ICICI direct Research

Muhurat Picks 2020-21

Muhurat Pick – 2020

November 4, 2020

Dear Customers,

Wishing you all a Happy and Prosperous Diwali!

The year 2020 witnessed unparalleled disruptions led by the outbreak of Covid-19, which was followed by locking down of economies, thus bringing the entire value chain and economy to a grinding halt. An average of two months was lost due lockdown, impacting the overall performance of companies in Q1FY21. However, beginning Q2FY21, gradual recovery was seen across sectors led by lockdown lifting, pent-up demand and resumption of industrial activities. The first leg of Q2 earnings, especially on sectors like IT, cement, etc, has shown a resilient performance and better-than-expected earnings. Even consumer centric segments such as FMCG, paints, building material reflected a sharper recovery back/closer to pre-Covid levels. Further, the pharma sector continued to reflect a significant sequential improvement on the back of 1) continued traction in exports markets (formulations, APIs, CRAMs) and 2) substantial improvement in the domestic branded formulations driven by near-normal level of MR activity (75-80% of pre-Covid levels) and growing patients footfall in clinics.

Post unlock macro indicators: Daily vehicle registration was up ~ 16% week-on-week i.e. 80% of pre-Covid levels in October. E-way bill generation also surpassed pre-Covid levels. Further, average daily peak power demand witnessed growth for the first time in September post Covid. This corroborates our view that the economy is gradually heading towards pre-Covid levels.

Given the scenario, we see value emerging across the market cap spectrum with the key filter being quality. We continue to advise investors to utilise equities as a key asset class for long term wealth generation by investing into quality companies with strong earnings growth and visibility, stable cash flows, RoE and RoCE.

Company	Stock Code	Buying Range	CMP	Target Price	Potential Upside	Market Cap	P/E (x)		P/BV (x)		ROE (%)	
		₹	₹	₹	%	₹crore	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Cipla Ltd	CIPLA	760-785	775	900	16%	61284	25.0	21.1	3.4	3.0	13.7	14.2
The Ramco Cements	RAMCEM	790-840	828	1,000	21%	19560	22.6	21.9	3.4	2.9	15.0	13.4
SBI Life Insurance	SBILIF	780-810	788	1,000	27%	78760	49.4	40.0	7.0	6.1	15.2	14.6
Mahindra Logistics	MAHLO	355-375	365	430	18%	2612	80.0	30.0	4.6	4.1	5.7	13.6
KPR Mill	KPRMIL	690-745	732	850	16%	5040	13.0	12.7	2.3	2.0	17.5	15.7
Zydus Wellness	ZYDWEL	1740-1790	1,765	2,300	30%	11233	41.1	26.9	2.5	2.3	5.9	8.6
Syngene International	SYNINT	520-560	546	635	16%	21850	56.8	41.1	8.5	7.0	14.9	17.2

Muhurat Pick

The Ramco Cements (RAMCEM) — Buying Range (₹ 790-840)

- The Ramco Cements is one of the most efficient player in South India with total capacity of 18.5 MT (including 2 MT in east). With a strong business profile and healthy market share, the company's volumes have grown faster than the respective regional growth in the past three years
- The company has been expanding its presence in the eastern region through setting up of grinding units to tap the opportunity in a high growing market
- Ramco has capex commitment of ₹ 3,730 crore for FY2020–22E, predominantly for its proposed capacity expansion projects to meet the increasing demand. These include a 4 MT grinding unit along with 39 MW WHRS. TRCL is also expanding its clinker capacities in Jayanthipuram and Kurnool in AP (total 3.75 MT capacity) to support additional clinker requirements, given its high capacity utilisation
- Factoring in these expansions, we model 12.1% revenue CAGR during FY20-23E. While newly commissioned grinding units in Vizag, West Bengal and in Odisha would lead to a reduction in transit distance for the target markets in eastern India, the commissioning of 39 MW WHRS in a phased manner would bring efficiencies further, going forward
- Though debt levels would rise, debt/EBITDA would improve from 2.8x in FY20 to 1.2x by FY23E. Average cost of interest on debt is 7.3%, much lower than RoCE. Hence, once capex is complete, it would help improve RoE in double digits. Post expansion, the company is expected to generate an EBITDA of ₹ 2141 crore in FY23E, implying an inexpensive EV/EBITDA multiple of 9.9x on FY23E earnings

