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DIWALI PICKS

November 2020

November 06, 2020

BUY

CMP (Rs)	85
Target Price (Rs)	105
Potential Upside	24%
Sensex	41,893
Nifty	12,264

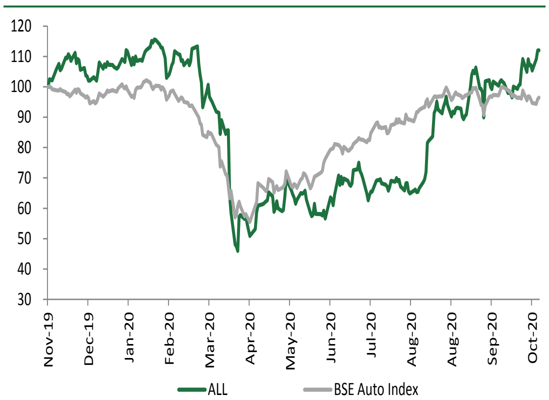
Key Stock data

BSE Code	500477
NSE Code	ASHOKLEY
Bloomberg	AL:IN
Shares o/s, Cr (FV 1)	293.6
Market Cap (Rs Cr)	24,937
3M Avg Volume	52,856,568
52 week H/L	34/88

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	51.5	51.5	51.5
FII	16.9	15.6	14.6
DII	15.1	14.1	17.6
Others	16.5	18.7	16.2

1 Year relative price performance



Research Analyst

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Best play on CV recovery

Headquartered in Chennai, Ashok Leyland Ltd. (ALL) is the flagship company of Hinduja Group engaged in the manufacturing of commercial vehicles (CV). It is the second-largest CV manufacturer in India and the fourth largest manufacturer of buses globally. ALL has nine manufacturing plants with seven in India and two at international locations. It has international presence in over 50 countries. ALL is the pioneer in the Commercial Vehicle (CV) space as many of its product concepts have become industry benchmarks and norms.

Investment Rationale

- **CV industry to bounce back sharply in FY22E:** The domestic CV industry has witnessed several challenges over the last two years starting with the overall economic slowdown, liquidity issues amongst NBFCs, revised axle load norms. The situation turned ugly due to the COVID-19 pandemic and BS-VI related cost increase. As past trend suggests, the CV industry's growth (especially the M&HCV segment) is a function of how the core economic activities perform (GDP growth). We expect that after a sharp decline in Q1FY21 (-23.9% YoY), the on-going economic recovery and increased focus of the government on infrastructure augur well for the growth prospects of the CV industry. Further, the increased preference towards the hub and spoke model bodes well for the LCV industry which has shown decent recovery in recent months.
- **ALL to continue to gain market share:** Over the last decade, ALL has been steadily gaining market share in the domestic M&HCV segment and made its presence felt in the LCV segment from FY12. We expect ALL volumes to recover led by revival in the CV industry as the company's portfolio is more skewed towards high tonnage vehicles which would benefit more during upcycle in the CV industry. Further, its constant focus on technology upgrades and new product launches would enable it to grow faster than the industry.

Outlook & Valuation:

The domestic CV industry is poised for healthy growth led by increased government spending on infrastructure, mining and pick-up in economic activity. We believe ALL stands to benefit from the upcycle in the CV industry given its strong position in the M&HCV and LCV segment. Further, the proposed implementation of CV scrappage policy is likely to create an additional demand of ~1 lakh vehicles. To reduce the earnings volatility, the company has sharpened its focus on increasing its revenue share from LCVs, spares, exports and defence. We believe that ALL's strong brand presence in the CV segment and its focus on diversifying to less cyclical businesses makes it one of our preferred picks in the sector. We recommend a Buy on the stock with a target price of Rs 105.

Financial Summary - standalone

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	17,467	14,480	22,214	25,324
EBITDA	1,174	579	1,644	2,304
EBITDAM (%)	6.7	4.0	7.4	9.1
APAT	343	(145)	650	1,122
APATM (%)	1.4	-1.0	2.9	4.4
EPS (Rs)	1.2	-0.5	2.2	3.8
PE (x)	72.8	-	38.4	22.2
RoE (%)	4.4	-2.0	9.0	14.5

Source : Company; RBL Research

BUY

CMP (Rs)	450
Target Price (Rs)	709
Potential Upside	58%
Sensex	41,893
Nifty	12,264

