New Year Picks 2021

December 24, 2020

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Company Name	Sector	*Reco Price (₹)	Target Price (₹)	Upside
Axis Bank	Banks	610	721	18.2%
Coromandel International	Fertilizers	802	978	21.9%
IRCTC	Travel & Tourism	1,409	1,755	24.6%
JK Lakshmi Cement	Cement	337	428	27.0%
Mahindra & Mahindra	Auto	711	889	25.0%
Manappuram Finance	NBFC	164	205	25.0%
Natco Pharma	Pharma	932	1135	21.8%
SBI life Insurance	Insurance	874	1069	22.3%

*Recommended Price as on 24th December, 2020

Banks | **Axis Bank Ltd.**

BUY

CMP (Rs)	610
Target Price (Rs)	721
Potential Upside	18.2%
Sensex	46,974
Nifty	13,749

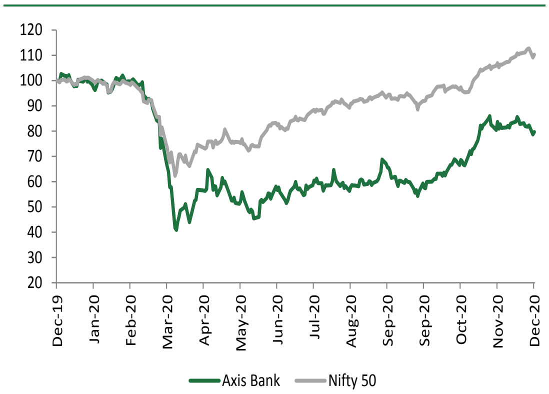
Key Stock data

BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB:IN
Shares o/s, Cr (FV 2)	306.0
Market Cap (Rs Cr)	186,805
3M Avg Volume	23,899,360
52 week H/L	765/286

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	16.0	16.0	14.8
FII	45.5	46.0	49.2
DII	24.9	24.4	23.9
Others	13.6	13.6	12.1

1 Year relative price performance



Well placed in banking

Axis Bank is the third-largest private sector bank in India. The bank offers the entire spectrum of financial services to customer segments covering large and mid-corporates, MSME, agriculture and retail businesses. It has a large footprint of 4,528 domestic branches (including extension counters) with 12,044 ATMs & 5,433 cash recyclers spread across the country as of 31st March 2020. The overseas operations of the Bank have spread over 11 international offices with branches in Singapore, Hong Kong, Dubai, Colombo and Shanghai. It has representative offices in Dhaka, Dubai, Abu Dhabi, Sharjah and an overseas subsidiary in London, UK. The international offices focus on corporate lending, trade finance, syndication, investment banking and liability businesses.

Investment rationale

- **Improving financial position:** Axis bank is improving on its financial parameters after the Covid crisis, wherein its NII witnesses strong growth along with fee income which was driven by both retail and corporate portfolio. Also, its loan growth has improved with steady deposit growth across the portfolio. Additionally, improving assets quality would further strengthen its balance sheet. Axis has a strong digital presence and is most preferred amongst the customers, this helps in increasing market share. Besides, Axis subsidiaries such as AMC, Securities, Finance and Capital have been growing at a steady pace which augurs well with the bank's growth.

- **Raising stake in Max financial services (MFSL) would be lucrative:** Axis bank is the biggest banking channel partner for the distribution of the insurer's products. Currently, it holds 1% stake and products sold accounts for ~50%+ revenue of MFSL. Going forward, the bank has a plan to increase stake up-to 19% of the equity share of MFSL, wherein Axis bank would acquire 9%, a further 3% via subsidiaries and an additional 7% in one or more tranches. The final approval from IRDAI is awaited and is expected by FY21. The deal would be lucrative as they would benefit from product development, IT integration, strong corporate governance and a large distribution network.

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. 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 believe Axis bank is well placed across its portfolio with a strong presence in retail as well as corporate segment, strong distribution branch network, also a prominent player in wealth management (operates under "Burgundy") and a strong focus on digital platform augurs well for the growth of the bank. Improving assets quality and CASA ratio would benefit the bank going forward. On the valuation front, it trades at 1.6x P/BV FY23e which is at a discount to its peer group. We remain positive for the long term and have initiated a buy on the stock with a target price of Rs 721.

