3,206 | |
| Tax | 527 | 492 | 643 | 791 | |
| Reported Net Profit | 1,904 | 1,502 | 1,963 | 2,414 | |
| Net Margin (%) | 21.0 | 17.7 | 19.0 | 20.6 | |
| Adjusted Net Profit | 1,904 | 1,502 | 1,963 | 2,414 | |

Source: Company, Axis Research

| Balance Sheet | | (Rs Cr) | | | |
|-------------------------------------|--------------|--------------|---------------|---------------|--|
| Y/E Mar | FY20 | FY21E | FY22E | FY23E | |
| Equity capital | 27 | 27 | 27 | 27 | |
| Reserves & surplus | 8,248 | 9,483 | 11,051 | 12,921 | |
| Shareholders funds | 8,275 | 9,511 | 11,078 | 12,949 | |
| Total Loans | 101 | 101 | 101 | 101 | |
| Deferred tax liability | 252 | 252 | 252 | 252 | |
| Total Liabilities and Equity | 8,628 | 9,863 | 11,431 | 13,301 | |
| Gross block | 3,684 | 4,284 | 4,934 | 5,734 | |
| Depreciation | 1,316 | 1,762 | 2,278 | 2,875 | |
| Net block | 2,369 | 2,523 | 2,656 | 2,859 | |
| Capital WIP | 312 | 312 | 312 | 312 | |
| Investments | 3,926 | 3,920 | 5,420 | 7,820 | |
| Inventory | 518 | 498 | 601 | 677 | |
| Debtors | 134 | 125 | 152 | 173 | |
| Cash & Bank Bal | 2,926 | 3,948 | 4,117 | 3,558 | |
| Loans & Advances | 394 | 394 | 394 | 394 | |
| Current Assets | 3,973 | 4,965 | 5,264 | 4,802 | |
| Sundry Creditors | 1,021 | 970 | 1,171 | 1,319 | |
| Other Current Liability | 930 | 887 | 1,052 | 1,173 | |
| Current Liability & Provisions | 1,951 | 1,857 | 2,222 | 2,492 | |
| Net current assets | 2,022 | 3,108 | 3,042 | 2,310 | |
| Misc Exp | 0 | 0 | 0 | 0 | |
| Total Assets | 8,628 | 9,863 | 11,431 | 13,301 | |

Source: Company, Axis Research

| Y/E Mar | (Rs Cr) | | | |
|---|---------------|--------------|---------------|---------------|
| | FY20 | FY21E | FY22E | FY23E |
| EBIT | 1,826 | 1,443 | 1,958 | 2,427 |
| Other Income | 615 | 563 | 659 | 790 |
| Depreciation & Amortisation | 378 | 446 | 516 | 597 |
| Interest paid(-) | 11 | 11 | 11 | 11 |
| Tax paid(-) | -628 | -492 | -643 | -791 |
| Extra Ord Income | -552 | 0 | 0 | 0 |
| Operating Cash Flow | 1,650 | 1,970 | 2,501 | 3,033 |
| Change in Working Capital | 92 | -65 | 235 | 173 |
| Cash flow from Operations | 1,742 | 1,906 | 2,736 | 3,206 |
| Capex | -555 | -600 | -650 | -800 |
| Strategic Investment | 0 | 0 | 0 | 0 |
| Non Strategic Investment | -964 | 5 | -1,500 | -2,400 |
| Cash flow from Investing | -1,519 | -595 | -2,150 | -3,200 |
| Change in borrowing | -103 | 0 | 0 | 0 |
| Others | 28 | 0 | 0 | 0 |
| Dividends paid(-) | -809 | -267 | -395 | -544 |
| Cashflow from Financial Activities | -883 | -267 | -395 | -544 |
| Change in Cash | -661 | 1,044 | 190 | -537 |
| Opening cash | 691 | 19 | 1,041 | 1,210 |
| Closing cash | 19 | 1,041 | 1,210 | 651 |

Source: Company, Axis Research

| Key Ratios | FY20 | | | |
|---------------------------------|------|-------|-------|-------|
| | FY20 | FY21E | FY22E | FY23E |
| Revenue Growth | -7.3 | -6.7 | 21.8 | 13.7 |
| EBITDA Margin | 24.3 | 22.3 | 24.0 | 25.8 |
| Net Profit Margin | 21.0 | 17.7 | 19.0 | 20.6 |
| ROCE (%) | 23.7 | 16.3 | 18.5 | 19.6 |
| ROE (%) | 24.7 | 16.9 | 19.1 | 20.1 |
| EPS(Rs) | 70.0 | 55.2 | 72.1 | 88.7 |
| P/E (x) | 30.3 | 38.4 | 29.4 | 23.9 |
| P/ BV (x) | 7.0 | 6.1 | 5.2 | 4.5 |
| EV/ EBITDA (x) | 23.0 | 26.5 | 19.6 | 15.4 |
| Fixed Assets Turnover Ratio (x) | 3.4 | 3.0 | 3.5 | 3.7 |
| Debt / Equity (x) | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/ Sales (x) | 5.6 | 5.9 | 4.7 | 4.0 |
| Revenue Growth | -7.3 | -6.7 | 21.8 | 13.7 |
| EBITDA Margin | 24.3 | 22.3 | 24.0 | 25.8 |
| Net Profit Margin | 21.0 | 17.7 | 19.0 | 20.6 |
| ROCE (%) | 23.7 | 16.3 | 18.5 | 19.6 |
| ROE (%) | 24.7 | 16.9 | 19.1 | 20.1 |
| EPS(Rs) | 70.0 | 55.2 | 72.1 | 88.7 |
| P/E (x) | 30.3 | 38.4 | 29.4 | 23.9 |
| P/ BV (x) | 7.0 | 6.1 | 5.2 | 4.5 |
| EV/ EBITDA (x) | 23.0 | 26.5 | 19.6 | 15.4 |
| Fixed Assets Turnover Ratio (x) | 3.4 | 3.0 | 3.5 | 3.7 |
| Debt / Equity (x) | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/ Sales (x) | 5.6 | 5.9 | 4.7 | 4.0 |

