



Diwali Picks 2020





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Target Price: Rs.900
CMP Rs.688 (35.7x FY23 P/E)
BUY
Index Details

Sensex	43,594
Nifty	12,749

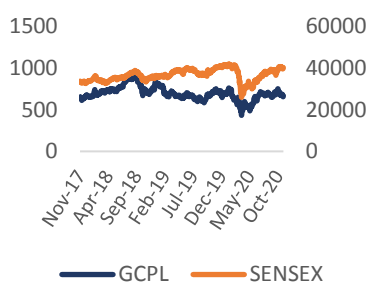
Industry	Consumer
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Scrip Details

Mkt Cap (Rs Cr)	69,120
O/S Share (Cr)	102.25
3 M Avg Vol (000)	1466
52 Wk H/L (Rs)	772/425
Div Yield (%)	1.19
FVPS (Rs)	1.00

Shareholding Pattern

Shareholder	%
Promoters	63.23
Institutional	29.84
Public	6.93
Total	100.00

GCPL vs. Sensex

Key Financials (in ₹ crores)

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY19	10,276	2,132	2,342	20.7	22.8	22.9	71.1	32.2	20.7	30.0	9.7	33.9
FY20	9,927	2,154	1,497	21.7	15.1	14.6	77.3	18.9	14.6	51.2	6.7	25.7
FY21E	10,738	2,386	1,592	22.2	14.8	15.6	84.4	18.5	14.9	43.3	8.9	33.0
FY22E	11,596	2,597	1,697	22.4	14.6	16.6	91.7	18.1	15.2	40.6	8.2	30.1
FY23E	12,678	2,879	1,932	22.7	15.2	18.9	99.7	19.0	16.3	35.7	7.6	27.0

Over the period FY17-20, the performance of GCPL had been lackluster. Revenues grew less than 1% CAGR while the earnings grew by a mere 4.7% CAGR given

- Flattish growth of the Indian market dented by the poor performance of the Household Insecticides (HI) segment.
- Management was slow to react to the rapidly changing trends in the hair styling segment in the African market. It grew at a slower pace of 5.1% CAGR to Rs. 2,316 cr over FY17-FY20
- Negative 20.8% CAGR of the Latin American market which de-grew at 20.8% CAGR to Rs. 556 cr in FY20
- FY20 global performance was impacted by the onset of the pandemic.

To revive the growth story the management has undertaken a series of measures which we believe should turn the situation around.

- Changes in top management to steer boat in the direction of growth

Nisaba Godrej has been given the additional responsibility as CEO and MD from July 2020. Her mandate is to steer the company in the direction of growth.

South African born Dharnesh Gordhon, ex CEO Nestle (Nigeria and Indonesia), has been hired to head the operations of Africa, USA, and Middle East. This should provide the much-needed impetus to reenergize the operations of this vertical.

- Resurgent growth of the Indian market vertical

We expect the Indian market revenues to grow at a CAGR of 9.6% to Rs. 7,053 cr by FY23 driven by –

- HI segment expected to grow at 14.7% CAGR to Rs. 3,302 cr
- Soaps category expected to grow at 8.2% CAGR to Rs. 2,251 cr
- Subdued growth (1.1% CAGR) of the Hair Color vertical to touch Rs. 648 cr
- Other category expected to grow at 4.9% CAGR to Rs. 910 cr

- **Soap segment performance gets a boost from the introduction of an entire range of hygiene products**

Responding to the pandemic outburst, GCPL in record time has nurtured an entire range of hygiene products under the brand Protekt. Their innovation 'Mr. Magic' is the world's first powder to liquid handwash and is available at the lowest price points.

On the back of these measures, the Soaps portfolio (33% of FY20 India Sales) is expected to grow at 8.2% CAGR to Rs. 2,251 cr by FY23

- **Goodknight gold flash vaporizer to electrify HI portfolio growth**

The HI product portfolio has a presence across all formats and price points. Their recent innovation 'Goodknight Gold Flash' (highest profitability) is a runaway success and the company has doubled its efforts to scale up the supply systems to meet the burgeoning demand.

Coupled with the above measures and the increased awareness for health, the HI portfolio (41% of FY20 India sales) is expected to see a resurgent sustainable growth. We expect revenues from this segment to grow at 14.7% CAGR to Rs. 3,302 cr in FY23.

- **Gradual economic recovery to boost demand for hair care products**

The Hair Care portfolio has seen a number of new product introductions and innovations. In India they have launched an innovative 5-minute hair colouring solution, which makes colouring as easy as shampooing.

The post pandemic drop in the revenues from the Hair Colour (12% of FY20 India sales) portfolio is not going to correct itself anytime soon. With the work from home culture here to stay, fashion trends will witness a slower adoption. As a result, we expect the recovery of this business to be back ended with CAGR of 1.1% to Rs. 648 cr over the forecast period.

We believe that all the above measures are growth accretive and their contribution to the overall growth will be witnessed once the COVID-19 situation eases. This outcome remains an upside risk to our estimates.

- **New product launches to bolster performance of the Other products category**

Apart from the 'Household Insecticides', 'Soaps' and 'Hair Care' businesses, GCPL has a number of products that are grouped under

‘Other’ category (15% of FY20 India sales). Under this category the major products are the Air care portfolio, Ezee Detergent and Pro Clean surface cleaner. This segment is expected to grow at 4.9% to Rs. 910 cr primarily driven by the focus on Air care portfolio.

The tiny Air Care portfolio is offered in India in the form of air fresheners under the ‘aer’ brand. The GCPL management has global ambitions for this category and will witness more products and innovations. In FY20 they launched the ‘aer Smart Matic’ which is an app controlled smart home fragrance.

- **India being the flagship market has underperformed on growth expectations. With a view to kickstart growth, a number of initiatives are being undertaken:**

GCPL is doubling down on increasing the share of rural revenues from the current 30%.

Deepening penetration in traditional trade and using extensive data analytics will enable the management to manage marketing spends and distribution more effectively.

Foray into the world of D2C by selling through their own website and capitalizing on rich consumer data with three of their India brands – Cinthol, B-Blunt and Godrej aer. The company plans to extend this approach to other brands that might benefit from closer consumer connect.

Ramping up e-commerce in India (75% Y-o-Y growth)

We expect India revenues to grow at 9.6% CAGR to Rs 7,053 by FY23

- **Growth buoyancy to sustain in Indonesian markets**

We expect the Indonesian markets to grow at 12.7% CAGR to Rs. 2,425 cr in FY23 driven by the buoyancy of the HI portfolio and introduction of the hygiene portfolio under the ‘Saniter’ brand. GCPL is also focusing on expanding e-commerce channel sales and its efforts are bearing fruit as evinced by the 78% YoY growth from this channel.

- **Changes at the helm, refreshed hair care portfolio and introduction of the HI products to re-energize growth in Africa, USA & Middle East.**

Dharnesh Gordhon’s appointment as business head for this market is a perfect match given his prior experience as CEO of Nestle, Nigeria and Indonesia.

Recent efforts at more than doubling the wet hair innovations in Africa has led to a two-fold revenue growth in FY19. New styles have also been brought in the dry hair care category led by braids and crochets making it fashion forward and trendy.

There is a significant demand potential for household insecticides products in Africa. And GCPL with its global HI product portfolio is best placed to milk this opportunity. The introduction of the HI portfolio and go to market initiatives should help sustain high single digit revenue growth over the long term.

E-commerce initiatives are also bearing fruit, growing at 125% YoY in the region.

Given all the above initiatives, we expect revenues to grow at 2.9% CAGR to Rs. 2,521 cr by FY23

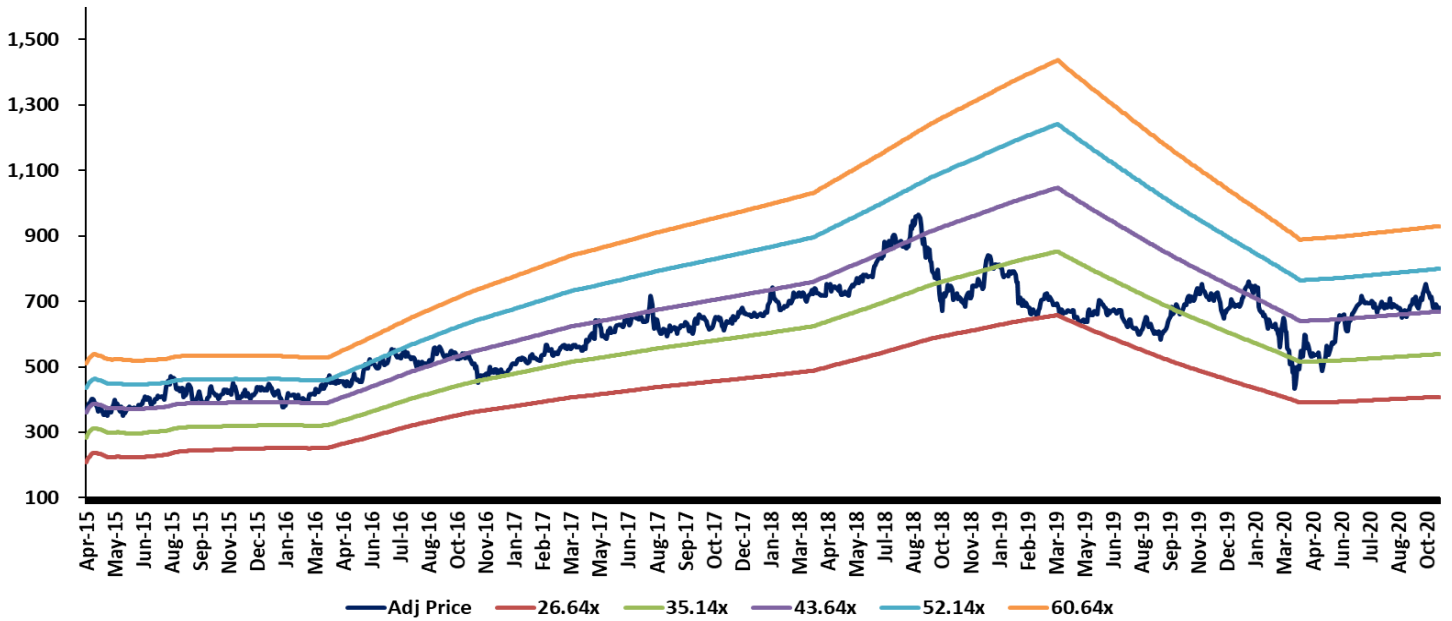
- Growth in Latin America through focus in Home care, Hair care and Personal care

GCPL is one of the leading players in Hair Care in Latin America and is looking to introduce value for money products. The company also plans to scale up its hygiene portfolio under the brand 'Protekt'. We expect revenues to grow at 6.9% CAGR to Rs. 680 cr by FY23.