(₹crore)	FY20	FY21E	FY22E	FY23E	CAGR
Net Sales (₹crore)	5389.3	5306.3	6262.2	7590.7	12.1%
Growth (%)	4.7	-1.5	18.0	21.2	
EBITDA margin (%)	21.3	31.6	28.4	28.2	
PAT (₹crore)	604.4	856.5	881.3	1145.5	23.8%
PAT growth (%)	15.6	41.7	2.9	30.0	
P/E (x)	32.0	22.6	21.9	16.9	
EV/EBITDA (x)	19.7	13.6	12.5	9.9	
RoNW (%)	12.3	15.0	13.4	14.8	
RoCE (%)	7.5	9.9	10.1	11.5	

SBI Life (SBILIF) — Buying Range (₹ 780-810)

- SBI Life Insurance is one of the largest private life insurance players with ~20% market share. Continued focus on business growth and improvement in product mix has remained the core strength. In terms of business growth, SBI Life has reported highest NBP growth among top private insurers at ~27% CAGR in the last four years, thereby increasing its market share
- Proportion of high margin protection business has been on the rise from 5% in FY18 to ~10% in Q2FY21, leading to growth in VNB margin at 18.8% in Q2FY21. Increase in awareness and customer appetite towards protection products amid Covid provides a growth opportunity on both business as well as VNB margin ahead
- Strong distribution network (including branch network of parent SBI and other tie up banks), diversified product profile and improving digital footprint are seen propelling business growth. Therefore, we expect premium accretion at ~15% CAGR in FY20-22E to ₹ 53028 crore. Steady persistency, excellent operating efficiency and focus on protection business is seen keeping VNB margin ahead of 18%, going forward
- Competitive product pricing and push from VNB margin is seen leading to growth in embedded value at 14% CAGR in FY21-22E to ₹ 34106 crore. We remain structurally positive on the stock given long term growth potential and lower balance sheet risk. Therefore, we remain positive on SBI Life, being a play on growth of life insurance industry led by strong distribution, brand, product mix and operational efficiency

(₹Crore)	FY20	FY21E	FY22E	CAGR (FY20-22E)
New business premium	18071.4	18937.6	20166.5	6%
Growth (%)	21.6	4.8	6.5	9%
Total premium	40334.4	47029.6	53028.5	15%
Growth (%)	23.2	16.6	12.8	9%
PAT	1423.0	1575.4	1949.7	17%
EV	26290.0	30039.2	34106.0	14%
P/E (x)	54.7	49.4	40.0	
P/BV (x)	7.9	7.0	6.1	
P/IEV (x)	3.0	2.6	2.3	
RoEV (%)	17.5	15.2	14.6	

Muhurat Pick

Mahindra Logistics (MAHLO) — Buying Range (₹355 - 375)

- Mahindra Logistics is among the largest 3PL players in the country. The company operates an asset light business with investment in assets being done by ~ 1500 business partners. The 3PL industry is expected to grow higher than logistics industry amid a change in perspective of manufacturers whereby higher proportion of logistics operation is being outsourced to specialised 3PL players like MLL
- Mahindra Logistics has seen a sharp recovery in Q2FY21 that has enabled it to reach pre-Covid levels before peers. For its non-Mahindra SCM business (50% of SCM business), the management is witnessing positive traction in e-commerce, FMCG, pharma verticals. The company has also come out with innovative solutions such as Flexi-warehouse (warehouses for short-term contracts). For its Mahindra SCM business, the management expects strong momentum in the farm sector in the near to medium term
- MLL has strengthened its already strong liquidity position on balance sheet and further improved its cash conversion cycle in H1FY21. With its asset light structure, MLL is well placed to face the volatile situation. Also, its recent performance in e-com, pharma, consumer segments, steadily has lowered its dependence on the auto sector (from ~70% in FY17 to 60% in H1FY21). Also, with a changing client profile, it has been able to leverage the situation by enhancing high margin warehousing, value-added services (up 16%) in its revenue mix. We remain positive on MLL due to a quicker-than-expected recovery in core segments. We expect EBITDA margin expansion of 80 bps over FY20-22E and an earnings CAGR of 24% over the same period

(₹crore)	FY20	FY21E	FY22E	CAGR
Net sales (₹crore)	3471.1	3041.5	3645.8	2.5%
Growth (%)	-9.9	-12.4	19.9	
EBITDA Margins (%)	4.6	3.9	5.4	
PAT (₹crore)	55.1	31.7	84.6	23.9%
PAT growth (%)	-35.6	-42.6	167.1	
P/E (x)	46.0	80.0	30.0	
M.Cap/Sales	0.7	0.8	0.7	
RoCE (%)	24.6	17.0	25.9	
RoE (%)	10.1	5.7	13.6	