Source: Company, Axis Research

DALMIA BHARAT – STRONG DEMAND REVIVAL & BETTER COST CONTROL

DBL is among the top five cement producers in India having capacity of 26.5 mntpa with strong market position in its key markets of South, East and North East India. The company has overall market share of 5% in the Indian cement industry. Currently the company is in the process of expanding its existing capacity from 26.5 mntpa to 37.3 mntpa which will get operational in phases over FY21 to FY22. Dalmia Cement's availability spans across 22 states and union territories, mainly in East, North East and Southern India, with selective presence in Uttar Pradesh and Maharashtra. The company offer a range of cement variants through various brand portfolio of three marquee brands: Dalmia Cement, Dalmia DSP and Konark Cement.

Key Rationale

- DBL is in the process of expanding its present capacity by 40% (including acquisition of Murali Industries 3 mntpa awarded under NCLT proceedings) from 26.5 mntpa to 37.3 mntpa. These capacities will get operational in phases over next 6 to 18 months time. Since majority of these expansions are taking place (7.8 mntpa) in the eastern region, the gain in market share is imminent. The acquisition of Murali Industries will allow the company to capture western markets where currently the company has no operating facility
- The company reported stellar Q2FY21 results driven by volume growth and effective cost control indicating better operating efficiency. DBLs integrated operations, better cement to clinker ratio, introduction of portland composite cement, digitisation of sales channel and effective utilization of resources makes it one of the efficient cost producer of cement in India
- **Key risks:** Deterioration in cement demand supply dynamics, fluctuation in input prices, cyclical of the cement industry

Key Rationale

- The company capacity is geographically diversified (45.7% in southern region, 39.24% in East and balance 15% in North-East region which will keep company relatively insulated from regional demand supply fluctuations. Further acquisition of Murali Industries gives the company opportunity to explore Western market. With the commissioning of extended capacity the company will further consolidate its position in its key markets. The market share of the company in East will increase from current 12% to 19% with the commissioning of the extended facility.
- **Outlook & Valuation:** The revival in cement demand augurs well for the company on the back of demand improvement both in the trade and non trade channel. With capacity expansion, better monitoring of cost drivers and increased realization, DBL is expected to report Revenue/Ebitda/APAT CAGR of 14%/15%/22% respectively between FY21E-FY23E. We value DBL at 6.5x FY22E EV/EBITDA to arrive at TP of Rs.1083.

CMP
893

Target Price
1083

Upside
21%

Key Financials (Consolidated)

| Y/E Mar (Rs Cr) | Net Sales (Rs Cr) | EBIDTA (Rs Cr) | Net Profit | EPS (Rs) | PER (x) | EV/EBIDTA (x) | P/BV (x) | ROE (%) |
|--------------------|----------------------|-------------------|------------|-------------|------------|------------------|-------------|------------|
| 2020 | 96740 | 21060 | 2380 | 12.3 | 39.7 | 5.8 | 0.9 | 2.2 |
| 2021E | 97195 | 27716 | 8976 | 48.1 | 18.4 | 6.8 | 1.5 | 8.1 |
| 2022E | 115626 | 33445 | 11706 | 62.7 | 14.2 | 5.3 | 1.4 | 9.6 |
| 2023E | 126514 | 36034 | 13406 | 71.8 | 12.4 | 4.4 | 1.2 | 10 |

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|---------------------------|-------|-------|--------|--------|
| Net sales | 96740 | 97195 | 115626 | 126514 |
| Other operating income | 0 | 0 | 0 | 0 |
| Total income | 96740 | 97195 | 115626 | 126514 |
| Raw Material | 17460 | 16943 | 20332 | 22162 |
| Power & Fuel | 17380 | 13866 | 16639 | 18136 |
| Freight & Forwarding | 18950 | 18827 | 22592 | 24399 |
| Employee benefit expenses | 6750 | 6770 | 7582 | 8492 |
| Other Expenses | 15140 | 13075 | 15036 | 17291 |
| EBITDA | 21060 | 27716 | 33445 | 36034 |
| Other income | 2170 | 2430 | 2891 | 3163 |
| PBIDT | 23230 | 30145 | 36336 | 39196 |
| Depreciation | 15280 | 12495 | 14688 | 15069 |
| Interest & Fin Chg. | 4380 | 3842 | 3638 | 3502 |
| E/o income / (Expense) | 0 | 0 | 0 | 0 |
| Pre-tax profit | 3570 | 13809 | 18010 | 20625 |
| Tax provision | 1190 | 4833 | 6303 | 7219 |
| RPAT | 2380 | 8976 | 11706 | 13406 |
| Minority Interests | -140 | -100 | -140 | -140 |
| Associates | 0 | 0 | 0 | 0 |
| APAT after EO item | 2240 | 8876 | 11566 | 13266 |