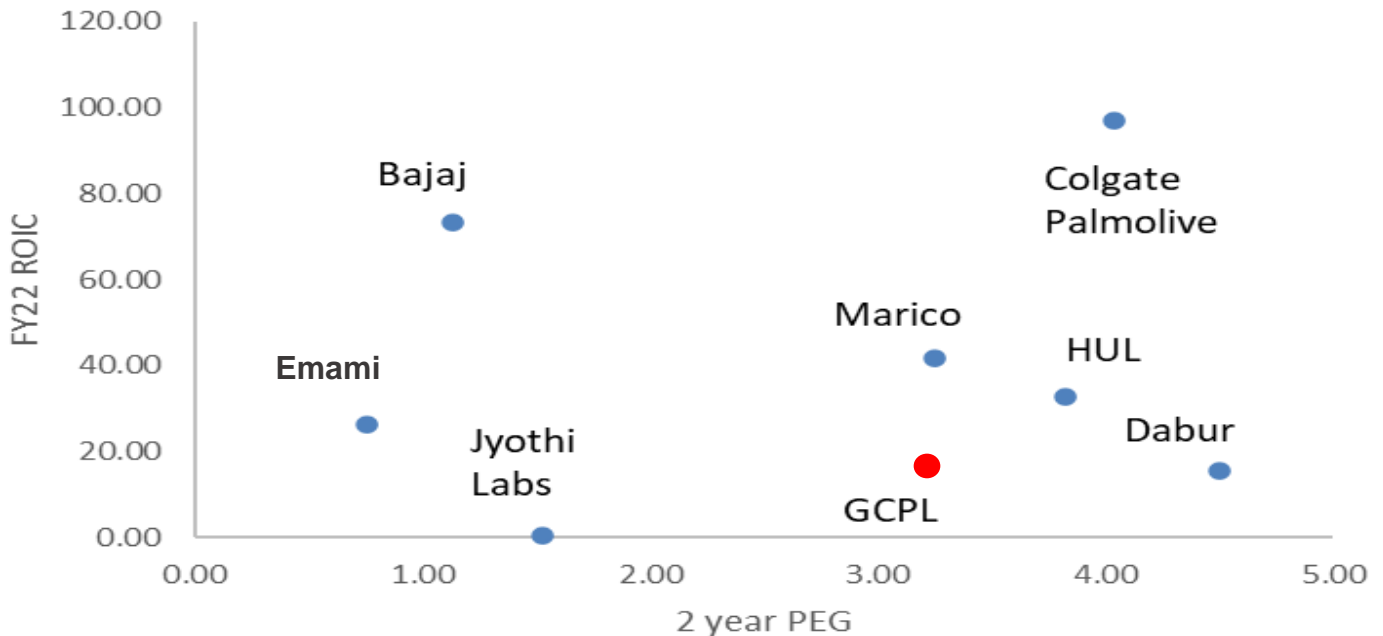
- Strong growth on consolidated basis on the cards

Overall, the revenues for FY20-23 are expected to grow at a CAGR of 8.5% to Rs, 12,678 crores driven by the double-digit growth in the household insecticides and the hygiene portfolios. Operating profits are expected to grow by 10.2% CAGR to Rs. 2,879 crores with operating margin improving by 100bps to 22.7%. As a result, net profit is expected to grow at a CAGR of 8.9% to Rs. 1,933 crores over the same period. Return ratios ROIC and ROE are expected to improve to 19.3%(+280bps) and 19.0%(+10bps)

We initiate coverage on Godrej with a BUY for a price target of Rs. 900 (48X FY23) representing potential appreciation of 30.8% over the next 24 months from the CMP of Rs 688