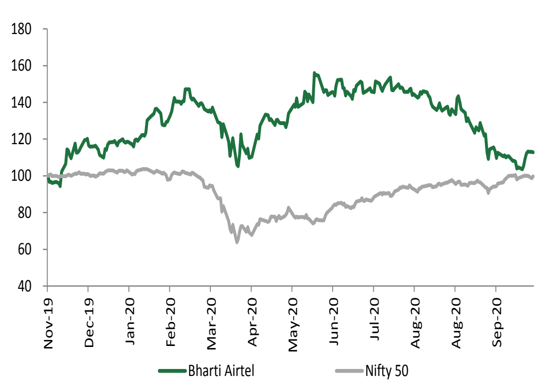
Key Stock data

BSE Code	532454
NSE Code	BHARTIARTL
Bloomberg	BHARTI:IN
Shares o/s, Cr (FV 5)	545.6
Market Cap (Rs Cr)	245,364
3M Avg Volume	27,202,192
52 week H/L	612/350

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	59.0	56.2	56.2
FII	20.3	20.2	17.6
DII	15.8	18.4	21.7
Others	4.9	5.2	4.5

1 Year relative price performance



Research Analyst

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Resilient performance during tough times; time to reap benefits

Bharti Airtel (Bharti) is one of the leading global telecommunications companies with operations in 18 countries across Asia and Africa. In India, the company's product offerings include 2G, 3G and 4G wireless services, mobile commerce, fixed line services, high-speed home broadband, DTH, enterprise services including national & international long distance services to carriers. In the rest of the geographies, it offers 2G, 3G, 4G wireless services and mobile commerce. Currently, the company has nearly 440 million customers across 18 countries.

Investment Rationale

- **Strong tailwinds for the telecom industry:** The Indian telecom industry has witnessed high competitive intensity ever since the launch of Jio. However, despite these pressures, Bharti Airtel has managed to gradually increase its subscriber base. Going forward, we believe that the worse of pricing war is behind us and the industry would collectively look to increase tariff at regular intervals. Moreover, the long-term growth story remains promising for the industry-led by increase in digital penetration which has further accelerated post the pandemic and consistent rise in smartphone users.
- **Bharti Airtel a key beneficiary:** The positive industry growth trends bode well for Bharti as it enjoys a strong market share in the Indian mobile services market. Its industry-leading ARPUs and consistent rise in 4G subscribers would aid revenue growth for the company. Moreover, to enhance its digital offerings, the company has built digital assets (Airtel Thanks, Wynk and Xstream) and has partnered with several OTT, music and Edtech platforms.

Outlook & Valuation:

Bharti Airtel is well placed to benefit from increased traction received in digital services which we believe is likely to continue going forward. After a steady addition of customers, Bharti can continue to gain market share in the mobile services business. The uncertainty over AGR dues is also behind us as Supreme Court has allowed 10 years payment window for telecom operators. In our view, the tariff hike would continue from here on, to reduce the financial stress on telecom companies which would benefit Bharti Airtel due to its strong customer base and a healthy addition of 4G customers. Further, strong cash flow generation would also help in deleveraging the balance sheet. We recommend a Buy on the stock with a target price of Rs. 709.

Financial Summary - consolidated

Particulars, Rs cr	FY19	FY20	FY21E	FY22E
Net revenue	80,780	87,539	101,108	110,207
EBITDA	25,819	36,610	45,335	50,685
EBITDAM (%)	32.0	41.8	44.8	46.0
APAT	(2,519)	8,051	5,219	4,617
APATM (%)	-3.1	9.2	5.2	4.2
EPS (Rs)	-6.3	14.8	9.6	8.5
EV/EBITDA (x)	11.5	10.3	8.4	7.3
PE (x)	-	30.5	47.0	53.2
RoE (%)	-3.6	10.8	7.1	6.3

Source : Company; RBL Research

BUY

CMP (Rs)	309
Target Price (Rs)	370
Potential Upside	20%
Sensex	41,893
Nifty	12,264