Financial Summary - standalone

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
NII	25,206	27,727	31,054	35,712
Operating Profit	23,438	24,051	25,670	28,452
PAT	1,627	8,527	10,753	11,918
NIM %	3.5	3.5	3.5	3.6
GNPA %	7.2	6.3	6.1	5.5
NNPA %	1.8	1.7	1.6	1.5
EPS	5.8	27.9	35.1	38.9
P/BV	2.0	1.9	1.7	1.6
P/E	102.8	21.3	16.9	15.2

Source : Company; RBL Research

Fertilizers | Coromandel International Ltd.

BUY

CMP (Rs)	802
Target Price (Rs)	978
Potential Upside	21.9%
Sensex	46,974
Nifty	13,749

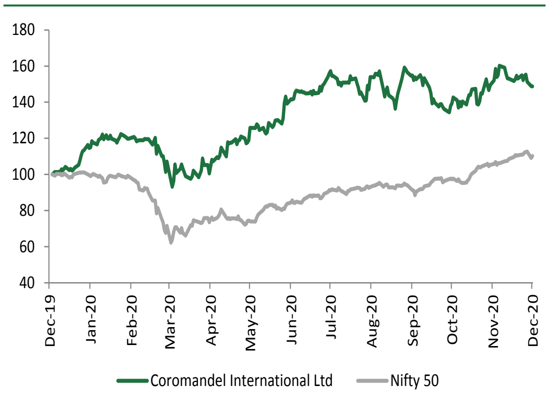
Key Stock data

BSE Code	506395
NSE Code	COROMANDEL
Bloomberg	CRIN :IN
Shares o/s, Cr (FV 1)	29.2
Market Cap (Rs Cr)	23,521
3M Avg Volume	426,422
52 week H/L	838/443

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	61.6	59.6	59.8
FII	3.5	4.3	5.9
DII	19.7	21.3	19.7
Others	15.2	14.9	14.9

1 Year relative price performance



Strong player with steady financials

Coromandel International Ltd (CIL) is a flagship company of the Murugappa Group and is a subsidiary of E.I.D Parry (India) Ltd, which holds 60.56% of the equity share capital in the company. CIL is amongst India's leading agriculture solutions provider, which operates in segments such as fertilizers, speciality nutrients, crop protection and retail. Besides, the company has a strong presence in South, East and West India.

Investment rationale

- **Agriculture sector to drive growth:** The Indian agriculture sector is expected to grow at ~3% in FY2020-21 led by government support, better input products such as high-quality fertilizers and seeds, decent monsoon and good sowing in Rabi and Kharif season. Since the Covid-19, the government has announced various measures and stimulus package for the farmer's community to ease liquidity crunch, boost agri output as well as help them to get a suitable price for their crops. Further, India is the second-largest consumer and third largest producer of fertilizers globally however it remains highly regulated and subsidy dependent. In H1FY21, fertilizer as well as crop protection segment witnessed decent volume growth on the back of better monsoon and good sowing season. Going forward, along with government support, if these factors play out well then the industry will continue to see decent growth.
- **Leading agriculture input solution provider:** Coromandel has a strong presence in both domestic and international markets with a diversified product portfolio, healthy distribution network, direct reach with farmers and strong presence in B2B and B2C segment. It is a leading solution provider with a presence across fertilizers, crop protection, bio and retail segment. Moreover, it is the second-largest phosphatic fertilizer player with ~3.5 mn tons capacity, which is ~22% share of production capacity in India. In H1FY21, these businesses have picked up well on the back of higher demand from farmers, good sowing in Kharif and better monsoon season. Going forward, along with growing its specialty nutrients business in fertilizers, the company plans to expand its crop protection business driven by new product launches, expanding manufacturing capacity and partnering with global players for innovating new molecules.
- **Subsidy to non-subsidy income:** The fertilizer sector is highly regulated and recently the subsidy for companies producing phosphate has reduced as the government prioritises urea companies over them due to a huge backlog. Coromandel thus plans to increase revenue from its non-subsidy segment and reduce dependency from the subsidy, which would be driven by adding capacity, changing product mix, innovating new products and growing distribution reach.

Outlook & Valuation

The Indian fertilizer sector is expected to grow at a CAGR of 10-12% by 2024, driven by government reforms for agri & fertilizer segment, healthy demand conditions, the introduction of new products and stable raw material prices. We believe Coromandel is well placed in the sector to capitalize on the opportunity driven by positive sector outlook, diversified product portfolio, good monsoon and favourable Kharif season. In terms of financials, it has shown consistent growth except during Q1FY21 due to Covid-19. Further, the company has a strong balance sheet and decent cash flow which will help in expanding capacity going ahead. We have initiated a Buy with a target price of Rs 978.