P/E 1 year forward band chart


Source: Bloomberg & Ventura Research

FMCG peer comparison


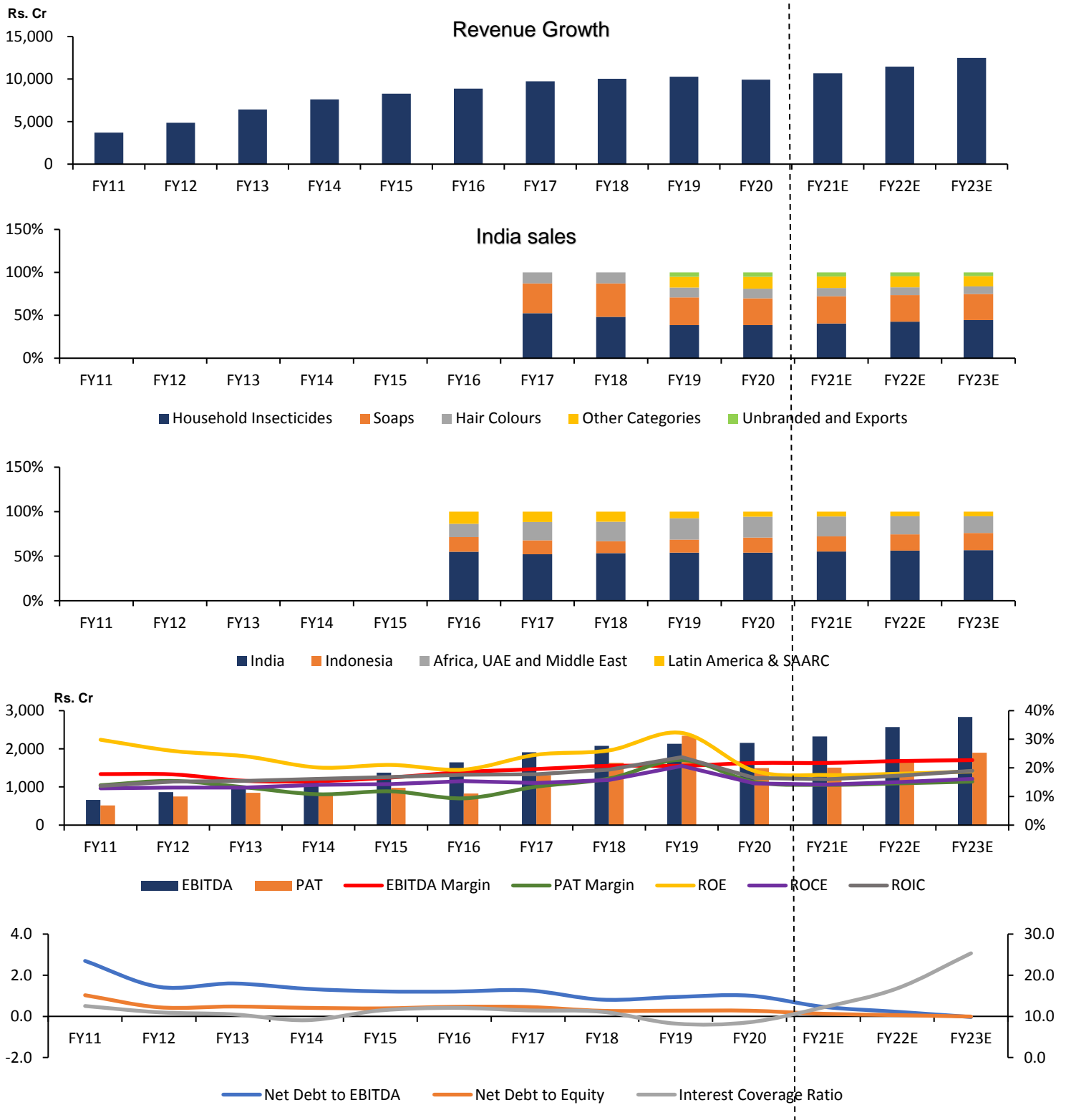
Source: Bloomberg & Ventura Research

Relative Valuations

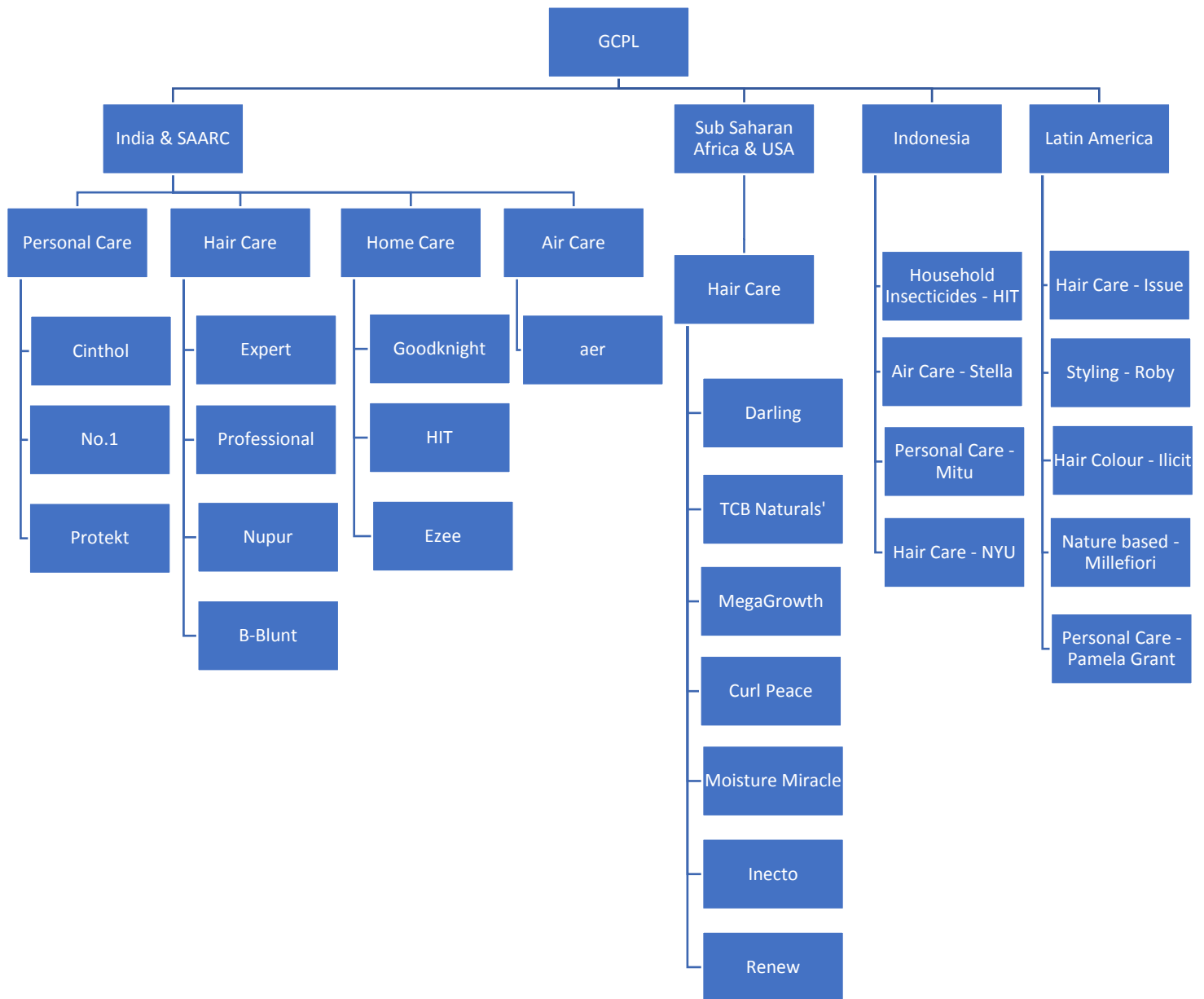
Particulars	Revenue	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	EPS ₹	BVPS ₹	RoE (%)	RoC (%)	P/E	P/B	EV/EBITDA
Godrej Consumer Products Ltd. (CMP: Rs.656 Mkt Cap: Rs.67075 cr)												
FY18	10,034	2,079	1,634	20.7	16.3	16.0	61.2	26.1	19.4	45.6	11.9	36.6
FY19	10,276	2,132	2,342	20.7	22.8	22.9	71.1	32.2	23.8	30.0	9.7	33.9
FY20	9,927	2,154	1,497	21.7	15.1	14.6	77.3	18.9	16.5	51.2	6.7	25.7
FY21E	10,738	2,386	1,592	22.2	14.8	15.6	84.4	18.5	16.9	43.3	8.9	33.0
FY22E	11,596	2,597	1,697	22.4	14.6	16.6	91.7	18.1	17.5	40.6	8.2	30.1
Dabur India Ltd. (CMP: Rs.506.2 Mkt Cap: Rs.89458 cr)												
FY18	7,654	1,617	1,354	21.1	17.7	7.7	32.4	23.7	26.3	66.1	15.6	55.2
FY19	8,419	1,740	1,442	20.7	17.1	8.2	31.9	25.6	29.5	62.0	15.9	51.2
FY20	8,604	1,792	1,445	20.8	16.8	8.2	37.4	21.9	31.8	61.9	13.5	49.0
FY21E	8,939	1,915	1,630	21.4	18.2	9.2	42.3	21.8	32.3	54.9	12.0	45.6
FY22E	10,073	2,228	1,883	22.1	18.7	10.7	48.1	22.2	36.6	47.5	10.5	38.8
Marico Ltd. (CMP: Rs.366.7 Mkt Cap: Rs.47343 cr)												
FY18	6,301	1,137	814	18.0	12.9	6.3	19.7	32.0	48.4	58.2	18.6	41.3
FY19	7,273	1,326	1,114	18.2	15.3	8.6	23.0	37.4	46.5	42.5	15.9	35.4
FY20	7,254	1,479	1,021	20.4	14.1	7.9	23.4	33.7	50.4	46.4	15.6	31.7
FY21E	7,589	1,589	1,143	20.9	15.1	8.9	26.4	33.5	49.7	41.4	13.9	29.5
FY22E	8,427	1,760	1,264	20.9	15.0	9.8	29.0	33.8	53.3	37.5	12.6	26.5
Colgate-Palmolive (India) Ltd. (CMP: Rs.1508.9 Mkt Cap: Rs.41039 cr)												
FY18	4,159	1,112	673	26.7	16.2	24.8	56.1	44.2	78.4	60.9	26.9	36.6
FY19	4,432	1,236	776	27.9	17.5	28.5	53.2	53.6	93.6	52.9	28.4	33.0
FY20	4,488	1,202	816	26.8	18.2	30.0	58.6	51.2	77.4	50.3	25.7	33.9
FY21E	4,717	1,381	911	29.3	19.3	33.5	60.1	55.7	111.4	45.0	25.1	29.3
FY22E	5,128	1,479	981	28.8	19.1	36.1	61.9	58.3	125.6	41.8	24.4	27.3
Emami Ltd. (CMP: Rs.351 Mkt Cap: Rs.15600 cr)												
FY18	2,490	719	307	28.9	12.3	6.9	44.4	15.6	19.5	50.8	7.9	21.9
FY19	2,659	727	303	27.4	11.4	6.8	45.7	14.9	20.8	51.4	7.7	21.3
FY20	2,613	691	303	26.4	11.6	6.8	40.2	17.0	19.4	51.5	8.7	22.6
FY21E	2,647	737	506	27.9	19.1	11.4	46.5	24.5	29.5	30.8	7.5	20.8
FY22E	2,923	815	581	27.9	19.9	13.1	52.5	24.9	34.3	26.9	6.7	18.5
Jyothy Labs Ltd. (CMP: Rs.133.4 Mkt Cap: Rs.4899 cr)												
FY18	1,671	257	186	15.4	11.1	5.1	31.5	16.1	19.1	26.3	4.2	19.2
FY19	1,812	281	205	15.5	11.3	5.6	36.1	15.5	17.8	23.9	3.7	17.7
FY20	1,710	251	170	14.7	10.0	4.6	33.5	13.9	12.9	28.8	4.0	20.7
FY21E	1,874	299	203	16.0	10.9	5.5	34.8	15.9	18.3	24.1	3.8	16.7
FY22E	2,024	324	229	16.0	11.3	6.2	34.8	17.9	20.6	21.4	3.8	15.2
Bajaj Consumer Care Ltd. (CMP: Rs.186.2 Mkt Cap: Rs.2746 cr)												
FY18	809	254	211	31.4	26.1	14.3	33.4	42.9	133.0	13.0	5.6	9.6
FY19	890	275	222	30.8	24.9	15.0	31.7	47.4	117.7	12.4	5.9	9.1
FY20	826	205	185	24.8	22.4	12.5	44.3	28.3	93.0	14.9	4.2	11.2
FY21E	853	236	212	27.7	24.9	14.4	53.1	27.1	108.4	13.0	3.5	9.2
FY22E	918	260	232	28.4	25.3	15.8	61.3	25.7	90.5	11.8	3.0	8.2
Hindustan Unilever Ltd. (CMP: Rs.2073.8 Mkt Cap: Rs.487610 cr)												
FY18	34,781	7,499	5,214	21.6	15.0	22.2	33.6	66.0	451.0	93.5	61.7	64.2
FY19	39,310	8,880	6,054	22.6	15.4	25.8	36.3	70.9	383.7	80.5	57.1	54.2
FY20	39,783	9,861	6,748	24.8	17.0	28.7	38.1	75.4	342.7	72.2	54.4	48.8
FY21E	45,579	11,455	8,151	25.1	17.9	34.7	149.6	23.2	35.7	59.8	13.9	42.1
FY22E	50,676	13,512	9,582	26.7	18.9	40.8	152.2	26.8	43.9	50.9	13.6	35.5
ITC Ltd. (CMP: Rs.166.7 Mkt Cap: Rs.205125 cr)												
FY18	43,123	16,483	11,271	38.2	26.1	9.2	43.0	21.3	38.4	18.2	3.9	11.6
FY19	47,839	18,406	12,592	38.5	26.3	10.2	48.2	21.2	40.5	16.3	3.5	10.2
FY20	48,979	19,284	15,306	39.4	31.3	12.4	53.1	23.4	43.5	13.4	3.1	9.4
FY21E	47,581	17,334	13,623	36.4	28.6	11.1	53.2	20.8	31.9	15.1	3.1	10.9
FY22E	54,565	20,704	16,126	37.9	29.6	13.1	55.6	23.6	37.3	12.7	3.0	9.0

Source: Bloomberg & Ventura Research

GCPL story in charts



Source: Company Reports & Ventura Research

GCPL Product Portfolio across geographies


Source: Company Reports

Portfolio Product Dynamics

Categories	FY18	FY19	FY20	FY21E	FY22E	FY23E	Godrej Products	CAGR FY18-20	CAGR FY21-23	Market Size	Market Growth	Market share	Competing products
Household Insecticides	2,195	2,254	2,190	2,508	2,884	3,302	HIT, Goodnight	-0.12%	14.75%	9,422	5.40%	23%	Mortein(Reckitt Benckiser), Maxo(Jyothi Labs), Odomos(Dabur)
Soaps	1,767	1,892	1,776	1,985	2,104	2,251	Cynthol, Protekt, No.1	0.25%	6.50%	1,25,630	7.00%	4.40%	HUL 64% (Lux, Pears, Brreez, Dove, Lifebuoy), Nirma (17%), Santoor(Wipro), Vivel(ITC), Palmolive, Fem(Dabur)
Hair Colours	589	673	627	600	617	648	Expert, Nupur, Professiona I, B Blunt, Renew	3.17%	4.00%	3,525	17%	24%	L'Oreal(25.8%), Garnier,Schwarzkopf, StreaX
Other Categories		740	789	825	866	910	Aer, Ezee, Pro Clean	6.62%	5.00%	48,076	8.00%	1.64%	Ariel(P&G), Surf Excel(HUL), Ambi pur(P&G), Reckitt Benckiser(Air Wick, Lysol, Detol)