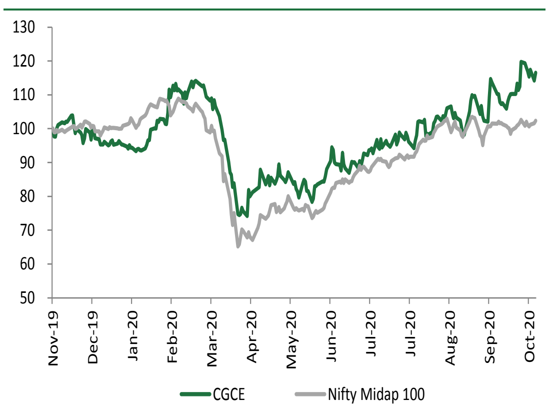
Key Stock data

BSE Code	539876
NSE Code	CROMPTON
Bloomberg	CROMPTON:IN
Shares o/s, Cr (FV 2)	62.7
Market Cap (Rs Cr)	19,385
3M Avg Volume	1,048,083
52 week H/L	329/177

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	26.2	26.2	26.2
FII	30.5	29.9	30.3
DII	26.7	25.7	26.0
Others	16.6	18.2	17.4

1 Year relative price performance



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Strong product portfolio to aid sustained growth

Crompton Greaves Consumer Electricals (CGCE) is engaged in manufacturing and marketing a wide range of ECD (Electrical Consumer Durable) products ranging from fans, light sources and luminaires, pumps and household appliances such as geysers, mixer grinders, toasters and irons. CGCE has been the market leader in fans, domestic pumps and street lighting for over 20 years. It has four manufacturing plants located in Goa, Vadodara, Ahmednagar and Baddi and its products are available in ~150,000 retail points across the country.

Investment Rationale

- **ECD segment to drive growth:** After getting briefly impacted due to the pandemic, CGCE's ECD segment (~75% of its revenue) rebounded sharply in Q2FY21 led by strong pent up demand. We expect the growth momentum to continue on the back of healthy industry growth trends coupled with the company's strong focus on strengthening its position in the fans and pumps category by widening its distribution reach. Further, we expect strong growth momentum in the company's consumer appliances category (water heaters, coolers, mixer grinder) to continue led by new product launches in relevant categories, brand building initiatives and channel expansion. Additionally, CGCE's continued focus on premiumization of its portfolio bodes well for both value growth as well as margin improvement.
- **Worse seems to be over for the lighting segment:** The lighting segment revenue had been impacted both in the B2B and B2C segments. The price erosion in the B2C space had further impacted margins for the overall lighting segment over the last few years. However, the management has indicated that the price erosion seems to have stopped over the past few quarters and the segment is now seeing value growth in-line with volume growth which is a positive sign. On the flip side, the B2B segment is yet to see any meaningful signs of recovery which we believe would be gradual.

Outlook & Valuation:

We expect CGCE to continue to strengthen its market share in the ECD segment both from unorganized as well as other players. Its strong product portfolio, new innovative product launches, strong brand presence would enable the company to achieve a higher market share in the ECD segment. Further, strong focus on cost optimization measures, increased revenue from the premium portfolio, and signs of margins bottoming out in the lighting segment augur well for margin improvement. Hence, CGCE's strong product portfolio, market leadership in key segments coupled with healthy dividend payout ratio (33-36%), lean working capital cycle, strong cash flow generation and robust return ratios make it one of our preferred picks in the sector. We recommend a Buy on the stock with a target price of Rs. 370.

Financial Summary - consolidated

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	4,520	4,294	5,282	5,916
EBITDA	599	605	776	870
EBITDAM (%)	13.3	14.1	14.7	14.7
APAT	496	450	586	663
APATM (%)	11.0	10.5	11.1	11.2
EPS (Rs)	7.9	7.2	9.3	10.6
PE (x)	39.0	43.1	33.1	29.2
RoE (%)	38.7	28.7	32.2	30.7

Source : Company; RBL Research

BUY

CMP (Rs)	443
Target Price (Rs)	552
Potential Upside	25%
Sensex	41,893
Nifty	12,264

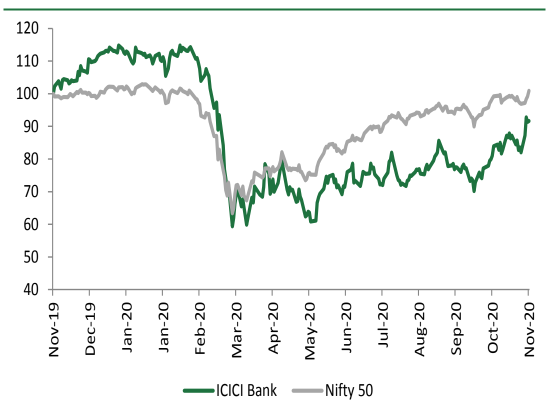
Key Stock data

BSE Code	532174
NSE Code	ICICIBANK
Bloomberg	ICICIBC:IN
Shares o/s, Cr (FV 2)	689.7
Market Cap (Rs Cr)	305,629
3M Avg Volume	33,024,909
52 week H/L	552/268