Financial Summary - consolidated

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Depreciation	158.0	165.5	177.1	189.5
PBIT	1,573.0	1,699.5	1,933.4	2,147.7
Other income	40.0	42.0	45.0	48.1
Interest expenses	235.3	99.3	66.4	71.1
PBT	1,377.7	1,642.2	1,912.0	2,124.8
Tax	313.5	413.8	481.8	535.5
PAT (after Exceptional)	1,064.3	1,228.4	1,430.2	1,589.4
PAT Margin %	8.1	8.9	9.7	10.1
EPS	36.4	42.0	48.9	54.4

Source : Company; RBL Research

RELIGARE | BROKING
Values that bind

Travel & Tourism | **IRCTC**

BUY

CMP (Rs)	1,409
Target Price (Rs)	1,755
Potential Upside	24.6%
Sensex	46,974
Nifty	13,749

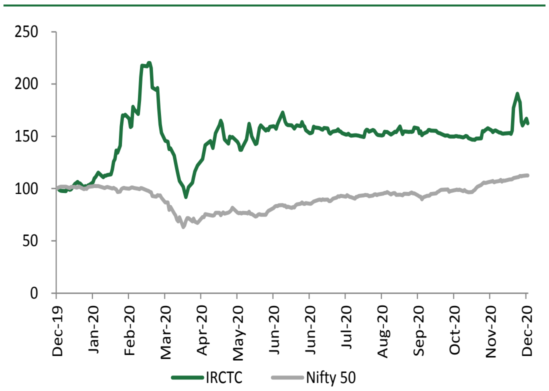
Key Stock data

BSE Code	542830
NSE Code	IRCTC
Bloomberg	IRCTC:IN
Shares o/s, Cr (FV 10)	16.00
Market Cap (Rs Cr)	22,543
3M Avg Volume	1,307,784
52 week H/L	1,994/775

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	87.4	87.4	87.4
FII	1.7	0.8	0.9
DII	2.3	1.3	1.6
Others	8.6	10.5	10.1

1 Year relative price performance



Look beyond FY21

Incorporated in 1999, Indian Railway Catering and Tourism Corporation Ltd. (IRCTC) is a Central Public Sector Enterprise (CPSE) wholly owned by the Government of India and under the administrative control of the Ministry of Railways. IRCTC is the only entity authorized by Indian Railways to sell railway tickets online, provide catering services on trains, and deliver packaged drinking water at railway stations and trains in India. The company operates through four major divisions - Catering & Hospitality, Internet Ticketing, Travel & Tourism, and Packaged Drinking Water (Rail Neer) offering a comprehensive range of products and services.

Investment rationale

- **Monopoly in its key businesses:** IRCTC enjoys a monopoly in two of its key business – internet ticketing, which contributes 27% of revenue and 72% of its operating profits and the catering business which constitutes 46% of its revenue and 17% of its operating profits. Both these businesses have been severely impacted due to COVID-19 related travel restrictions. However, the company has managed to regain some of its volumes due to easing travel restrictions but we expect IRCTC operations to return to normalcy only in FY22 as more trains resume operations. The revival in the catering business would also be gradual. From a long-term perspective, both businesses are likely to propel growth for IRCTC given its monopolistic nature and consistent increase in online penetration of railway ticketing (currently at 73% v/s 51% in FY14).
- **Expect gradual recovery in travel & tourism:** IRCTC also has a monopoly to manufacture and distribute packaged drinking water at all railway stations and in trains across India under its brand 'Rail Neer'. The company caters to 45% of the current demand however it has plans to increase its market share in this segment through capacity expansion. It has planned to commission 4 new Rail Neer plants by FY22. Moreover, the company has a strong and diversified presence in the travel & tourism industry. This segment is also likely to be severely impacted in FY21E and we expect gradual recovery from FY22 onwards.

Outlook & Valuation

IRCTC has a unique business model with a presence across various businesses. Their monopoly in online ticket booking and catering services are strong moats of the company. Despite being one of the most heavily impacted companies due to COVID-19, we believe the long-term growth story remains intact. Moreover, its low fixed cost model, excellent free cash flow generation, strong return ratios and promising long-term growth prospects makes it one of our preferred investment pick. We initiate with a Buy rating on the stock with a target price of Rs. 1,755.