Source: Ventura Research

Geographical Quarterly EBITDA Margins

EBITDA Margin (in %)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
India	29.4	29.5	23.3	26.3	28.9	27.6	27.3	27.9
YoY change (in bps)	140	70	140	40	-50	-190	400	160
Indonesia	23.4	31.0	23.6	24.5	24.6	33.1	23.6	25.8
YoY change (in bps)	-160	380	140	50	120	210	0	130
Africa	13.6	10.5	11.9	12.5	12.2	3.8	(1.8)	11.4
YoY change (in bps)	-80	-240	-140	400	-140	-670	-1370	-110
Latin America	(1.7)	1.3	2.6	5.2	3.5	8.0	11.3	19.6
YoY change (in bps)	-1530	-2010	540	460	520	670	870	1440

Source: Company Reports

Quarterly Financial Performance

Financial figures in Rs. Cr	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY20	Q1FY21	Q2FY21E	Q3FY21E	Q4FY21E	FY21E
Household Insecticides	445	658	598	553	2,254	427	683	617	463	2,190	540	712	710	546	2,508
YoY Growth					2.7%	-4.0%	3.8%	3.2%	-16.3%	-2.8%	26.5%	4.2%	15.0%	18.0%	14.5%
% of sales	34.8%	44.5%	40.6%	41.7%	40.6%	33.1%	45.8%	41.4%	42.5%	40.9%	39.8%	43.1%	43.7%	42.6%	42.4%
Soaps	538	512	433	409	1,892	556	491	416	313	1,776	545	582	458	401	1,985
YoY Growth					7.1%	3.3%	-4.1%	-3.9%	-23.5%	-6.1%	-2.0%	18.4%	10.0%	28.0%	11.8%
% of sales	42.1%	34.6%	29.4%	30.9%	34.1%	43.1%	33.0%	27.9%	28.7%	33.1%	40.1%	35.3%	28.2%	31.2%	33.6%
Hair Colours	183	158	161	171	673	181	160	155	131	627	149	152	160	139	600
YoY Growth					14.3%	-1.1%	1.3%	-3.7%	-23.4%	-6.8%	-17.7%	-5.0%	3.0%	6.0%	-4.4%
% of sales	14.3%	10.7%	10.9%	12.9%	12.1%	14.0%	10.7%	10.4%	12.0%	11.7%	11.0%	9.2%	9.8%	10.8%	10.1%
Other Categories	120	164	275	181	740	146	179	295	169	789	129	200	310	186	825
YoY Growth						21.7%	9.1%	7.3%	-6.6%	6.6%	-11.6%	12.0%	5.0%	10.0%	4.6%
% of sales	9.4%	11.1%	18.7%	13.7%	13.3%	11.3%	12.0%	19.8%	15.5%	14.7%	9.5%	12.2%	19.1%	14.5%	14.0%
Unbranded and Exports	55	60	87	101	303	62	62	84	84	292	48	76	89	92	305
YoY Growth						12.7%	3.3%	-3.4%	-16.8%	-3.6%	-22.6%	22.4%	6.0%	10.0%	4.6%
% of sales	4.3%	4.1%	5.9%	7.6%	5.5%	4.8%	4.2%	5.6%	7.7%	5.4%	3.5%	4.6%	5.5%	7.2%	5.2%
Total	1,341	1,552	1,554	1,415	5,862	1,372	1,575	1,567	1,160	5,674	1,411	1,722	1,726	1,364	6,222
YoY Growth					28.8%	2.3%	1.5%	0.8%	-18.0%	-3.2%	2.8%	9.3%	10.1%	17.6%	9.7%
Sales and promotion spends	63	72	81	90	306	82	85	76	70	313	53	72	104	82	310
YoY Growth						30.2%	18.1%	-6.2%	-22.2%	2.3%	-35.4%	-15.3%	36.2%	16.9%	-0.8%
% of sales	4.7%	4.6%	5.2%	6.4%	5.2%	6.0%	5.4%	4.9%	6.0%	5.5%	3.8%	4.2%	6.0%	6.0%	5.0%
Total India sales	1,278	1,480	1,473	1,325	5,556	1,290	1,490	1,491	1,090	5,361	1,358	1,650	1,622	1,282	5,912
YoY Growth					3.8%	0.9%	0.7%	1.2%	-17.7%	-3.5%	5.3%	10.7%	8.8%	17.6%	10.3%
% of sales	52.2%	55.6%	54.3%	54.1%	54.1%	54.8%	56.6%	53.7%	50.5%	54.0%	58.4%	56.4%	53.3%	52.4%	55.1%
Indonesia	353	363	395	413	1,524	372	425	448	449	1,694	405	446	470	512	1,834
YoY Growth					12.5%	5.4%	17.1%	13.4%	8.7%	11.2%	8.9%	5.0%	5.0%	14.0%	8.2%
% of sales	14.4%	13.6%	14.6%	16.9%	14.8%	15.8%	16.1%	16.1%	20.8%	17.1%	17.4%	15.2%	15.5%	20.9%	17.1%
Africa, USA and Middle East	564	629	680	576	2,449	562	591	679	484	2,316	437	650	781	508	2,376
YoY Growth					12.1%	-0.4%	-6.0%	-0.1%	-16.0%	-5.4%	-22.2%	10.0%	15.0%	5.0%	2.6%
% of sales	23.0%	23.6%	25.1%	23.5%	23.8%	23.9%	22.4%	24.4%	22.4%	23.3%	18.8%	22.2%	25.7%	20.8%	22.1%
Latin America & SAARC	273	192	166	134	765	131	128	161	136	556	126	180	167	143	617
YoY Growth					-32.9%	-52.0%	-33.3%	-3.0%	1.5%	-27.3%	-3.8%	41.0%	4.0%	5.0%	10.9%
% of sales	11.1%	7.2%	6.1%	5.5%	7.4%	5.6%	4.9%	5.8%	6.3%	5.6%	5.4%	6.2%	5.5%	5.8%	5.7%
Net Sales	2,450	2,664	2,714	2,448	10,276	2,355	2,634	2,779	2,159	9,927	2,326	2,926	3,041	2,445	10,738
YoY Growth					2.4%	-3.9%	-1.1%	2.4%	-11.8%	-3.4%	-1.2%	11.1%	9.4%	13.3%	8.2%
TOTAL SALES	2,450	2,664	2,714	2,448	10,276	2,355	2,634	2,779	2,159	9,927	2,326	2,926	3,041	2,445	10,738
YoY Growth					2.4%	-3.9%	-1.1%	2.4%	-11.8%	-3.4%	-1.2%	11.1%	9.4%	13.3%	8.2%

Source: Company Reports & Ventura Research

Key Management Personnel

Key Person	Designation	Description
Nisaba Godrej	Chairperson and MD	She has been a key architect of GCPL's strategy and transformation in the last decade. She has a BSc degree from The Wharton School and an MBA from Harvard Business School.
Adi Godrej	Chairman	He has been President of several Indian Trade and Industrial Bodies and associations. Mr. Godrej holds a bachelor's and a master's degree from the Sloan School of Management at MIT.
V.Srinivasan	CFO & Company Secretary	He started as an Executive Trainee at Godrej. In over 25 years, he has held several key positions. A Chartered Accountant and Company Secretary, Srinu has studied at IIM Ahmedabad and the University of Michigan.
Sunial Kataria	Business Head - India & SAARC	Joined GCPL in 2011 with a diverse work experience across the FMCG and Consumer Services sectors in Sales, Marketing and business roles. He was in Marico Industries for 12 years. He has studied Economics and done MBA in Marketing from the IMT Ghaziabad.
Dharnesh Gordhon	Business Head - Africa, USA, Middle East	Born in South Africa and has spent over 15 years with the Nestlé Group where he held key leadership positions. He has done MBA and BA (Honours), completed the Program for Executive Development from IMD Lausanne and the Leadership Development Program from London Business School, and is a Chartered Marketer
Akhil Chandra	Business Head - ASEAN	Joined GCPL in 2017, with over two decades of varied experience across FMCG and OTC categories across the UK, Southeast Asia and India, with GSK Consumer Healthcare and Reckitt Benckiser Plc. He has an MA in Economics and an MBA from FMS Delhi
Jose Toscano	Business Head - Latin America	Joined Godrej Argentina as Sales Director in August 2018. He has an MBA from the University of Buenos Aires and a Post Graduate degree in Negotiations from Austral University. He has over 20 years of experience and has worked at leading FMCG companies