KPR Mill (KPRMIL) — Buying Range (₹690 -745)

- KPR Mill is among select vertically integrated textile players in India (from fibre to fashion) that has displayed consistent revenue growth and positive operating margin trajectory with strong return ratios. The strength of its integrated model is visible in its FY12-20 financial performance with revenue, PAT CAGR of 13%, 35%, respectively, average EBITDA margin of ~18%, average RoCE of 15%+. KPR has transformed itself from a commoditised yarn player to value-added garment manufacturer and is currently among the largest knitted garment manufacturers in India. It has a healthy balance sheet with D/E ratio comfortably placed at 0.4x
- To cater to growing market demand and tapping new potential markets such as US (KPR currently has strong presence in EU), the company has embarked on a greenfield expansion of its garmenting facility with annual capacity of 42 million pieces. With the capacity addition, KPR will be India's largest knitted garment manufacturer in India with total capacity of 157 million pieces. KPR, with a vertically integrated model from yarn to garmenting seems well set to benefit from the shift in demand from China to other low cost Asian countries
- We expect garmenting division to be the next growth engine and register revenue CAGR of 15%, with share of garments in overall revenues inching up from 42% in FY20 to 51% in FY23E. Higher proportion of garmenting enhances the overall margin profile as the segment yields margins in the range of 22-23% while high asset turnover would translate into RoCE improvement by 370 bps to 23% in FY20-23E. We like KPR as a structural long term story to play the apparel export space

(₹crore)	FY20	FY21E	FY22E	FY23E	CAGR
Net Sales (₹crore)	3352.6	3423.4	3793.3	4286.7	8.5%
Growth (%)	10.9	2.1	10.8	13.0	
EBITDA margin (%)	18.6	19.7	18.4	21.3	
PAT (₹crore)	376.7	388.6	398.5	573.2	15.0%
PAT growth (%)	12.5	3.2	2.5	43.8	
P/E (x)	13.4	13.0	12.7	8.8	
EV/EBITDA (x)	9.1	8.4	7.9	5.7	
RoNW (%)	20.2	17.5	15.7	20.3	
RoCE (%)	19.6	19.4	18.3	23.4	

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Zydus Wellness (ZYDWEL) Buying Range (₹1740 -1790)

- Zydus Wellness (ZWL) operates in the niche wellness & health product segments with brands like Sugar Free (sugar substitute) and Nutralite (health foods). Its third brand, Everyuth, is focused towards skin care products. The company acquired Heinz India's consumer business, subsidiary of Kraft Heinz, in January 2019. With this, Zydus' product portfolio widened to Glucon-D, Complan, Nycil and Sampriti
- The company raised ₹ 1000 crore with ₹ 350 crore infusion by the promoter and ₹ 650 crore by QIB placement of equity. ZWL has utilised these proceeds to repay high cost debt of ₹ 1500 crore, which was raised at the time of acquisition of the Heinz business. With equity infusion of ₹ 1000, existing cash of ₹ 200 crore and FY21, FY22 earnings, ZWL would be able to repay its entire debt in the next one year
- Considering the strong acquired product portfolio, ZWL would be able to leverage its parent strong footing on doctor's advisory and its stronghold of chemist distribution network. Further, high gross margins to the tune of ~55% give it more power to spend aggressively on A&P and brand building, which would drive growth, going forward
- Post consolidation of the Heinz business, the company would be able to cut cost by reducing redundancies at various stages. This would result in faster decision making and give scale benefits to the company. It would be increasing its direct distribution network to reduce the dependency on wholesales network. Further, the company would reduce distributors from 1500 to 800 and implement warehouse optimisation, which would reduce the overall cost of logistics. We expect revenue & earning CAGR of 9.1% & 35.4%, respectively, during FY20-23E

₹crore	FY20	FY21E	FY22E	FY23E	CAGR
Net Sales	1,766.8	1,855.1	2,093.0	2,294.2	9%
EBITDA	321.1	363.9	442.2	482.5	15%
EBITDA Margin %	18.2	19.6	21.1	21.0	
Adjusted Net Profit	185.9	276.7	423.0	461.2	35%
Adjusted EPS (₹	32.2	43.0	65.7	71.7	
Adjusted P/E (x)	54.7	41.1	26.9	24.6	
RoCE (%)	5.9	6.9	8.3	8.9	
RoE (%)	5.4	5.9	8.6	9.2	

Syngene International (SYNINT) Buying Range (₹520 - 560)