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	-	-	-
FII	43.0	44.9	45.7
DII	46.1	44.8	44.1
Others	10.9	10.3	10.2

1 Year relative price performance



Research Analyst

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Marching Strong

ICICI Bank is one of the largest private sector banks in India offering a diversified portfolio of financial products and services to retail, SME and corporate customers. The Bank has an extensive network of 21,000 branches and ATMs and the total Insta-banking kiosks count reached 1,638 as on March 31, 2020.

Investment Rationale

- **Resilient during tough times:** ICICI bank has been a strong contender in the banking space which has stayed resilient through difficult situations- first the corporate governance and now the Covid-19 disruption which impacted the whole banking sector. In the recent past, with the change in the management, ICICI bank has not only shifted its focus on growing its retail loan portfolio (much safer in difficult times in terms of default as compared to corporates) but also improve its corporate governance image. Also, in the Covid situation (in the last 2 quarters), the bank made higher provisioning as compared to other banks just to safeguard its balance sheet against potential losses. Further with the re-opening of economy 1) its operational matrix has seen strong growth with improvement in net interest income and deposits. 2) Further focus on growing in the retail segment as well as digital channels bodes well with management vision. Also, the bank's collections are improving and stand near to pre-Covid levels, assets quality and credit profile are recovering which would fuel additional growth for the bank in the coming quarters.

- **Group companies to support growth:** Along with ICICI bank, its subsidiaries are likely to perform well and post decent growth in the coming years driven by 1) increasing awareness amongst consumer to buy insurance-related products due to Covid situation led to rising demand for health and life insurance products which augur well for ICICI Prudential life insurance as well as ICICI Lombard businesses, 2) Rising interest of retail consumers, as well as growing customer base, led to more investment in stock markets in the recent past. Along with this, a large investment in equity-linked funds and higher penetration has helped both ICICI securities as well as AMC businesses to grow. Going forward, the bank's subsidiaries would post better growth and profits as the growth momentum in markets, mutual funds and the insurance sector is expected to continue.

Outlook & Valuation:

The Covid-19 pandemic has impacted the banking sector as a whole however measures lend by RBI and government help it to pass through this difficult time. At present in Q2FY21, we witnessed many banking players (both private and public banks) posted better numbers on the back of improving asset quality, better collections and lower provision. In the coming quarters, with improving demand and the economy getting back on track, the banking sector would see good growth recovery. We would prefer investing in large private banking space with ICICI bank as our preferred pick. The bank has a strong brand name, healthy capital and liquidity position, stable asset quality, a large customer base and improved corporate governance under new management. We have initiated a Buy on the stock with a target price of Rs 552.

Financial Summary - standalone

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
NII	33,267	38,257	43,996	50,595
Operating Profit	28,103	33,810	38,978	44,943
PAT	7,932	13,885	19,189	23,443
NIM %	3.7	3.8	3.9	3.9
GNPA %	6.4	5.6	5.4	4.9
NNPA %	1.6	1.5	1.4	1.3
EPS	12.3	20.1	27.8	34.0
P/BV	2.5	2.3	2.0	1.8
P/E	36.2	22.0	15.9	13.0

Source : Company; RBL Research

BUY

CMP (Rs)	512
Target Price (Rs)	615
Potential Upside	20%
Sensex	41,893
Nifty	12,264

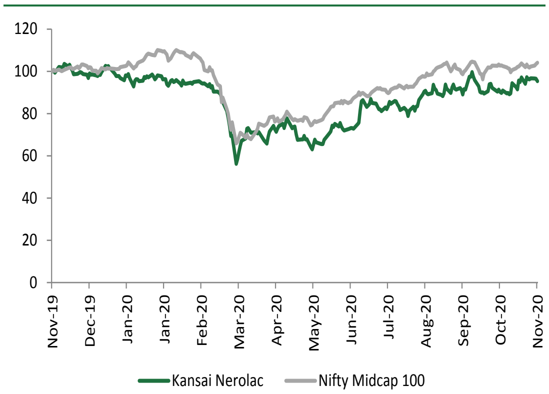
Key Stock data

BSE Code	500165
NSE Code	KANSAINER
Bloomberg	KNPL:IN
Shares o/s, Cr (FV 1)	53.9
Market Cap (Rs Cr)	27,593
3M Avg Volume	247,667
52 week H/L	557/294