Source: Company Reports & Ventura Research

Financial & Projections

Figures are in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E		FY19	FY20	FY21E	FY22E	FY23E
Income Statement						Per Share Data (Rs)					
Net Revenue	10,276	9,927	10,738	11,596	12,678	Adjusted EPS	22.9	14.6	15.6	16.6	18.9
<i>YoY Growth (%)</i>	<i>2.4%</i>	<i>-3.4%</i>	<i>8.2%</i>	<i>8.0%</i>	<i>9.3%</i>	Adjusted Cash EPS	24.6	16.6	18.1	19.4	21.8
Total Expenditure	4,554	4,262	4,819	5,218	5,578	Dividend Yield (%)	1.8	1.2	1.2	1.4	1.6
<i>YoY Growth (%)</i>	<i>-6.4</i>	<i>13.1</i>	<i>8.3</i>	<i>6.9</i>		Dividend Per Share	12.0	8.0	8.4	9.3	11.0
EBITDA	2,132	2,154	2,386	2,597	2,879	FCFF Yield (%)	4	3	2	2	2
<i>Margin (%)</i>	<i>20.7</i>	<i>21.7</i>	<i>22.2</i>	<i>22.4</i>	<i>22.7</i>	Adjusted BV per Share	71.1	77.3	84.4	91.7	99.7
Depreciation	170	197	254	282	290	Debt Burden					
<i>Depreciation to Gross Block (%)</i>	<i>10.8%</i>	<i>11.8%</i>	<i>13.4%</i>	<i>13.3%</i>	<i>12.2%</i>	Total Debt to Equity	0.5	0.4	0.3	0.2	0.2
EBIT	1,962	1,956	2,131	2,315	2,589	Net Debt to Equity	0.3	0.3	0.1	0.1	-0.0
<i>Margin (%)</i>	<i>19.1</i>	<i>19.7</i>	<i>19.8</i>	<i>20.0</i>	<i>20.4</i>	Net Debt to EBITDA	0.9	1.0	0.4	0.2	0.0
Other Income	109	112	99	88	92	Debt Service Coverage Ratio	0.6	0.6	1.0	1.3	1.7
<i>Other Income to Sales</i>	<i>1.1%</i>	<i>1.1%</i>	<i>0.9%</i>	<i>0.8%</i>	<i>0.7%</i>	Return Ratios					
Exceptional Items	253	-81	13	0	0	Return on Equity (%)	32.2	18.9	18.5	18.1	19.0
Finance Cost	238	228	170	136	101	Return on Capital Employed (%)	20.7	14.6	14.9	15.2	16.3
<i>Interest Coverage</i>	<i>8.2</i>	<i>8.6</i>	<i>12.6</i>	<i>17.0</i>	<i>25.8</i>	Return on Invested Capital (%)	23.8	16.5	16.9	17.5	19.3
PBT	2,085	1,760	2,073	2,267	2,581	Working Capital					
<i>Margin (%)</i>	<i>20.3</i>	<i>17.7</i>	<i>19.3</i>	<i>19.5</i>	<i>20.4</i>	Receivable Days	46	43	45	40	40
Tax	-256	264	481	569	648	Inventory Days	55	63	63	60	60
<i>Tax Rate (%)</i>	<i>-12.3</i>	<i>15.0</i>	<i>23.2</i>	<i>25.1</i>	<i>25.1</i>	Payable Days	90	91	90	88	86
PAT	2,341	1,496	1,593	1,698	1,933	Net Working Capital Days	11	14	18	12	14
<i>Margin (%)</i>	<i>22.8</i>	<i>15.1</i>	<i>14.8</i>	<i>14.6</i>	<i>15.2</i>	Valuation Ratios					
Min Int/Share of Associates	0.6	0.8	-0.4	-0.4	-0.4	P/E	30.0	51.2	43.3	40.6	35.7
Net Profit	2,342	1,497	1,592	1,697	1,932	P/BV	9.7	6.7	8.9	8.2	7.6
<i>Margin (%)</i>	<i>22.8</i>	<i>15.1</i>	<i>14.8</i>	<i>14.6</i>	<i>15.2</i>	EV/EBITDA	33.9	25.7	33.0	30.1	27.0
Balance Sheet						EV/Sales	7.0	5.6	7.3	6.7	6.1
Share Capital	102	102	102	102	102	Cash Flow Statement					
Total Reserves	7,164	7,796	8,529	9,276	10,088	Profit Before Tax	2,085	1,760	2,073	2,267	2,581
Shareholders' Fund	7,266	7,898	8,631	9,378	10,190	Adjustments	-2,104	404	473	401	369
Other Financial Liabilities	218	132	132	131	112	Change in Working Capital	158	-68	-146	135	-121
Long Term Borrowing	2,604	2,145	1,845	1,545	1,150	Less: Tax Paid	256	-264	-481	-569	-648
Long Term Lease Liability	0	34	19	3	0	Cash Flow from Operations	395	1,832	1,919	2,234	2,180
Deferred Tax Liability	77	77	77	77	77	Net Capital Expenditure	-208	-152	-215	-232	-254
Other Non Current Liabilities	4	7	11	12	13	Change in Investment Activities	1,016	-161	-7	-51	-65
Long Term Provisions	108	117	140	162	190	Cash Flow from Investing	808	-313	-222	-283	-318
Total Liabilities	10,278	10,410	10,854	11,308	11,731	Change in Borrowings	341	-212	-300	-300	-395
Gross Block	1,576	1,678	1,893	2,125	2,378	Proceeds from Issue of Equity	1	0	0	0	0
Less: Accumulated Depreciation	383	473	700	957	1,247	Lease and other financial liabilities	0		-430	-429	-41
Net Block	1,192	1,205	1,193	1,168	1,131	Dividend & DDT	-1,479	-986	-860	-951	-1,121
Capital Work In Progress	51	56	56	56	56	Less: Finance Cost	-238	-228	-170	-136	-101
Right Of Use Assets	0	52	25	0	0	Cash Flow from Financing	-1,376	-1,426	-1,760	-1,816	-1,658
Intangible Assets	7,479	7,976	7,976	7,976	7,976	Net Cash Flow	-172	93	-62	135	204
Deferred Tax Asset	549	647	647	647	647	Opening Cash Balance	960	895	770	708	843
Investments in Associates	35	35	35	35	35	Closing Cash Balance	788	988	708	843	1,047
Loans	19	23	27	29	32						
Other Non Current Assets	157	156	150	174	203						
Net Current Assets	795	261	746	1,224	1,652						
Total Assets	10,278	10,410	10,854	11,308	11,731						

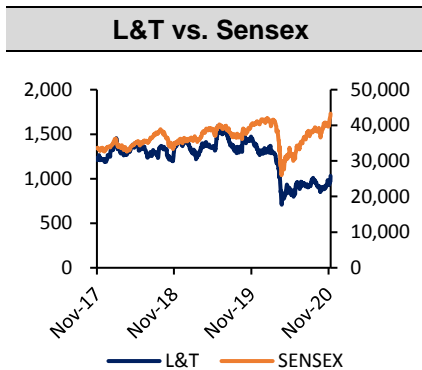
Source: Company Reports & Ventura Research

Target Price: Rs.1,362
CMP Rs.1,059 (12.2x FY23 EV/EBITDA)
BUY

Index Details	
Sensex	43,594
Nifty	12,749
Industry	Infrastructure

Scrip Details	
Mkt Cap (Rs Cr)	1,48,774
O/S Share (Cr)	140.4
3 M Avg Vol (000)	355.4
52 Wk H/L (Rs)	1,431/661
Div Yield (%)	1.74
FVPS (Rs)	2.0

Shareholding Pattern	
Shareholder	%
Promoters	0.00
Institutional	53.44
Public	46.56
Total	100.0


Key Financials (in ₹ crores)

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoIC (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY19	1,33,342	15,330	8,905	11.5	6.7	63.4	444.7	14.3	8.3	16.3	2.3	16.0
FY20	1,44,308	16,329	9,549	11.3	6.6	68.0	475.3	14.3	7.6	15.2	2.2	16.0
FY21E	1,38,662	14,682	7,307	10.6	5.3	52.0	523.1	9.9	6.4	19.8	2.0	18.1
FY22E	1,62,584	18,738	9,972	11.5	6.1	71.0	585.4	12.1	7.8	14.5	1.8	14.5
FY23E	1,78,900	21,086	11,768	11.8	6.6	82.5	627.2	13.7	8.5	12.5	1.6	12.2

The Indian economy is set for a revival with improving macro indicators like PMI, IIP, GST collections, auto volumes, electricity generation, export growth, bumper crop production, etc. The government has borrowed an additional Rs.9.0 tn, which is expected to improve ordering activity in H2FY21. With a dominant position and as a leading player across all verticals in the EPC infrastructure space, L&T is well-positioned to see a turnaround with the strong revival in economy and government spending.

❖ Investment Rationale

- L&T takes contracts for all infrastructure verticals, be it highways, city infra, defence, heavy engineering, oil & gas, power, buildings, etc. It generates 65-70% revenue from India, while the rest comes from the Middle East, N. Africa, Europe and America. Such a well-diversified EPC portfolio provides flexibility to cherry-pick profitable projects, optimize the business and maintain a strong project pipeline.
- L&T's order book stands at Rs.2,989 bn, which is 2.1X of its current market cap, higher than its 10-year average of 1.8X. Despite a challenging environment, L&T has sustained its order book and has a bidding pipeline of Rs.6.0 tn (Rs.4.7 tn domestic and Rs.1.3 tn international). With the labour unavailability, execution delays and supply chain disruptions now over, we are expecting a strong pick up in order execution in H2FY21.
- L&T gets 10-12% of the combined annual capex of government (centre & state) and PSUs. The central government has announced an additional borrowing of Rs.9.0 tn for expenditure and is also pushing PSUs to scale up capex to Rs.1.16 tn in FY21. This is expected to improve the ordering activity and workflow to L&T.
- Pandemic raised the working capital requirement of L&T and its working capital to sales ratio increased from 19% to 27% in the past 12 months. But, cash proceeds from the sale of E&A provided comfort to the standalone balance sheet, which reduced the net debt from Rs.15,788 cr to Rs.5,295 cr during H1FY21.

❖ Valuation

Considering a robust order backlog, strong order pipeline, lighter balance sheet and limited competition in the domestic market, we expect a strong improvement in standalone numbers. Besides, cash flow support from IT subsidiaries could keep the fundamentals healthy. We value L&T on SOTP basis with a target price of Rs.1,362 and recommend BUY at current price.

SOTP valuation of L&T

Infrastructure & Hydrocarbon	Stake	FY23 EBITDA (Rs Cr)	EV/EBITDA Multiple(x)	Implied EV (Rs Cr)	Net Debt (Rs Cr)	Attributable Value (Rs Cr)	Per share value to L&T
L&T Standalone	100.0%	12,697.2	10.0	126,971.5	8,438.3	118,533.2	844
L&T Hydrocarbon	100.0%	1,642.5	10.0	16,425.0	-2,420.0	18,845.0	134

IT/ITES	Stake	FY23 EPS (Rs)	P/E Multiple(x)	Equity Value (Rs Cr)	Holding Co Discount	Attributable Value (Rs Cr)	Per share value to L&T
L&T Infotech Ltd	74.5%	137.1	20.0	47,765.6	50.0%	17,795.1	127
MindTree Ltd	61.1%	72.0	20.0	23,698.1	50.0%	7,237.4	52
L&T Technology Services Ltd	74.6%	93.4	22.5	21,967.0	50.0%	8,193.7	58

NBFC	Stake	FY23 BVPS (Rs)	P/B Multiple(x)	Equity Value (Rs Cr)	Holding Co Discount	Attributable Value (Rs Cr)	Per share value to L&T
L&T Finance Ltd	63.7%	96.4	1.5	28,990.9	50.0%	9,236.5	66

Power	Stake	DCF Value per share (Rs)	Holding Co Discount	Attributable Value (Rs Cr)	Per share value to L&T
Nabha Power Ltd	100.0%	80.7	0.0%	11,323.1	81

Consolidated Value per share

1,362

Target Price: Rs.1,905
CMP Rs.1,674 (9.8x CY22 EV/EBITDA)
BUY
Index Details

Sensex	43,594
Nifty	12,749
Industry	Cement

The Indian economy is witnessing early signs of recovery from disruptions caused by COVID-19. PMI, IIP, GST collections, auto volumes, electricity generation, export growth, bumper crop production, etc. all augur well a rebound in economic activity. In addition, the government has borrowed additional Rs. 9.0 tn, which is expected to improve ordering activity in H2FY21.