Source: Company, Axis Research

Balance Sheet (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|---------------------------------|--------|--------|--------|--------|
| Total assets | 206110 | 208601 | 218312 | 230083 |
| Net Block | 141270 | 143355 | 142561 | 133838 |
| CWIP | 17020 | 9000 | 3000 | 3000 |
| Investments | 1180 | 1180 | 1180 | 1180 |
| Wkg. cap. (excl cash) | 5420 | 6125 | 6969 | 7626 |
| Cash / Bank balance | 4030 | 1757 | 2321 | 6658 |
| Misc. Assets | 37190 | 47184 | 62281 | 77782 |
| Capital employed | 206110 | 208601 | 218312 | 230083 |
| Equity capital | 386 | 374 | 374 | 374 |
| Reserves | 105220 | 110542 | 121688 | 134534 |
| Minority Interests | 250 | 250 | 250 | 250 |
| Borrowings | 54210 | 56500 | 53500 | 51500 |
| Def tax Liabilities | 12770 | 12800 | 12800 | 12800 |
| Other Liabilities and Provision | 33274 | 28135 | 29701 | 30625 |

Source: Company, Axis Research

Cash Flow (Rs Cr)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|----------------------------|--------|--------|--------|--------|
| Profit before tax | 3570 | 13809 | 18010 | 20625 |
| Depreciation | 15280 | 12495 | 14688 | 15069 |
| Interest Expenses | 3640 | 3842 | 3638 | 3502 |
| Non operating/ EO item | -1190 | -2430 | -2891 | -3163 |
| Change in W/C | 2740 | -745 | -845 | -656 |
| Income Tax | -660 | -4833 | -6303 | -7219 |
| Operating Cash Flow | 23380 | 21828 | 26297 | 28158 |
| Capital Expenditure | -13500 | -14579 | -13895 | -6346 |
| Investments | 0 | -1570 | -7531 | -14576 |
| Others | -4100 | 1470 | 1330 | 1330 |
| Investing Cash Flow | -17600 | -13579 | -18535 | -17759 |
| Borrowings | 120 | -3010 | -3000 | -2000 |
| Interest Expenses | -4680 | -3842 | -3638 | -3502 |
| Dividend paid | -930 | -374 | -560 | -560 |
| Others | -430 | 0 | 0 | 0 |
| Financing Cash Flow | -5920 | -7226 | -7198 | -6062 |
| Change in Cash | -140 | -2273 | 564 | 4337 |
| Opening Cash | 2800 | 2660 | 387 | 951 |
| Closing Cash | 2660 | 387 | 951 | 5288 |

Source: Company, Axis Research

Ratio Analysis (%)

| Y/E March | FY20 | FY21E | FY22E | FY23E |
|---------------------------------|------|-------|-------|-------|
| Operational Ratios | | | | |
| Sales growth | 2% | 0% | 19% | 9% |
| OPM | 22% | 29% | 29% | 28% |
| Op. profit growth | 8% | 32% | 21% | 8% |
| COGS / Net sales | 56% | 51% | 52% | 51% |
| Overheads/Net sales | 23% | 20% | 20% | 20% |
| Depreciation / G. block | 8.2% | 6.0% | 6.4% | 6.4% |
| Effective interest rate | 7% | 7% | 7% | 7% |
| Efficiency Ratios | | | | |
| Total Asset turnover (x) | 0.47 | 0.47 | 0.53 | 0.55 |
| Sales/Gross block (x) | 0.46 | 0.50 | 0.54 | 0.54 |
| Sales/Net block(x) | 0.68 | 0.68 | 0.81 | 0.95 |
| Working capital/Sales (x) | 0.06 | 0.08 | 0.13 | 0.23 |
| Valuation Ratios | | | | |
| P/BV (x) | 0.89 | 1.18 | 1.07 | 0.97 |
| EV/Ebitda (x) | 5.84 | 6.83 | 5.33 | 4.36 |
| EV/Sales (x) | 1.27 | 1.95 | 1.54 | 1.24 |
| EV/Tonne \$ (x) | 63 | 73 | 65 | 57 |
| Return Ratios | | | | |
| ROE | 2.24 | 8.27 | 10.03 | 10.41 |
| ROCE | 5.0 | 11.1 | 13.2 | 14.0 |
| ROIC | 6.16 | 13.71 | 17.25 | 20.97 |
| Leverage Ratios | | | | |
| Debt / equity (x) | 0.56 | 0.51 | 0.44 | 0.38 |
| Net debt/ Equity (x) | 0.27 | 0.24 | 0.12 | -0.04 |
| Debt service coverage ratio (x) | 0.13 | 0.31 | 0.40 | 0.47 |
| Interest Coverage ratio (x) | 1.82 | 4.59 | 5.95 | 6.89 |

Source: Company, Axis Research

VARUN BEVERAGES – NORMALCY IN BUSINESS RESTORING

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

Key Rationale

- Q3CY20 performance was healthy on a YoY basis with in-home consumption growing 20-25% rate. During September VBL reported a 13% growth in volumes and this trend is likely continuing in October too. Further, with bunching up of festive season in Q4CY20, resumption of public transports aiding on-the-go consumption and continuing in-home consumption trend both in rural, semi-urban (~60% of Q3CY20 sales) and urban areas bodes well for VBL going forward. Expect EBITDA Margins to stabilize in 21-22% ranged on the back of improved mix and cost rationalization initiatives taken during the pandemic.
- **Low per capita soft drink consumption in India** of 44 bottles as of 2016 as compared to 271 bottles in China, 1,496 bottles in USA and 1,489 bottles in Mexico offers immense scope for growth from deeper penetration of soft drinks in India is a structural growth opportunity.
- **Key risks:** concerns on second COVID wave in India (50% OOH* consumption), seasonality, regulatory actions against soft drinks if any.