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	75.0	75.0	75.0
FII	3.9	4.4	4.0
DII	12.0	11.8	12.0
Others	9.1	8.8	8.9

1 Year relative price performance



Research Analyst

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Painting a bright future

Established in 1920, Kansai Nerolac Paints Limited (KNPL) is a subsidiary of Kansai Paint Co. Ltd., Japan. It is the second-largest coating company in India and a market leader in Industrial Coatings. KNPL has well-established products in both the decorative and industrial segments. It has a pan-India presence with 6 manufacturing plants, 104 depots and a 27,500+ customer network. In international markets, it expanded in Nepal, Bangladesh and Sri-lanka.

Investment Rationale

- **Huge scope for growth in the Paint sector:** The size of the Indian paints industry is estimated to be Rs 52,000cr in FY20 and going forward, it is expected to grow in double-digit (CAGR~12-13%). Amongst the sector, decorative commands ~75% share while industrial holds ~25% share wherein decorative is growing at a healthy pace driven by government initiative for housing, growing demand and preferring premium products due to rising income. On the flip side, the Covid situation has impacted the industrial segment much more but is expected to gradually pick up pace with improvement in the rural economy and rising demand for Automobiles.

- **Strong support from parent and other collaboration:** Kansai Paint Co. Ltd. Japan has remained one of the global leaders in the industrial coating segment as it has several decades of experience in designing products and technologies. Further, KNPL works closely with the parent in developing paints and resin formulation which has helped the company to maintain its leadership position in the industrial segment. Also, the company has collaborated with other global players for technical assistance in the manufacturing of coating products which would strengthen its product portfolio.

- **Both Segments to drive healthy growth:** In FY20, revenue contribution from the decorative segment was ~55% while it garnered ~45% from the industrial segment. Amongst the industrial, automotive is ~70% while non-auto is ~30%. KNPL is the third-largest player in decorative with ~15% market share while a leader in the industrial segment with the largest presence in coatings across automotive, general industrial and powder. Going forward, it would continue to strengthen its core product portfolio as well as introduce new innovative products in coatings. Also, the company's venture in newer segments such as adhesives, construction chemicals & waterproofing strengthens its portfolio. Lastly, capacity expansion and technical assistance from global partnerships would improve product manufacturing.

Outlook & Valuation:

Indian paint sector is expected to grow in double-digit driven by government initiatives for housing, rising disposable income, increase in rural spending, and reduction in repainting cycle and pickup in auto demand. Further with a reduction in GST to 18% from 28% has helped organised players to gain market share. In the near term, due to Covid as well as the slowdown in Auto, KNPL performance is expected to be muted in FY21. Nonetheless, going forward, the company has plans to grow in both decorative as well as industrial space and gain market share driven by innovative products, focus on non-auto segments, increase distribution network and expand in newer areas that are technology-intensive. Moreover, its recent foray into adhesives and construction chemicals segment would aid benefits in the coming quarters. Besides, benign raw material prices would augur well for the expansion of margin for the company. We initiate a Buy on the stock with a target price of Rs 615.

Financial Summary - consolidated

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	5,280.0	4,699.2	5,263.1	5,999.9
EBITDA	804.5	838.8	955.3	1,107.0
EBITDAM (%)	15.2	17.9	18.2	18.5
APAT	515.8	517.1	584.8	676.7
APATM (%)	9.8	11.0	11.1	11.3
EPS (Rs)	9.6	9.6	10.9	12.6
PE (x)	53.5	53.4	47.2	40.8
RoE (%)	13.7	12.6	12.9	13.5

Source : Company; RBL Research

BUY

CMP (Rs)	961
Target Price (Rs)	1,181
Potential Upside	23%
Sensex	41,893
Nifty	12,264

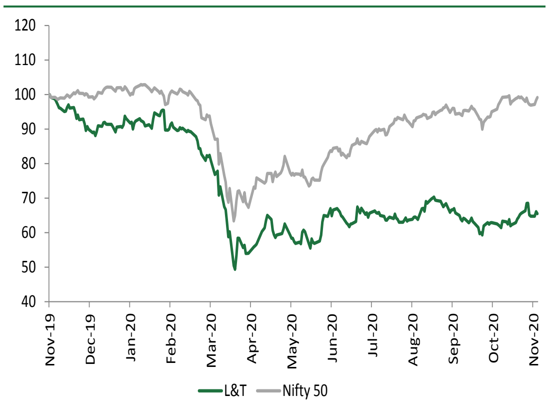
Key Stock data

BSE Code	500510
NSE Code	LT
Bloomberg	LT:IN
Shares o/s, Cr (FV 2)	140.3
Market Cap (Rs Cr)	134,598
3M Avg Volume	4,845,556
52 week H/L	1,468/661