Scrip Details

Mkt Cap (Rs Cr)	31,439
O/S Share (Cr)	18.8
3M Avg Vol (000)	1,452
52 Wk H/L (Rs)	1,705/896
Div Yield (%)	0.84
FVPS (Rs)	10.00

We believe that the stock of ACC is well poised for a re-rating given the strong expected earnings growth and improved profitability emanating from

- above stated buoyancy due to economic recovery
- well timed expansion to 39 mn tonnes (+18%)
- expanding volumes
- cost cutting measures
- healthy cash pile and strong cash flow generation
- benign valuations augur well for a re-rating of the stock

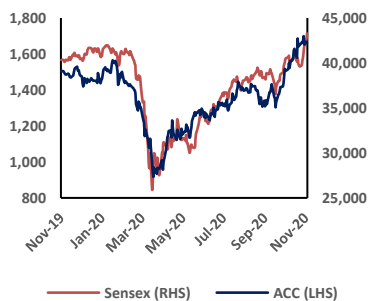
Shareholding Pattern

Shareholder	%
Promoters	54.53
Institutional	32.36
Public	13.11
Total	100.00

We initiate coverage with a BUY for a price target of Rs. 1,905 (9.8x CY22 EV/EBIDTA) representing a potential upside of 14% over the next 24 months from the CMP of Rs. 1,674.

❖ Investment Rationale

- The company currently has an installed capacity of around 33 mn tons and the capacity utilization for 9M CY20 is at 72%. The company is setting up a greenfield integrated cement plant at Ametha, MP with a clinker capacity of 3 MTPA and a cement capacity of 1 MTPA, expanding its existing grinding unit in Tikaria, UP with a 1.6 MTPA cement capacity and a third grinding unit in UP with a capacity of 2.2 MTPA, and setting up a 1.1 MTPA PSC/ 1.4 MTPA PCC grinding facility at the existing location of Sindri, Jharkhand. All these projects are expected to be commissioned by early CY22 and will be funded through internal accruals at a total capex of around Rs. 3,000 crores.

ACC vs. Sensex

Key Financials

	Sales Rs. crs	EBITDA Rs. crs	PAT Rs. crs	EBITDA Margin (%)	PAT Margin (%)	EPS ₹	BVPS ₹	RoE (%)	RoIC (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
CY18	14,477.5	2,050.9	1,520.5	14.2	10.5	81.0	560.8	14.4	19.2	20.7	3.0	13.9
CY19	15,343.1	2,412.8	1,377.4	15.7	9.0	73.4	614.7	11.9	25.9	22.8	2.7	11.1
CY20E	13,313.6	2,035.6	1,218.1	15.3	9.1	64.8	657.0	9.9	18.6	25.8	2.5	13.2
CY21E	15,753.4	2,333.6	1,396.8	14.8	8.9	74.6	709.8	10.5	20.5	22.4	2.4	11.4
CY22E	17,124.2	2,582.2	1,494.2	15.1	8.7	80.4	759.9	10.6	26.4	20.8	2.2	9.8

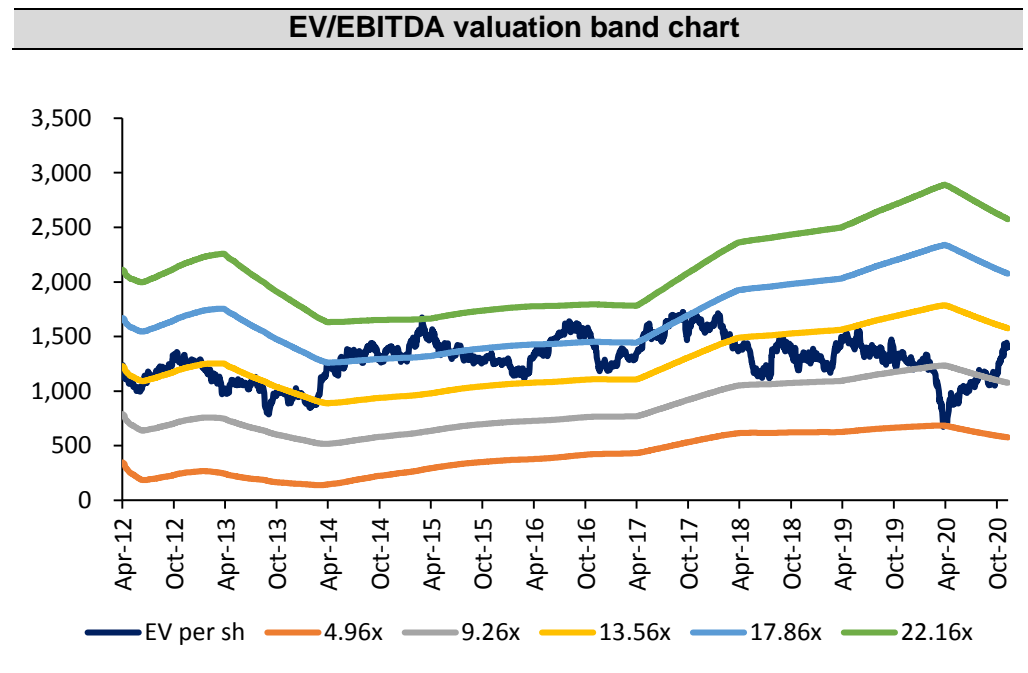
- The revenue of the company is expected to grow at a CAGR of 3.7% to Rs. 17,124 crores by CY22 driven by judicious mix of realizations and volume growth. EBITDA for the company is expected to grow at a CAGR of 2.3% to Rs. 2,582 crores on account of savings in operating expenses due to the various cost reduction measures adopted by the company. Margin is expected to be at 15.1% (-60 bps) in CY22. While the net profit of the company is expected to grow at a CAGR of 2.8% to Rs. 1,494 crores led by a better operating performance. Net margin is expected to be at 8.7% (-70 bps) in CY22.

The return on equity for CY22 is expected to decline by 70 bps to 10.6% while RoIC is expected to soften by 50 bps at 26.4% up from 25.9% in CY19.

- ACC generates a free cash flow of Rs.1,100-1,200 cr annually and has a healthy cash balance of Rs.4,831 cr (as on 30th Jun 2020).

❖ Valuation

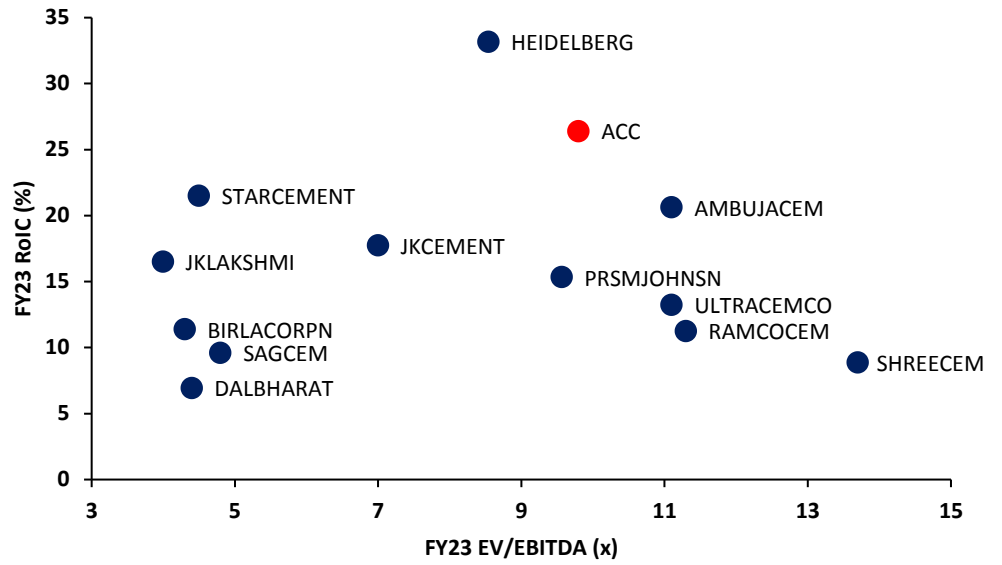
Considering operational efficiency, capacity expansion through internal accrual, healthy cash balance and cash flows, debt free status of the company and benign valuations we believe that the stock is ripe for a re-rating. We reiterate a BUY for a target price of Rs. 1,905 (9.8X FY22 EV/EBIDTA) representing an upside of 14% from the CMP of Rs. 1,674.



Source: Ventura Research



Peer Comparison



Source: Ventura Research

Target Price: Rs.48
CMP Rs.34 (1.0x FY23 P/BV)
BUY

Index Details	
Sensex	43,594
Nifty	12,749
Industry	Banking

IDFC First Bank Ltd (IDFCFB), post-merger, has finally got its act together and is well positioned to benefit from the opportunities arising out of an under-penetrated market and market share gains, from peers that are struggling.

We initiate coverage with a BUY for a price target of INR 48 (1.5X FY23), representing an upside of 41.2% over the next 24 months from the CMP of Rs. 34.

Scrip Details	
Mkt Cap (Rs Cr)	17,641
O/S Share (Cr)	567.2
3 M Avg Vol (000)	138.6
52 Wk H/L (Rs)	48/18
Div Yield (%)	0.00
FVPS (Rs)	10.0

Our optimism stems from the following.

- **Aggressive write downs of legacy NPAs and adequate provisioning for stressed asset has ameliorated the concerns around asset quality. We expect GNPL and NNPLs trend to remain flat at to 2.5% (-10 bps) and 1.0% (+1 bps), respectively, for FY23.**
- **Loan book is set to grow at 15.7% CAGR to Rs 1,32,665.3 crore by FY23 driven by faster growth of its retail book to Rs 1,11,933 crore (25% CAGR) and flattish trend in corporate advances.**

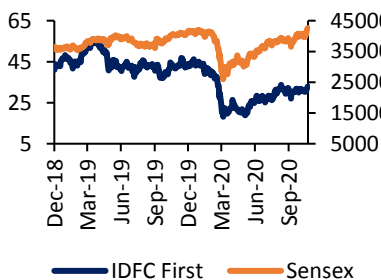
The lending mix is expected to shift in favour of retail lending to 74:26 by FY23. The resultant granularity will bring more stability to the lending book.