Key Rationale

- **Outlook:** With business growth restoring aided by unlock as witnessed in Q3CY20, we do expect this momentum to continue. Trend of in-home consumption has seen an increase and is likely to continue as consumers get habituated to consuming soft drinks at home. Rural regions are likely to grow ahead of urban counterparts on the back of healthy outlook for agriculture. Share gain opportunities from smaller players could further boost its market share especially in acquired territories of South and West where company will look to add dealers ahead of the season in CY21.
- **Valuation.** We expect VBL to register Revenues/Earnings CAGR of 11%/30% resp. over CY19-22E. This growth will be driven by 1) consolidation in newly acquired territories, 2) distribution led market share gains, 3) cost efficiencies leading to margin tailwinds to support EBITDA Margin in CY20E/CY21E. At CMP, stock trades at an attractive valuation of 9.3x EV/EBITDA on CY22E basis versus its 3 year mean of 14x EV/EBITDA.

CMP
694

Target Price
865

Upside
25%

Key Financials (Consolidated)

| Y/E Dec (Rs Cr) | Net Sales | EBIDTA (Rs C) | Net Profit | EPS (Rs) | PER (x) | EV/EBIDTA (x) | P/BV (x) | ROE (%) |
|-----------------|-----------|---------------|------------|----------|---------|---------------|----------|---------|
| CY19 | 7,130 | 1,448 | 472 | 16.8 | 42.1 | 15.9 | 6.1 | 17.6 |
| CY20E | 6,390 | 1,297 | 376 | 13.0 | 51.6 | 16.7 | 5.3 | 10.7 |
| CY21E | 8,732 | 1,851 | 798 | 27.6 | 24.3 | 11.4 | 4.4 | 19.8 |
| CY22E | 9,715 | 2,118 | 1,038 | 35.9 | 18.7 | 9.3 | 3.7 | 21.5 |

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

| Profit & Loss | | (Rs Cr) | | | |
|--------------------------------|--------------|----------------|--------------|--------------|--|
| Y/E DEC | CY19 | CY20E | CY21E | CY22E | |
| Total Net Sales | 7,130 | 6,390 | 8,732 | 9,715 | |
| Total Raw Material Consumption | 3,219 | 2,767 | 3,798 | 4,197 | |
| Staff costs | 811 | 805 | 1,030 | 1117 | |
| Other Expenditure | 1,652 | 1,521 | 2,052 | 2,283 | |
| Total Expenditure | 5,682 | 5,093 | 6,881 | 7,597 | |
| EBITDA | 1,448 | 1,297 | 1,851 | 2,118 | |
| Depreciation | 488.6 | 546 | 574 | 603 | |
| EBIT | 959 | 751 | 1,277 | 1,515 | |
| Interest | 310 | 277 | 216 | 146 | |
| Other Income | 43 | 45 | 44 | 68 | |
| PBT | 696 | 523 | 1,108 | 1441 | |
| Tax | 224 | 146 | 310 | 404 | |
| APAT | 472 | 376 | 798 | 1,038 | |

Source: Company, Axis Research

| Balance Sheet | | (Rs Cr) | | | |
|----------------------------------|--------------|----------------|--------------|--------------|--|
| Y/E DEC | CY19 | CY20E | CY21E | CY22E | |
| Share Capital | 289 | 289 | 289 | 289 | |
| Reserves & Surplus | 3,040 | 3,367 | 4,054 | 4,967 | |
| Net Worth | 3,359 | 3,687 | 4,373 | 5,286 | |
| Total Loan funds | 2,823 | 2,523 | 2,123 | 1623 | |
| Deferred Tax Liability | 283 | 283 | 283 | 283 | |
| Long Term Provisions | 170 | 146 | 201 | 222 | |
| Capital Employed | 6,635 | 6,639 | 6,980 | 7,414 | |
| Net Block | 5,893 | 5,837 | 5,742 | 5,619 | |
| Investments | 45 | 41 | 56 | 62 | |
| Sundry Debtors | 173 | 175 | 239 | 266 | |
| Cash & Bank Bal | 171 | 225 | 501 | 1227 | |
| Inventory | 882 | 531 | 957 | 862 | |
| Other Current Assets | 440 | 394 | 539 | 599 | |
| Total Current Assets | 1,672 | 1,332 | 2,243 | 2,961 | |
| Current Liabilities & Provisions | 1,753 | 1,442 | 1,968 | 2,171 | |
| Net Current Assets | (81) | (110) | 275 | 790 | |
| Total Assets | 6,635 | 6,639 | 6,980 | 7,414 | |

Source: Company, Axis Research

| Cash Flow | (Rs Cr) | | | |
|---|----------------|--------------|--------------|--------------|
| | CY19 | CY20E | CY21E | CY22E |
| Cash Flow | | | | |
| PBT | 696 | 523 | 1,108 | 1441 |
| Depreciation & Amortization | 489 | 546 | 574 | 603 |
| Provision for Taxes | 295 | 277 | 216 | 146 |
| Chg in Deferred tax | 35 | - | - | - |
| Chg in Working cap | (85) | 63 | (69) | 226 |
| Direct tax paid | (120) | (146) | (310) | -404 |
| Cash flow from operations | 1,310 | 1,263 | 1,519 | 2,012 |
| Chg in Gross Block | (754) | (583) | (515) | (516) |
| Chg in Investments | (1,625) | - | - | - |
| Chg in WIP | 68 | - | - | - |
| Cash flow from investing | (2,311) | (583) | (515) | (516) |
| Proceeds / (Repayment) of Short Term Borrowings (Net) | 560 | - | - | - |
| Repayment of Long Term Borrowings | 46 | - | - | - |
| Loans Repayment | - | (300) | (400) | -500 |
| Finance Cost paid | (301) | (277) | (216) | -146 |
| Dividends paid | (69) | (49) | (112) | -125 |
| Dividend Distribution Tax paid | (9) | - | - | - |
| Cash flow from financing | 1,110 | (626) | (728) | -771 |
| Chg in cash | 100 | 54 | 276 | 726 |
| Cash at start | 42 | 171 | 225 | 501 |
| Cash at end | 142 | 225 | 501 | 1227 |