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	-	-	-
FII	16.9	18.8	17.9
DII	38.4	36.5	36.1
Others	44.7	44.7	46.0

1 Year relative price performance



Research Analyst

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Gaining the lost ground

Larsen & Toubro (L&T) is engineering, construction, projects, manufacturing and financial services conglomerate with global operations. It operates in key sectors-infrastructure, construction, defence, hydrocarbon, heavy engineering, power, shipbuilding, aerospace and mining & metallurgy. Its key business segments include infrastructure followed by services, hydrocarbon, defence engineering, heavy engineering, power and others.

Investment Rationale:

- **Sequentially strong Q2FY21 indicates towards recovery:** We opine that L&T's performance in Q2FY21 is indicative of a gradual recovery as it reported strong growth in revenues (+45%) and operating profit (+106%) sequentially. This was on the back of improvement in execution in most of the projects as well as services segments as business activities resumed with significant capacity in the quarter, post the lockdown in Q1FY21. Further, the order inflows have grown by ~19% QoQ to Rs 28,000cr (a decline of 42% over YoY) largely contributed by infrastructure. On YoY basis, the performance was marred by the Covid pandemic resulting in a decline of 12% and 17% in revenue and operating profit respectively.
- **Healthy order book despite challenging economic environment:** L&T's order book stands at Rs 2.9lakh cr and provides strong revenue visibility. Further, 82% of L&T's domestic order book (+75% of the total order book) is from the public sector which mitigates credit risk to a large extent. Going forward, the overall project pipeline (domestic as well as international) is robust at Rs 6 lakh cr as there are a lot of opportunities in areas such as water, power transmission & distribution, metro, railways as well as roads & expressways. Thus, a healthy order book and strong order pipeline bodes well for its long-term prospects.

Outlook & Valuation:

L&T intends to use a major portion of the net cash inflows (~Rs 11,000cr) from the sale of its electrical and automation business to service part of its debt and to grow technology and financial services businesses. Further, improvement in cash collections as the economy rebounds and monetization of non-core assets is likely to strengthen its cash reserves in the coming years. L&T's strong execution capabilities enable the engineering conglomerate to command a premium over its peers. Thus, L&T by virtue of its market leadership is likely to be the key beneficiaries of the infrastructure spend by the government. We believe L&T's diversified business portfolio and sound balance sheet make it one of the best long-term bets in the infrastructure space. We recommend a Buy on L&T valuing it on SOTP basis (standalone business and subsidiaries) with a target price of Rs 1,181 per share.

Financial Summary - standalone

Particulars, Rs cr	FY19	FY20	FY21E	FY22E
Revenue	86,988	82,384	74,145	85,267
EBITDA	8,682	6,838	6,006	7,546
EBITDAM (%)	10.0	8.3	8.1	8.9
APAT	6,203	5,398	4,361	5,501
APATM (%)	7.1	6.6	5.9	6.5
*EPS (Rs)	44.2	38.5	31.1	39.2
P/E (x)	23.5	25.0	30.9	24.5
RoE (%)	12.4	10.3	7.7	9.5

*Adjusted for non-recurring items

Source : Company; RBL Research

BUY

CMP (Rs)	285
Target Price (Rs)	348
Potential Upside	22%
Sensex	41,893
Nifty	12,264

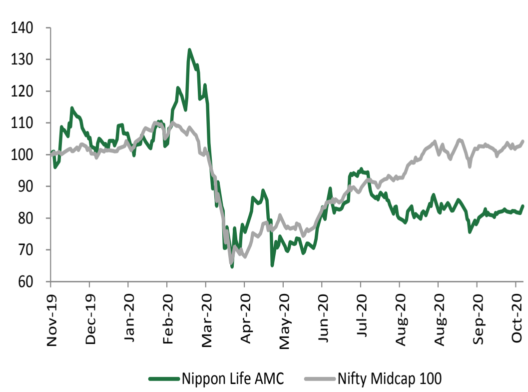
Key Stock data

BSE Code	540767
NSE Code	RNAM
Bloomberg	RNAM:IN
Shares o/s, Cr (FV 10)	61.2
Market Cap (Rs Cr)	17,443
3M Avg Volume	492,037
52 week H/L	453/208