Both the asset and liability portfolios are considered as separate engines of growth. This focussed approach has resulted in a marked improvement in the quality of the lending book.

- **Liabilities are expected to grow at a faster clip of 19.3% to Rs. 1,10,554.4 crore, driven by a faster growth in CASA deposits to Rs 45,327.3 crore (29.4% CAGR). This spurt in CASA deposits along with a churn from bulk deposits to retail is expected to lower the cost of funds to 7.5% (-30 bps).**
- **The twin impact of change in lending mix and lowered cost of funds should lead to a healthy gradual 140 bps NIM expansion to 4.8% by FY23.**

Shareholding Pattern	
Shareholder	%
Promoters	40.00
Institutional	26.95
Public	33.05
Total	100.0

IDFCFB vs. Sensex



Key Financials (in ₹ crores)

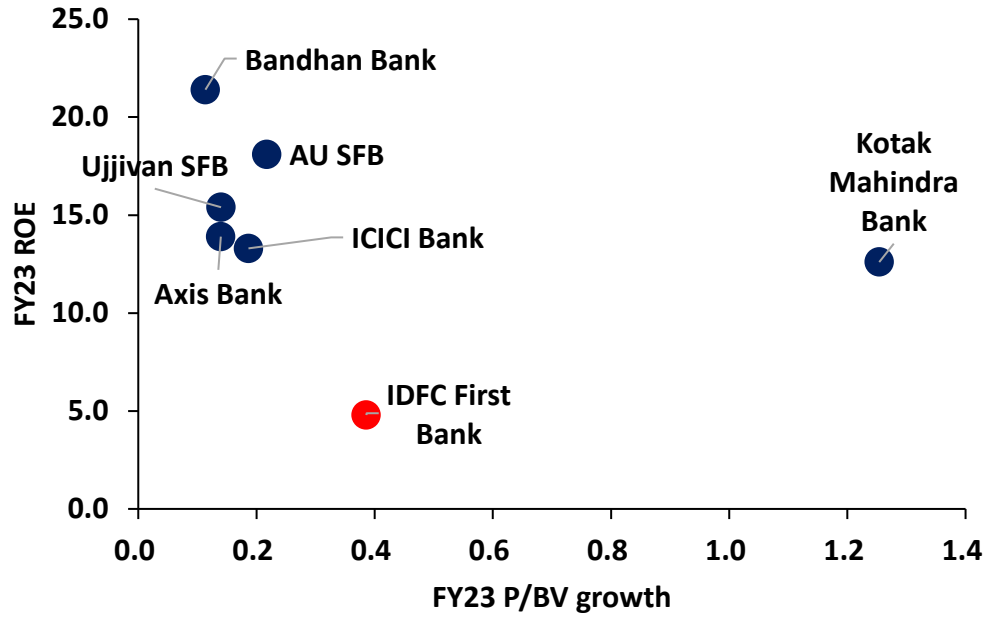
	Net Int Income	Non-Int Income	PPOP	PAT	EPS ₹	BVPS ₹	RoAA (%)	RoAE (%)	P/E (x)	P/BV (x)
FY19	3,199.1	852.1	763.8	(1,944.2)	(4.1)	38.0	0.4	(11.6)	(8.4)	0.9
FY20	5,635.3	1,722.2	1,936.7	(2,864.2)	(6.0)	31.9	(1.8)	(17.1)	(5.8)	1.1
FY21E	7,278.3	1,927.7	2,362.5	524.7	0.9	31.5	0.3	3.2	37.1	1.1
FY22E	7,884.0	2,250.9	2,187.5	752.3	1.3	32.8	0.4	4.1	25.9	1.0
FY23E	9,202.4	2,653.3	2,615.0	914.1	1.6	34.4	0.5	4.8	21.3	1.0

- The Cost to Income ratio is expected to remain elevated at 77.9% (+427 bps) given the fact that the bank has an aggressive branch rollout plan over the forecast period.
- While NII is expected to grow at 17.8% CAGR to Rs. 9,202.4 crore, PPOP is expected to grow at a CAGR of 10.5% to Rs 2,615.0 crore by FY23. As a result, the net earnings are expected to turn the corner and grow to Rs. 914.1 crore by FY23, resulting in an 8% increase in Book Value to Rs. 34.4 over the same period. Consequently, return ratios are set to expand. RoE & RoA are expected to improve to 4.8% and 0.5%, respectively, by FY23.
- With the growth trend firmly in place we expect the valuation multiple to expand. We initiate coverage on IDFC Bank with a BUY for a price objective of Rs 48 (1.5X FY23), which implies an upside of 39.7% from the CMP of Rs. 34.35

❖ Quarterly Updates

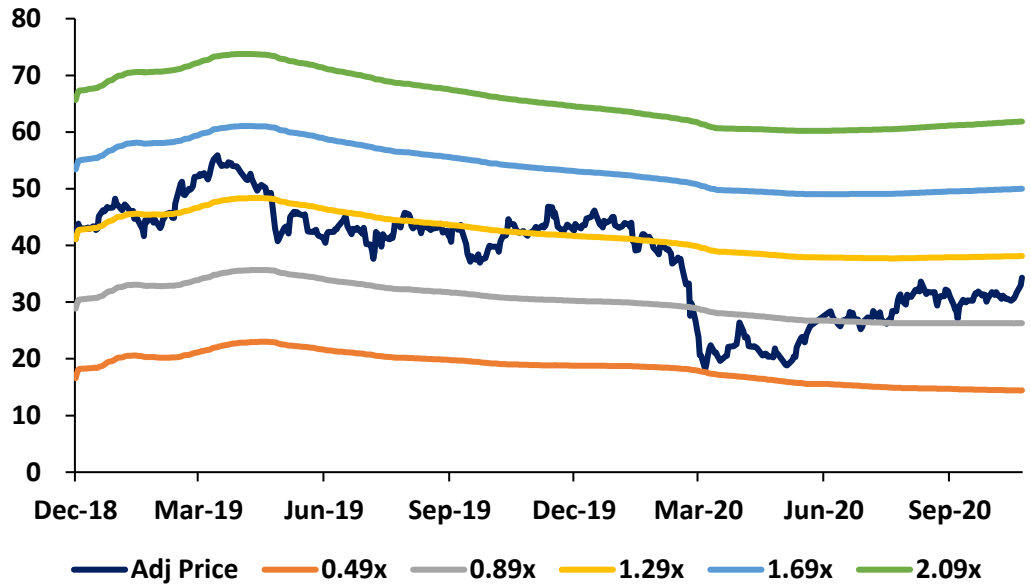
- For the quarter ended September 2020, the bank reported a growth of 25% YoY in its Retail book to Rs. 59,860 Cr, whereas the wholesale funded book declined by 20% YoY to Rs. 36,987 Cr.
- Total Customer Deposits grew by 35% YoY and 11% QoQ to Rs. 69,368 Cr. Deposits growth was mainly aided by strong growth in CASA.
- Net Interest Income grew by 21.76% YoY to Rs. 1,659.7 Cr, aided by growth in margins.
- NIMs for the quarter stood at 4.57% as against 4.53% in Q1FY21 and 3.43% in Q2FY20.
- The Bank, during the quarter, released Rs. 811 Cr (out of existing provisions of Rs. 1,622 Cr) against a large Telecom Exposure in Q2FY21 based on improved prospects and management commentary at the company, and utilized it to create additional COVID provisions during Q2 FY21. The current exposure of the account as on September 2020 stands at Rs. 3,244 Cr (Funded – Rs. 2,000 Cr and Non-Funded – Rs. 1,244 Cr). The said account is current and has no overdues as of 30 Sept 2020.
- PAT for the quarter stood at Rs. 101.4 Cr as against a loss of Rs. 679.5 Cr in Q2FY20 and profit of Rs. 93.5 Cr in Q1FY21.
- The bank's GNPA and NNPA stood at 1.62% and 0.43%, respectively. The provision Coverage Ratio stood at 73.69%.