Source: Company, Axis Research

| Ratio Analysis | (%) | | | |
|-----------------------------|-------|--------|--------|-------|
| | CY19 | CY20E | CY21E | CY22E |
| Key Ratios | | | | |
| Growth (%) | | | | |
| Net Sales | 39.7% | -10.4% | 36.6% | 11.3% |
| EBITDA | 43.8% | -10.4% | 42.7% | 14.4% |
| APAT | 57.5% | -20.3% | 112.0% | 30.0% |
| Per Share Data (Rs.) | | | | |
| Adj. EPS | 16.8 | 13.0 | 27.6 | 35.9 |
| BVPS | 116.4 | 127.7 | 151.5 | 183.1 |
| Profitability (%) | | | | |
| EBITDA Margin | 20.3% | 20.3% | 21.2% | 21.8% |
| Adj. PAT Margin | 6.6% | 5.9% | 9.1% | 10.7% |
| ROCE | 17.0% | 11.3% | 18.8% | 21.0% |
| ROE | 17.6% | 10.7% | 19.8% | 21.5% |
| Valuations (X) | | | | |
| PER | 42.1 | 51.6 | 24.3 | 18.7 |
| P/BV | 6.1 | 5.3 | 4.4 | 3.7 |
| EV / EBITDA | 15.9 | 16.7 | 11.4 | 9.3 |
| EV / Net Sales | 3.2 | 3.4 | 2.4 | 2.0 |
| Turnover Days | | | | |
| Asset Turnover | 1.0 | 0.8 | 1.0 | 1.0 |
| Inventory days | 82.8 | 93.1 | 71.5 | 79.1 |
| Debtors days | 7.7 | 9.9 | 8.7 | 9.5 |
| Creditors days | 45.0 | 54.0 | 38.9 | 42.9 |
| Working Capital Days | 45.4 | 49.1 | 41.3 | 45.8 |
| Gearing Ratio | | | | |
| Debt: Equity (x) | 0.8 | 0.7 | 0.5 | 0.3 |

Source: Company, Axis Research

AARTI INDUSTRIES – A PREFERRED PARTNER OF CHOICE

Aarti Industries Ltd. (AARTO) is the largest producers of Benzene based basic and intermediate chemicals in India. AARTO is a preferred partner of choice for +1000 customers globally. It has a product basket of +200 products and operates through 17 manufacturing plants and 4 R&D centres in India. Specialty Chemicals/Pharma forms 83%/17% of revenues as of FY20 while Export contribution stands at 42% of revenues.

Key Rationale

- The US Environmental Protection Agency last week allowed farmers to use dicamba herbicide that are sold by Bayer and other companies for another 5 years. The US appeals court had blocked its sales in June. Interestingly, ARTO had signed multi-year supply deal with Bayer for the intermediate and ban in the US led to cancellation of the deal with adequate compensation. The extension of usage provides more business opportunity to Aarti in the medium term over and above the compensation.
- Rising share of down-stream value added products was seen in Q1FY21, value added products share was 74% we expect this trend to improve going ahead. Further, focus will be on ramping up utilization levels of its value added products given no major capex plans over next 12-24 months.
- Over 3-4 years, management guided to grow EBITDA/PAT at 12-18%/15-20% CAGR resp in the Sp. Chem segment. While, Pharma segment to report Revenue CAGR of ~20%; EBITDA Margin of 20% over the coming 5 year period.

Key Rationale

- **Outlook:** We believe acceleration of shift in supply chain independent of China by global chemical majors, long customer approval cycles, execution of multi-year deals, huge export opportunities for organic and inorganic bulk chemicals & pharmaceuticals, large domestic opportunity augurs well for specialty chemical companies like Aarti.
- **Valuation:** As a result, we expect Aarti to report Earnings growth of 42%/16% in FY22/23E. Lower crude prices and cost optimization could help protect Op. Margins in the near to medium term. As a result we expect Aarti to report earnings growth of 23%/12% in FY22/23E on the back of a strong recovery in volumes in Specialty Chemicals segment and sustained performance of Pharma division. We expect a strong improvement in FY22/23E ROE from a dip in FY21E owing to adverse impact of COVID-19 on overall business.
- **Key risks:** delay in commissioning of multiyear contracts, sharp slowdown in key end user industries, lockdown extension.