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	75.9	75.9	75.0
FII	5.3	5.8	5.1
DII	6.7	6.3	6.3
Others	12.1	12.1	13.6

1 Year relative price performance



Research Analyst

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Re-gaining momentum

Incorporated in 1995, Nippon Life Asset Management Company (NAM) is one of the leading AMCs in India with a total AUM of ~Rs. 2.77 tn. It is involved in managing the mutual fund (AUM of Rs. 1,929 bn) and managed accounts including Portfolio Management Services (PMS), Alternate Investment Funds (AIF), Pension Funds and Offshore Funds. Nippon Life Insurance (promoter of NAM) is amongst the fortune 500 companies and is Japan's largest private life insurer. It has 57 Asset Management related operations & 22 Insurance related operations globally.

Investment Rationale:

- **Long term growth story remains intact for the MF industry:** The mutual fund industry has witnessed robust growth of 18% CAGR over FY14-20 mainly on account of increased government focus on financial inclusion, increase in the financialization of savings and greater awareness of mutual funds amongst individual investors. After a strong run, the COVID-19 pandemic has impacted the industry's growth momentum due to heightened volatility in equity indices and moderation of inflows in equity-oriented schemes which had led the growth for the MF industry. Nonetheless, the long-term growth story remains intact for the industry with increased thrust on the financialization of savings, higher Penetration of mutual funds (especially in B-30 locations), and increased preference of mutual funds over traditional saving avenues. Further, even though the monthly SIP book has seen some moderation recently, it remains healthy at Rs. 78bn in Sept -20. (From Rs. 31 bn in Apr-16 to Rs. 86 bn in Mar-20). We believe this would continue to grow at a healthy rate led by increase in retail investor participation and increased preference towards the SIP route. The growing SIP book is good for the industry as it would provide regularity and longevity in inflows.
- **NAM to capitalize on this opportunity:** NAM had lost some of its market share in the debt and equity assets however, the ownership change has brought in some stability and we expect the company to recoup some of its lost market share. Further, its strong presence in the retail (26% of total AAUM v/s industry 20%) as well as in smaller cities (18.2% of total AAUM v/s industry 16.1%) augurs well for NAM.

Outlook & Valuation:

We continue to remain constructive on the Indian mutual fund industry given its low penetration level as compared to major economies (11% AUM to GDP ratio v/s world average of 62%), increase in the financialization of savings and continuous strengthening of SIP flows. Further, NAM's consistent increase in equity assets, industry-leading retail assets and strong presence in B-30 cities augur well for the growth prospects of the company. The consistent increase in monthly SIP book (Rs. 6.2 bn) would ensure longevity and regular inflows providing stable growth. We recommend a Buy on the stock with a target price of Rs. 348.

Financial Summary - standalone

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
AUM (Rs. bn)	1,635	2,027	2,311	2,635
Revenue from operations	1,132	1,030	1,231	1,403
APAT	412.3	562.8	665.7	760.0
EPS (Rs)	6.7	9.2	10.9	12.4
PE (x)	42.3	31.0	26.2	23.0
RoE (%)	15.9	20.6	22.5	23.6
DPS	5.0	6.0	7.0	7.5
Dividend Payout ratio (%)	74.2	65.2	64.4	60.4

Source : Company; RBL Research

BUY

CMP (Rs)	442
Target Price (Rs)	583
Potential Upside	32%
Sensex	41,893
Nifty	12,264

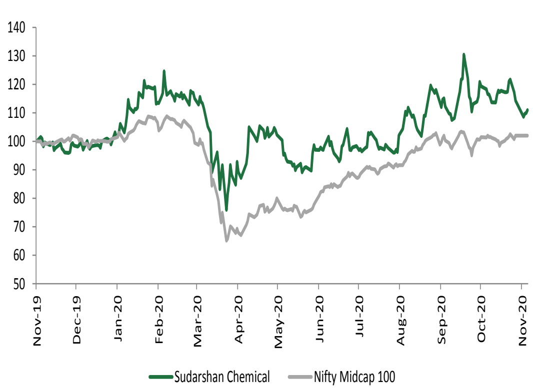
Key Stock data

BSE Code	506655
NSE Code	SUDARSCHEM
Bloomberg	SCHI:IN
Shares o/s, Cr (FV 2)	6.9
Market Cap (Rs Cr)	3,059
3M Avg Volume	380,253
52 week H/L	538/290