Financial Summary - consolidated

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	2,275	910	2,294	2,856
EBITDA	713	243	837	1,059
EBITDAM (%)	31.4	26.6	36.5	37.1
APAT	527	211	633	802
APATM (%)	23.2	23.2	27.6	28.1
EPS (Rs)	33.0	13.2	39.6	50.2
PE (x)	42.8	107.1	35.7	28.2
RoE (%)	44.1	15.0	42.0	43.0

Source : Company; RBL Research

BUY

CMP (Rs)	337
Target Price (Rs)	428
Potential Upside	27.0%
Sensex	46,974
Nifty	13,749

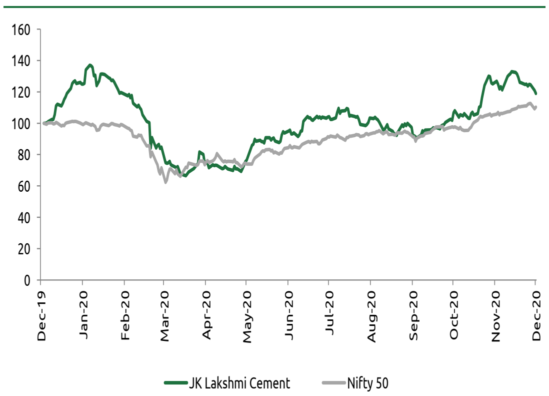
Key Stock data

BSE Code	500380
NSE Code	JKLAKSHMI
Bloomberg	JKLC:IN
Shares o/s, Cr (FV 5)	11.8
Market Cap (Rs Cr)	3,966
3M Avg Volume	389,163
52 week H/L	388/179

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	46.2	46.2	46.2
FII	10.6	10.4	9.9
DII	19.8	20.8	23.6
Others	23.4	22.6	20.3

1 Year relative price performance



Strengthening the balance sheet and expansion will drive growth

JK Lakshmi cement (JKLC) is a part of JK group, a well-known organization worldwide for its business legacy. The company is one of the strongest players in north India, with a network of about 7000+ cement dealers spread in the states of Madhya Pradesh, Chhattisgarh, Rajasthan, Gujarat, Uttar Pradesh, Uttarakhand, Punjab, Delhi, Haryana, Jammu & Kashmir, Maharashtra, Odisha and West Bengal.

Investment Rationale

- **Cement sector growth to improve gradually:** India is the world's second-largest producer of cement with a cumulative production capacity of ~550 MTPA. In FY20, due to a slowdown in the economy as well as lower consumption in the housing and infrastructure sector (80% of total cement consumption) led the sector to post de-growth in demand by 6-7%. Besides, the pandemic-related lockdown too impacted the sector in H1FY21. However, we believe demand and volumes would pick up gradually from H2FY21, led by the government's focus on infra and housing schemes which would lead to an increase in construction and housing activity and better monsoon.
- **JKLC is well placed:** JKLC has a total cement capacity of 13.3 Mn Mt. and clinker capacity of 6.7 Mn MT in the north and eastern region of India. The majority of its revenue ~75%+ comes from the north-western region so the company is highly dependent on regions such as Rajasthan, Gujarat and Haryana as the majority of its plants are located in these areas. Further, it has recently commissioned a plant in Odisha to reduce freight cost, diversify and increase presence in the eastern region. Additionally, it has a cost advantage over peers which would help in posting better margins. Going forward, its subsidiary Udaipur Cement Works Ltd. is expanding its cement capacity by 2.5 Mn tonnes and is likely to be commissioned by FY24 with a capex plan of Rs 1,400 cr and this would add further growth in the next 3-4 years. Expansion of capacity and cost optimizing measures will help the company to gain market share as well as grow its footprints in new areas.
- **Focus on deleveraging its balance sheet:** JK Lakshmi cement planned to strengthen its balance sheet by focusing on reducing its debt. It has reduced its debt from Rs 2,100+ cr in FY17 to Rs 700 cr as of FY20 which is an encouraging sign. Going ahead, the company plans to lower its debt levels, which will help in raising funds for future expansion, reduce interest burden as well as improve profitability.

Outlook & Valuation

The cement sector is gradually picking up pace in H2FY21 and is expected to revive by FY22 on the back of improved demand from the housing and infra sector, government support and re-opening of the economy. Further, JKLC is one of the strong players in north India. The focus and strategy of the management in the next 2-3 years will be to maximize sales, improve realizations by better product mix, enhance margin by cost optimization, expand capacity and lastly to reduce debt. We have a positive view on the company and thus we have initiated a buy on the stock with a target price of Rs 428.