CMP
1105

Target Price
1,263

Upside
14%

Key Financials (Consolidated)

| Y/E Mar (Rs Cr) | Net Sales (Rs Cr) | EBIDTA (Rs Cr) | Net Profit | EPS (Rs) | PER (x) | EV/EBIDTA (x) | P/BV (x) | ROE (%) |
|--------------------|----------------------|-------------------|------------|-------------|------------|------------------|-------------|------------|
| FY20 | 4,186 | 986 | 536 | 30.8 | 32.0 | 19.0 | 5.8 | 18.8 |
| FY21E | 4,272 | 1,030 | 516 | 29.6 | 33.6 | 17.8 | 5.0 | 15.7 |
| FY22E | 5,261 | 1,326 | 734 | 42.1 | 23.7 | 13.6 | 4.2 | 19.0 |
| FY22E | 5,876 | 1,487 | 850 | 48.8 | 20.4 | 11.6 | 3.5 | 18.4 |

Source: Company, Axis Research

| Profit & Loss | | | | |
|----------------------------|----------------|--------------|--------------|--------------|
| | (Rs Cr) | | | |
| Y/E March | FY20 | FY21E | FY22E | FY23E |
| Net sales | 4,186 | 4,272 | 5,261 | 5,876 |
| Other operating income | 9 | 9 | 11 | 0 |
| Total income | 4,195 | 4,281 | 5,272 | 5,876 |
| Cost of goods sold | 2,955 | 3,004 | 3,654 | 4,068 |
| Contribution (%) | 29.4% | 29.7% | 30.6% | 30.8% |
| Advt/Sales/Distrn O/H | 254.2 | 247.3 | 292.0 | 320.8 |
| Operating Profit | 986 | 1,030 | 1,326 | 1,487 |
| Other income | 0 | 0 | 0 | 0 |
| PBIDT | 986 | 1,030 | 1,326 | 1,487 |
| Depreciation | 185 | 266 | 305 | 320 |
| Interest & Fin Chg. | 125 | 134 | 127 | 115 |
| E/o income / (Expense) | 0 | 0 | 0 | 0 |
| Pre-tax profit | 676 | 630 | 895 | 1,052 |
| Tax provision | 129 | 113 | 161 | 202 |
| (-) Minority Interests | 11 | 0 | 0 | 0 |
| Associates | 0 | 0 | 0 | 0 |
| Other Comprehensive Income | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted PAT | 536 | 516 | 734 | 850 |

Source: Company, Axis Research

| Balance Sheet | | | | |
|-------------------------|----------------|--------------|--------------|--------------|
| | (Rs Cr) | | | |
| Y/E March | FY20 | FY21E | FY22E | FY23E |
| Total assets | 5,738 | 6,658 | 7,077 | 7,765 |
| Net Block | 2,561 | 3,224 | 3,570 | 3,712 |
| CWIP | 1,417.6 | 584.2 | 279.3 | 123.2 |
| Investments | 37.0 | 37.0 | 37.0 | 37.0 |
| Wkg. cap. (excl cash) | 1,475 | 1,466 | 1,781 | 1,903 |
| Cash / Bank balance | 247.3 | 1,347.5 | 1,409.7 | 1,990.0 |
| Misc. Assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital employed | 5,738 | 6,658 | 7,077 | 7,765 |
| Equity capital | 87.1 | 87.1 | 87.1 | 87.1 |
| Reserves | 2,984 | 3,404 | 4,023 | 4,911 |
| Pref. Share Capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Minority Interests | 94.6 | 94.6 | 94.6 | 94.6 |
| Borrowings | 2,361 | 2,861 | 2,661 | 2,461 |
| Def tax Liabilities | 211.0 | 211.0 | 211.0 | 211.0 |

Source: Company, Axis Research

| Cash Flow | | (Rs Cr) | | | |
|-------------------------|------------|------------|------------|------------|--|
| Y/E March | FY20 | FY21E | FY22E | FY23E | |
| Sources | 768 | 914 | 853 | 975 | |
| Cash profit | 857 | 917 | 1,165 | 1,284 | |
| (-) Dividends | 106 | 96 | 115 | 125 | |
| Retained earnings | 750 | 820 | 1,050 | 1,159 | |
| Issue of equity | (0.0) | 0.0 | 0.0 | 0.0 | |
| Change in Oth. Reserves | 10.8 | 0.0 | 0.0 | 0.0 | |
| Borrowings | 114 | 228 | -70 | -70 | |
| Others | -107 | -134 | -127 | -115 | |
| Applications | 768 | 914 | 853 | 975 | |
| Capital expenditure | 1,757.7 | 95.6 | 346.1 | 142.2 | |
| Investments | 3.9 | 0.0 | 0.0 | 0.0 | |
| Net current assets | 0.5 | (281.4) | 444.9 | 252.1 | |
| Change in cash | (993.9) | 1,100.2 | 62.2 | 580.3 | |

Source: Company, Axis Research

| Ratio Analysis | | (%) | | | |
|-----------------------------|-------------|-------------|-------------|-------------|--|
| Y/E March | FY20 | FY21E | FY22E | FY23E | |
| Sales growth | 0.4 | 2.0 | 23.2 | 11.7 | |
| OPM | 23.5 | 24.1 | 25.2 | 25.3 | |
| Oper. profit growth | 2.0 | 4.4 | 28.8 | 12.1 | |
| COGS / Net sales | 70.6 | 70.3 | 69.5 | 69.2 | |
| Overheads/Net sales | 6.1 | 5.8 | 5.6 | 5.5 | |
| Depreciation / G. block | 4.2 | 5.0 | 5.1 | 5.1 | |
| Effective interest rate | 6.4 | 6.5 | 5.7 | 5.7 | |
| Net wkg.cap / Net sales (x) | 0.26 | 0.25 | 0.23 | 0.24 | |
| Net sales / Gr block (x) | 1.0 | 0.8 | 0.9 | 0.9 | |
| RoCE | 14.7 | 12.4 | 14.9 | 15.7 | |
| Debt / equity (x) | 0.6 | 0.7 | 0.5 | 0.4 | |
| Effective tax rate | 19.1 | 18.0 | 18.0 | 19.2 | |
| RoE | 18.8 | 15.7 | 19.0 | 18.4 | |
| Payout ratio (Div/NP) | 19.8 | 18.6 | 15.7 | 14.7 | |
| EPS (Rs.) | 30.8 | 29.6 | 42.1 | 48.8 | |
| EPS Growth | 9.0 | (3.7) | 42.1 | 15.8 | |
| CEPS (Rs.) | 41.4 | 44.9 | 59.6 | 67.1 | |
| DPS (Rs.) | 6.1 | 5.0 | 6.0 | 6.5 | |
| Valuation (x) | | | | | |
| P/E | 32.0 | 33.6 | 23.7 | 20.4 | |
| P/BV | 5.8 | 5.0 | 4.2 | 3.5 | |
| EV/EBITDA | 19.0 | 17.8 | 13.6 | 11.6 | |
| Mcap/Sales | 4.1 | 4.1 | 3.3 | 3.0 | |