Peer Comparison



Source: Ventura Research

P/BV valuation band chart



Source: Ventura Research

Financials & Projections

Y/E March (crore)	FY19	FY20	FY21E	FY22E	FY23E	Y/E March (crore)	FY19	FY20	FY21E	FY22E	FY23E
Income Statement						Ratio Analysis					
Interest Income	11,948.2	15,867.3	17,222.0	19,046.9	21,999.3	Efficiency Ratio (%)					
Interest Expense	8,749.1	10,232.0	9,943.7	11,162.9	12,796.9	Int Expended / Int Earned	73.2	64.5	57.7	58.6	58.2
Net Interest Income	3,199.1	5,635.3	7,278.3	7,884.0	9,202.4	Int Income / Total Funds	7.1	10.6	10.4	10.2	10.3
YoY change (%)	77.9	76.2	29.2	8.3	16.7	NII / Total Income	25.0	32.0	38.0	37.0	37.3
Non Interest Income	852.1	1,722.2	1,927.7	2,250.9	2,653.3	Other Inc. / Total Income	6.7	9.8	10.1	10.6	10.8
Total Net Income	4,051.2	7,357.5	9,206.0	10,134.9	11,855.7	Ope. Exp. / Total Income	25.7	30.8	35.7	37.3	37.5
Total Operating Expenses	3,287.4	5,420.7	6,843.5	7,947.5	9,240.7	Net Profit / Total Funds	-1.2	-1.9	0.3	0.4	0.4
Pre Provision profit	763.8	1,936.7	2,362.5	2,187.5	2,615.0	Credit / Deposit	122.5	131.5	123.0	120.0	120.0
YoY change (%)	-39.5	153.6	22.0	-7.4	19.5	Investment / Deposit	83.0	69.7	60.8	53.4	47.5
Provisions	1,459.6	4,315.3	1,661.1	1,181.7	1,393.0	NIM	1.9	3.4	4.5	4.5	4.8
Profit Before Tax	-3,295.2	-2,378.5	701.4	1,005.7	1,222.0	Solvency					
YoY change (%)	-420.8	-27.8	-129.5	43.4	21.5	Gross NPA (Rs. Cr)	2,136.0	2,279.6	3,373.5	3,376.4	3,316.6
Taxes	-1,351.0	485.7	176.8	253.4	308.0	Net NPA (Rs. Cr)	1,106.6	808.6	2,024.1	1,913.3	1,326.7
Net profit	-1,944.2	-2,864.2	524.7	752.3	914.1	Gross NPA (%)	2.4	2.6	3.5	3.0	2.5
YoY change (%)	-326.2	47.3	-118.3	43.4	21.5	Net NPA (%)	1.3	0.9	2.1	1.7	1.0
Balance Sheet						Capital Adequacy Ratio (%)	15.5	13.4	13.9	12.4	11.1
Cash & Balances with RBI	4,149.5	3,379.9	4,388.3	5,064.5	5,748.8	Tier I Capital (%)	15.3	13.3	13.8	12.4	11.0
Inter bank borrowing	5,417.2	810.9	940.4	1,125.5	1,326.7	Tier II Capital (%)	0.2	0.1	0.1	0.1	0.1
Investments	58,475.4	45,404.6	47,674.8	50,058.5	52,561.5	Per Share Data ()					
Loan and Advances	86,302.3	85,595.4	96,386.0	1,12,545.4	1,32,665.3	EPS	-4.1	-6.0	0.9	1.3	1.6
Other Assets	11,890.2	12,971.9	14,607.3	17,056.2	20,105.4	Book Value	38.0	31.9	31.5	32.8	34.4
Total Assets	1,67,184.9	1,49,200.4	1,65,200.0	1,87,270.9	2,14,082.4	Adj Book Value of Share	35.7	30.2	27.9	29.5	32.1
Deposits	70,479.0	65,108.0	78,362.6	93,787.8	1,10,554.4	Valuation Ratio					
Borrowings	69,983.4	57,397.2	58,017.1	64,291.3	73,439.2	Price/Earnings (x)	-8.4	-5.8	37.1	25.9	21.3
Other Liability	8,563.2	11,352.6	10,953.2	10,572.3	10,555.3	Price/Book Value (x)	0.9	1.1	1.1	1.0	1.0
Equity	4,781.7	4,809.9	5,672.3	5,672.3	5,672.3	Price/Adj.Book Value (x)	1.0	1.1	1.2	1.2	1.1
Reserves	13,377.6	10,532.7	12,194.9	12,947.1	13,861.2	Return Ratio					
Minority Interst	-	-	-	-	-	RoAA (%)	0.4	-1.8	0.3	0.4	0.5
Total Liabilities	1,67,184.9	1,49,200.4	1,65,200.0	1,87,270.9	2,14,082.4	RoAE (%)	-11.6	-17.1	3.2	4.1	4.8
Dupont Analysis						Growth Ratio (%)					
% of Average Assets						Interest Income	33.8	32.8	8.5	10.6	15.5
Net Interest Income	2.2	3.6	4.6	4.5	4.6	Interest Expenses	22.7	16.9	-2.8	12.3	14.6
Non Interest Income	0.6	1.1	1.2	1.3	1.3	Other Income	-23.8	102.1	11.9	16.8	17.9
Net Income	2.8	4.7	5.9	5.8	5.9	Total Income	27.4	37.4	8.9	11.2	15.8
Operating Expenses	2.2	3.4	4.4	4.5	4.6	Net profit	-326.2	47.3	-118.3	43.4	21.5
Operating Profit	0.5	1.2	1.5	1.2	1.3	Deposits	46.2	-7.6	20.4	19.7	17.9
Provisions & Contingencies	1.0	2.7	1.1	0.7	0.7	Advances	65.4	-0.8	12.6	16.8	17.9
Taxes	-0.9	0.3	0.1	0.1	0.2						
ROAA	0.4	-1.8	0.3	0.4	0.5						

Source: Ventura Research

Target Price: Rs. 2,000
CMP Rs.1,374 (24.9x FY23 P/E)
BUY

Index Details	
Sensex	43,594
Nifty	12,749
Industry	Travel Support

IRCTC is the only company serving in the online ticketing and catering business (combined 89% of FY20 EBIT) for the Indian railways. In FY20, online ticketing as a digital platform business has seen 302 mn bookings, which equals 73% of the total railway tickets booked in India.

Scrip Details	
Mkt Cap (Rs Cr)	21,945
O/S Share (Cr)	16.0
3 M Avg Vol (000)	566
52 Wk H/L (Rs)	1995/775
Div Yield (%)	0.91
FVPS (Rs)	10.00

It enjoys a competitive edge in its pricing of packaged drinking water and its e-catering services enjoy strong growth prospects given that customer preferences are shifting towards food aggregators and cloud kitchen services. The recent encouraging announcement of a breakthrough in the production of a Covid-19 vaccine raises hopes that normalcy should return sooner than later. While the FY21 performance will be impacted, we expect a strong pick-up in FY22/23E.

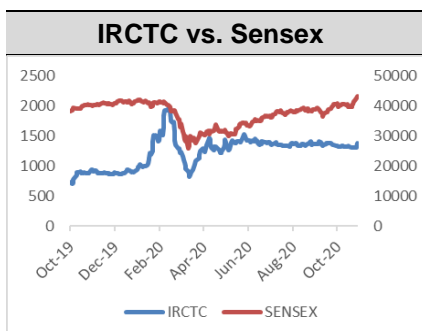
IRCTC at the CMP of Rs. 1374 is trading at 23.8X FY23E. We recommend a buy with a price objective of Rs.2,000 (34.7X FY23) representing a 45.6% upside over the next 24 months.

❖ Investment Rationale

- IRCTC has a monopoly in the online ticketing and catering businesses, which are its top 2 business segments. It is the only entity authorized by the Indian Railways and the Catering Policy 2017 to provide these two services respectively.
- Given that the Indian railways is the lifeline for passenger transport, the positive prospects of a Covid vaccine would mean that the economy could revive sooner than expected. We expect train operations to normalize on the back of resumed consumer confidence by FY22
- The Indian Railways have already begun the process of inviting private players to participate in the operations of 151 passenger trains across 12 clusters. IRCTC has put in bids for 11 of these 12 clusters in the RFQ invited by the Indian Railways. We conservatively expect IRCTC to win one of these bids.

Further the railway routes connecting the 4 metro cities (which account for 52% of passenger traffic) are expected to decongest

Shareholding Pattern	
Shareholder	%
Promoters	87.40
Institutional	2.53
Public	10.07
Total	100.00



Key Financials (in ₹ crores)

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY19	1,870	313	309	20.5	16.5	19.3	66.9	28.8	21.3	-	-	-
FY20	2,275	712	529	31.3	23.2	33.0	83.0	39.8	35.9	41.7	16.6	29.1
FY21E	1,001	230	140	22.9	14.0	14.7	86.0	14.1	6.1	111.7	16.0	90.0
FY22E	2,682	996	771	37.1	28.7	49.7	109.0	46.0	40.4	28.5	12.6	20.9
FY23E	3,014	1,133	881	37.6	29.2	57.7	137.0	40.9	36.5	24.9	10.0	18.3

with the Dedicated Freight Corridor project. On completion we expect an improvement in passenger traffic which will benefit IRCTC in all its business segments.

- The increased adoption of online bookings will benefit IRCTC. According to Crisil this is expected to jump to 84% by FY24 from the current 73% (51% in FY14).

❖ **Notwithstanding the soft quarterly numbers, we remain optimistic**

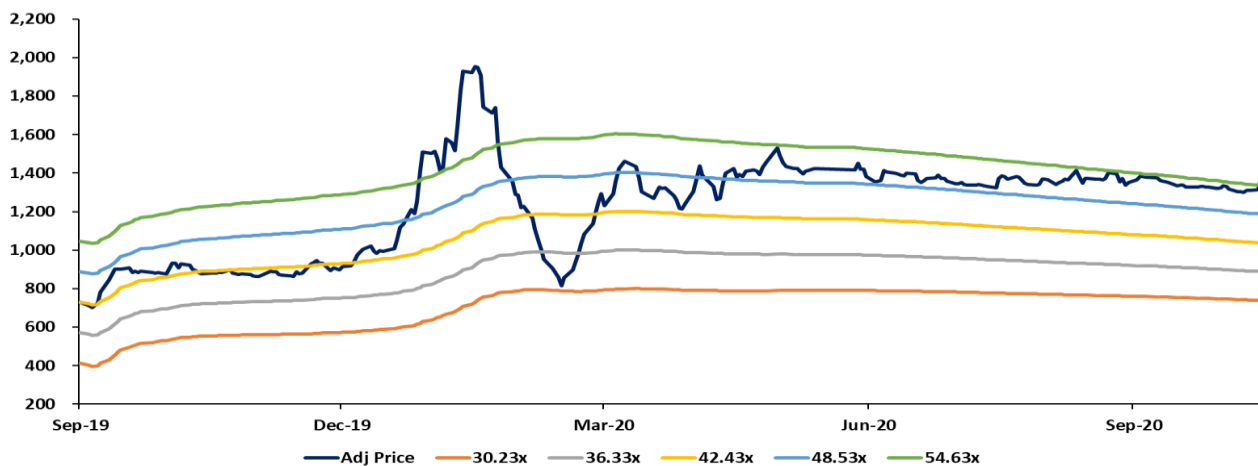
In Q1FY21, IRCTC reported a 71.4% decline in topline to Rs 131 crore from Rs 459 crore reported in the same quarter of the previous year. The EBIDTA margin decreased 5590 bps to -33.4% from 22.5%, on account of COVID-19 pandemic restrictions which are slowly being lifted. The PAT stood at negative Rs 25 crore, decreasing 134% YoY but the situation is expected to turn around by FY22.

During FY20, IRCTC's net operating income stood at Rs 2,275 crore, registering a growth of 21.7% YoY. The EBIDTA margin increased 1130 bps YoY to 31.3% while the PAT increased by 71.3% YoY to touch Rs. 529 crores.

❖ **Valuation**

At the CMP of Rs 1374 the stock is trading at 23.8X its estimated earnings of FY23. We have assigned a PE multiple of 34.7X on the FY23 EPS of Rs 57.7 to arrive at the target price of Rs 2000, representing a potential upside of 45.6% over a period of 24 months.

P/E 1 year forward band chart



Source: Bloomberg and Ventura Research

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