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	42.7	42.7	42.7
FII	8.2	8.3	8.1
DII	2.7	2.5	3.7
Others	46.4	46.5	45.5

1 Year relative price performance



Research Analyst

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Consistent performer; robust opportunity ahead

Incorporated in 1951, Sudarshan Chemical Industries (SCI) has specialized in colour and chemicals for over 60 years and has acquired a strong position in pigments and agrochemicals in India and worldwide. It caters to organic, inorganic and effect pigment segments for different applications. It has two manufacturing facilities located at Roha and Mahad in Maharashtra, India. Besides, it exports to 85+countries globally and has offices in North America, Europe, China, Mexico, and Japan.

Investment Rationale:

- **Huge opportunity in the global pigment market:** Global pigment market is estimated to be ~USD10bn, out of which ~USD 8.6bn market is accessible for the company to grow with opportunity in all the three segments organic (USD 5bn), inorganic (worth USD 3bn) and effect pigment (USD 0.6bn) as these segments are expected grow at ~3-5% CAGR over the next 5 years. SCI's main focus is growing in the organic segment as well as gain market share which would be driven by a strong product portfolio, capacity expansion and focusing on improved application in the coating, plastics, etc. Besides, major players (BASF and Clariant) are exiting the pigments market due to stiff competition and pricing pressure which would benefit SCI as it has cost competitive advantage due to manufacturing plant set up in India. Thus margins are expected to be better and also would help it to expand its footprints in US, EU and China.
- **Vision to become 3rd largest players with strong product portfolio and core focus on pigments:** SCI is one of the leading players in the Indian pigment segment with a market share of nearly 35%. With a vision of becoming the 3rd largest player globally (from 4th at present) as well as gaining market share in India its strategy is to focus on 1) Core pigment market, 2) explore opportunities in organic pigments such as Azo and High-performance pigments (HPP), etc, 3) launch 15-20 new products and continue to invest in R&D and Capex 4) expand its geographical reach. 5) Cost optimization to help margins improvement. Besides players like SCI, would benefit from a shift in preference from China to India due to environmental concerns, and US-China trade tension.
- **Short term Challenges, however long term growth intact:** Out of the entire chemical market in India (worth ~ USD 180bn in 2019), specialty chemical is ~18% (~USD32 bn) as of FY19 which is further expected to grow at 12% CAGR from FY19-22. Due to the Covid-19 pandemic, the players have faced significant challenges that have impacted overall performance. However, with gradual re-opening of the economy, there is improvement in demand and capacity utilization levels getting back on track suggest that recovery is quite possible from H2FY21 onwards. Further, SCI management too expects the situation to improve led by improving macro condition, Capex addition and innovating new products. We thus remain optimistic about SCI's long-term growth.

Outlook & Valuation:

SCI is well place to capitalize on opportunities in the global as well as Indian pigment sector driven by positive industry growth trend, a wide range of products, cost competitiveness and strong technical capabilities. In H1FY21 the growth was impacted due to the Covid-19 pandemic, however the demand has started picking up but the pace is gradual and would normalize by FY21. Further from a long-term perspective, we remain positive on the company's growth given its strong products, focus on pigments segment, expansion opportunity and strong financial track record. Besides, it would see improvement in margins driven by a change in product mix (focus towards high margin products) and stable raw material prices. We have initiated a Buy on the stock with a target price of Rs 583.

Financial Summary - consolidated

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	1,708.2	1,793.6	2,008.8	2,249.9
EBITDA	246.3	241.8	285.3	324.0
EBITDAM (%)	14.4	13.5	14.2	14.4
APAT	145.1	118.1	146.1	168.2
APATM (%)	8.5	6.6	7.3	7.5
EPS (Rs)	21.0	17.1	21.1	24.3
PE (x)	21.1	25.9	20.9	18.2
RoE (%)	21.3	16.4	16.9	16.3

Source : Company; RBL Research

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Statements on ownership and material conflicts of interest , compensation– Research Analyst (RA)

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below , are given separately]

S. No.	Statement	Answer	
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? **[If answer is yes, nature of Interest is given below this table]**		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

...

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS..No.	Name(s) of RA.	Signtures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.