Source: Company, Axis Research

DHANUKA AGRITECH – DOMESTIC PLAY A BRIGHT SPOT

Dhanuka Agritech Ltd (DAGRI) is a leading agrochemical company in India catering to domestic crop protection market in collaboration with the world's seven leading agrochemical companies from US, Japan and Europe that helps it introduce the latest technology in Indian farmlands. The company offers crop protection products and speciality plant nutrient products & solutions through its strong PAN India distribution network consisting of 7000+ distributors & ~80,000 retailers which reach out to ~10 million Indian farmers.

Key Rationale

- **Strong product portfolio backed by collaboration with global MNC's:** Dhanuka has a strong collaboration with global MNCs to market their products in India. The partnership revenues contributed ~45% in FY20. We expect this contribution to grow as the company targets to launch 10 new products across all segments over the next 2-3 years with focus on margin accretive products in 9(3) categories. So far in FY21E, DAGRI has launched 4 new products of which 2 are in the 9(3) category and the pace of launches is expected to be maintained going forward.
- **Pan India distribution network:** DAGRI has a strong presence in southern and western regions which contributes ~65% to its revenues. DAGRI has established an extensive, pan-India distribution network replicating a typical rural FMCG distribution model. This is a key competitive advantage the company enjoys and can be leveraged with MNCs to drive further growth.

Key Rationale

- **Valuation:** We expect DAGRI to register Revenue/EBITDA/PAT CAGR of 16%/21%/20% respectively over FY20-23E given 1) Strong product portfolio with 4-5 new product launches and one or two 9(3) molecules annually in the domestic formulation business, 2) Stable revenue given collaboration with global MNCs, 3) PAN India distribution network of 7000+ dealers and strong marketing team to penetrate further into newer markets. At CMP, stock trades at 14x FY23E EPS and is fairly valued in our view. We assign a target multiple of 17x FY23E EPS.
- **Key Risks:** The business is sensitive to weather conditions, including extremes such as drought and natural disasters. Results of operations are significantly affected by weather conditions in the agricultural regions where agro chemical products are used.

CMP
733

Target Price
880

Upside
20%

Key Financials

| Y/E Mar (Rs Cr) | Net Sales | EBIDTA | Net Profit | EPS (Rs) | PER (x) | EV/EBIDTA (x) | P/BV (x) | ROE (%) |
|-----------------|-----------|--------|------------|----------|---------|---------------|----------|---------|
| FY20 | 1,120 | 174 | 142 | 29.8 | 12.9 | 10.1 | 2.6 | 21.0 |
| FY21E | 1,402 | 233 | 181 | 38.4 | 19.1 | 24.1 | 4.4 | 24.1 |
| FY22E | 1,581 | 275 | 216 | 45.9 | 16.0 | 25.1 | 3.7 | 25.1 |
| FY23E | 1,744 | 309 | 243 | 51.8 | 14.2 | 24.0 | 3.1 | 24.0 |

Source: Company, Axis Securities

| Profit & Loss | | (Rs Cr) | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--|
| Y/E Mar | FY20 | FY21E | FY22E | FY23E | |
| Total Net Sales | 1,120 | 1,402 | 1,581 | 1,744 | |
| Total Raw material Consumption | 712 | 876 | 973 | 1,069 | |
| Staff costs | 105 | 126 | 150 | 166 | |
| Other Expenditure | 129 | 167 | 183 | 201 | |
| Total Expenditure | 234 | 293 | 334 | 366 | |
| EBITDA | 174 | 233 | 275 | 309 | |
| EBITDA Margin % | 19.1 | 33.8 | 18.2 | 12.2 | |
| Depreciation | 16 | 19 | 20 | 21 | |
| EBIT | 158 | 213 | 255 | 288 | |
| EBIT Margin % | 14.1 | 15.2 | 16.2 | 16.5 | |
| Interest | 2 | 2 | 2 | 2 | |
| Other Income | 25 | 30 | 35 | 40 | |
| PBT | 181 | 241 | 288 | 326 | |
| Tax | 39 | 61 | 73 | 82 | |
| APAT | 142 | 181 | 216 | 243 | |