- Syngene (SIL) is a leading contract research organisation (CRO), which supports R&D programmes of global innovative companies. SIL offers outsourced services to support discovery and development for organisations across industrial sectors like pharmaceuticals, biopharmaceuticals, neutraceuticals, animal health, agro-chemicals, etc
- Revenues grew at ~16% CAGR in FY16-20 to ₹ 2012 crore due to new client addition on a regular basis and scaled up revenues from existing clients led by integrated service offerings, high data integrity ethos and continuous endeavour to move up the value chain. Eight of the top 10 global pharma companies have been availing services for the last five years
- Global pharma players are facing structural issues from the impending patent cliff, a shrinking product pipeline, rising R&D costs and growing competition. To maintain the structural balance and improve profitability, they are inclined to outsource a substantial part of the R&D work. Similarly, the innovative/virtual companies that are extensively working on new products may not have the required capital/manpower. Thus, they also tend to outsource a substantial part of their R&D
- The management has maintained its guidance for double-digit revenue growth on the back of continuous client additions, an extension of existing contracts, increasing manufacturing and biological contributions besides currency tailwinds. With elite client additions like Amgen, Zoetis, Herbalife, GSK, etc, and multiple year extension of BMS, Baxter contracts, the company remains well poised to capture opportunities in the global CRO space

₹crore	FY20	FY21E	FY22E	CAGR
Net sales	2011.8	2243.7	2677.7	15%
Growth(%)	10.2	11.5	19.3	
EBITDA margins (%)	30.7	30.3	32.1	
PAT	340.7	381.0	527.1	24%
PAT Growth(%)	3.0	11.8	38.3	
P/E (x)	52.6	56.8	41.1	
P/BV (x)	10.0	8.5	7.0	
ROE (%)	15.7	14.9	17.2	
ROCE (%)	14.5	12.4	15.8	

Cipla Ltd (CIPLA) **Buying Range (₹ 760-785)**

- Cipla is a prominent Indian pharma company catering to 80+ markets with a global portfolio of 1500+ products. With 46 manufacturing facilities spread globally, Cipla has a gamut of therapeutic offerings ranging from simple anti-infectives to complex oncology products
- Formulation exports comprise ~54% of FY20 revenues. Cipla is focusing on front-end model, especially for the US, along with a gradual shift from loss making HIV and other tenders to more lucrative respiratory and other opportunities in the US and EU. Key drivers will be a launch of inhalers (drug-device) and other products in developed markets
- With ~5% market share, Cipla is the third largest player in domestic formulations market. Domestic formulations comprise ~39% of FY20 revenues. It commands ~21% market share by value in respiratory segment. We expect domestic formulations to be driven by improved productivity of newly inducted field force and product launches besides portfolio realignment for its 'One-India' portfolio rationalisation exercise
- We continue to focus on the management's long-drawn strategy of targeting four verticals viz. One-India, South Africa & EMs, US generics & specialty and lung leadership. The recent first generic USFDA approval for Albuterol sulphate (Proventil HFA) amid rise in demand for Albuterol products in the ongoing Covid-19 pandemic are a vindication for its lung leadership quest. Another key aspect to watch would be R&D recalibration. Across the board transformation from tenderised model to private model in exports market and towards rapid consumerisation of important Tx, Bx in India bode well to change the investors' perspective

(₹crore)	FY20	FY21E	FY22E	CAGR
Net sales	17132.0	19235.9	21205.8	11%
Growth(%)	4.7	12.3	10.2	
EBITDA margins (%)	18.7	22.5	22.8	
PAT	1546.5	2443.4	2898.3	37%
PAT Growth(%)	3.4	58.0	18.6	
P/E (x)	39.6	25.0	21.1	
P/BV (x)	3.9	3.4	3.0	
ROE (%)	9.8	13.7	14.2	
ROCE (%)	12.0	16.4	17.3	

Muhurat Pick 2019

Performance of 2019 Muhurat Picks

Company	Reco Price (₹	Target Price (₹	CMP (₹	Status	Date of Closing/Profit Booking
Supreme Industries	1216	1420	1454	Target Achieved	4th Nov, 2020
Kansai Nerolac	526	620	504	-4%	4th Nov, 2020
JK Cement	1065	1260	1809	Target Achieved	6th Jan, 2020
United Breweries	1326	1620	927	-30%	4th Nov, 2020
Dabur India	463	550	526	14%	4th Nov, 2020
Axis Bank	710	865	520	-27%	4th Nov, 2020
Tech Mahindra	725	850	820	13%	4th Nov, 2020

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