Source: Company, Axis Research

| Balance Sheet | | (Rs Cr) | | | |
|---------------------------|------|---------|-------|-------|--|
| Y/E Mar | FY20 | FY21E | FY22E | FY23E | |
| Share Capital | 10 | 10 | 10 | 10 | |
| Reserves & Surplus | 701 | 778 | 920 | 1,090 | |
| Net Worth | 710 | 787 | 929 | 1,099 | |
| Total Borrowings | 8 | 10 | 10 | 12 | |
| Deferred Tax Liability | 5 | 5 | 5 | 5 | |
| Long Term Provisions | 6 | 6 | 6 | 6 | |
| Other Long-Term Liability | 16 | 20 | 25 | 30 | |
| Capital Employed | 745 | 828 | 975 | 1,152 | |
| Gross Block | 167 | 179 | 190 | 204 | |
| Less: Depreciation | 51 | 70 | 89 | 110 | |
| Net Block | 115 | 109 | 101 | 94 | |
| Other Non-Current Assets | 151 | 164 | 178 | 195 | |
| Investments | 60 | 50 | 90 | 120 | |
| Sundry Debtors | 242 | 307 | 342 | 378 | |
| Cash & Bank Bal | 26 | 13 | 68 | 147 | |
| Loans & Advances | 33 | 31 | 50 | 60 | |
| Inventory | 250 | 319 | 351 | 379 | |
| Other Current Assets | 57 | 59 | 73 | 95 | |
| Total Current Assets | 668 | 779 | 975 | 1,179 | |
| Curr Liab & Prov | 189 | 224 | 278 | 315 | |
| Net Current Assets | 479 | 555 | 696 | 863 | |
| Total Assets | 745 | 828 | 975 | 1,152 | |

Source: Company, Axis Research

| Cash Flow | (Rs Cr) | | | |
|--|------------|------------|------------|------------|
| | Y/E Mar | FY20 | FY21E | FY22E |
| PBT | 181 | 241 | 288 | 326 |
| Depreciation & Amortization | 16 | 19 | 20 | 21 |
| Chg in Working cap | 16 | -39 | -22 | -37 |
| Direct tax paid | 36 | 61 | 73 | 82 |
| Cash flow from operations | 163 | 133 | 181 | 190 |
| Chg in Gross Block | -11 | -12 | -11 | -13 |
| Chg in Investments | -24 | -68 | -83 | -72 |
| Proceeds on redemption of Fin. Assets | 14 | 30 | 35 | 40 |
| Cash flow from investing | -44 | -50 | -59 | -45 |
| Proceeds / (Repayment) of Short Term Borrowings (Net) | -14 | 6 | 5 | 7 |
| Proceeds from issue of Equity Instruments of the company | | -100 | | |
| Loans | -5 | | | |
| Finance Cost paid | -2 | -2 | -2 | -2 |
| Dividends paid | -72 | | -70 | -70 |
| Cash flow from financing | -93 | -96 | -67 | -65 |
| Chg in cash | 25 | -13 | 55 | 79 |
| Cash at start | 1 | 26 | 13 | 68 |
| Cash at end | 26 | 13 | 68 | 147 |

Source: Company, Axis Research

| Ratio Analysis | (%) | | | |
|-----------------------------|------------|------|-------|-------|
| | Key Ratios | FY20 | FY21E | FY22E |
| Growth (%) | | | | |
| Net Sales | 11.4 | 25.2 | 12.8 | 10.3 |
| EBITDA | 19.1 | 33.8 | 18.2 | 12.2 |
| APAT | 26.1 | 27.2 | 19.5 | 12.9 |
| Per Share Data (Rs.) | | | | |
| Adj. EPS | 29.8 | 38.4 | 45.9 | 51.8 |
| BVPS | 149 | 168 | 198 | 234 |
| DPS | | | | |
| Profitability (%) | | | | |
| EBITDA Margin | 15.5 | 16.6 | 17.4 | 17.7 |
| Adj. PAT Margin | 12.7 | 12.9 | 13.6 | 14.0 |
| ROCE | 22.3 | 27.4 | 28.6 | 27.3 |
| ROE | 21.0 | 24.1 | 25.1 | 24.0 |
| ROIC | | | | |
| Valuations (X) | | | | |
| PER | 12.9 | 19.1 | 16 | 14.2 |
| P/BV | 2.6 | 4.4 | 3.7 | 3.1 |
| EV / EBITDA | 10.1 | 14.6 | 12.0 | 10.4 |
| EV / Net Sales | 1.6 | 2.4 | 2.1 | 1.8 |
| Turnover Days | | | | |
| Asset Turnover | 7.3 | 8.8 | 9.2 | 9.5 |
| Inventory days | 81 | 83 | 81 | 79 |
| Debtors days | 79 | 80 | 79 | 79 |
| Creditors days | 58 | 55 | 58 | 57 |
| Working Capital Days | 102 | 108 | 102 | 101 |
| Gearing Ratio | | | | |
| Total Debt:Equity (x) | | | | |

Source: Company, Axis Research

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| Sr. No | Name | Designation | E-mail |
|--------|-------------------|------------------------------------|-------------------------------------|
| 1 | Naveen Kulkarni | Chief Investment Officer | naveen.kulkarni@axissecurities.in |
| 2 | Pankaj Bobade | Research Analyst – (Research Head) | pankaj.bobade@axissecurities.in |
| 3 | Neeraj Chadawar | Quantitative Head | neeraj.chadawar@axissecurities.in |
| 4 | Suvarna Joshi | Research Analyst | suvarna.joshi@axissecurities.in |
| 5 | Siji Philip | Research Analyst | siji.philip@axissecurities.in |
| 6 | Omkar Tanksale | Research Analyst | omkar.tanksale@axissecurities.in |
| 7 | Uttamkumar Srimal | Research Analyst | uttamkumar.srimal@axissecurities.in |
| 8 | Gaurav Uttrani | Research Analyst | gaurav.uttrani@axissecurities.in |
| 9 | Dnyanada Vaidya | Research Analyst | dnyanada.vaidya@axissecurities.in |
| 10 | Hiren Trivedi | Research Associate | hiren.trivedi@axissecurities.in |
| 11 | Darshan Gangar | Research Associate | darshan.gangar@axissecurities.in |
| 12 | Tanvi Shetty | Research Associate | Tanvi.shetty@axissecurities.in |

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