Financial Summary - standalone

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	4043.5	3922.2	4118.3	4406.6
EBITDA	672.4	666.8	679.5	705.1
EBITDAM (%)	16.6	17.0	16.5	16.0
APAT	235.2	289.9	294.9	312.2
APATM (%)	5.8	7.4	7.2	7.1
EPS (Rs)	20.0	24.6	25.1	26.5
PE (x)	17.1	13.9	13.6	12.9
EV/EBITDA	7.7	7.5	7.1	6.6
RoE (%)	13.7	14.5	12.8	12.0

Source : Company; RBL Research

RELIGARE | BROKING
Values that bind

Automobile | **Mahindra & Mahindra Ltd.**

BUY

CMP (Rs)	711
Target Price (Rs)	889
Potential Upside	25.0%
Sensex	46,974
Nifty	13,749

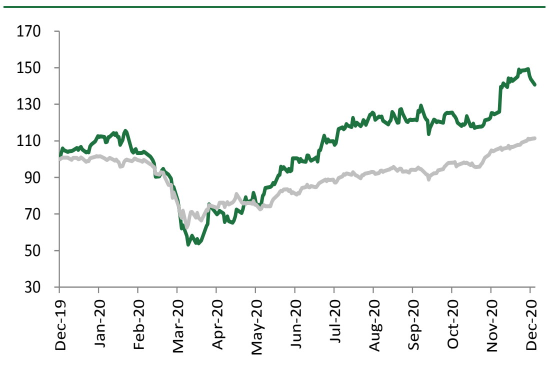
Key Stock data

BSE Code	500520
NSE Code	M&M
Bloomberg	MM:IN
Shares o/s, Cr (FV 5)	119.2
Market Cap (Rs Cr)	88,378
3M Avg Volume	62,37,465
52 week H/L	764/245

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	19.9	19.6	19.6
FII	33.9	34.6	34.7
DII	28.3	29.6	30.9
Others	17.9	16.2	14.8

1 Year relative price performance



Tightening capital allocation and strong traction in tractor demand bodes well for M&M

Established in 1945, Mahindra and Mahindra (M&M) is the flagship company of the Mahindra Group. It is one of the leading conglomerates which operate in various segments such as Automotive (PVs, CVs, 2W and 3W), Farm Equipment, Hospitality, Information Technology, Financial Services, Real Estate, Retail and Logistics. It has a business presence in over 100 countries with 63 manufacturing facilities around the world. M&M is the market leader in the Tractors and Utility Vehicles (UV) segment which is a part of its core business (Farm equipment and Auto).

Investment Rationale

- **Recovery in the tractor industry bodes well for M&M:** After a rough ride in FY20 and later impacted due to lockdown, the domestic tractor industry has shown considerable recovery over the past six months. This has been led by the increase in the Kharif sowing area, thereby indicating a bumper harvest, good monsoons, higher government spending and favourable base effect. From April-November 2020, the domestic tractor industry has grown by 15.2% YoY. We believe the trend is expected to continue on the back of normal monsoons this year, a good Rabi crop season and increase in MSP. Further, the supply side issues faced recently are also expected to alleviate going forward due to the easing of restrictions. M&M being the leader in the tractor industry (41.2% market share) and farm equipment being a major contributor to its operational profits (68.7% as on FY20), we believe the growth of the farm equipment business would be a key driver to M&M earnings.
- **M&M's UV business to witness challenges, LCV better placed:** While we expect the UV industry to revive gradually (still underperform the overall PV industry) on the back of cyclical recovery, the increased competitive intensity (from existing as well as new players) and product gaps could lead to a further decline in market share for M&M. However, in the LCV segment (M&M market share 42.6%), M&M is better placed due to its strong brand positioning and increased preference towards the Hub and Spoke model.

Outlook & Valuation

We continue to maintain our positive stance on M&M given its strong rural portfolio. The management has laid out a plan to strengthen M&M's position through new product launches, redefine its UV positioning, capex optimization, and tough action on loss-making subsidiaries. We believe M&M's strong focus on reducing losses of subsidiaries, cost optimization measures coupled with healthy growth prospects in its key businesses (Farm equipment & LCVs) would help the stock to re-rate further from current levels. We have raised our estimates for FY22E and FY23E and maintain a Buy on the stock with a revised target price of Rs. 889.

Financial Summary - standalone

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	45,488	42,304	49,072	55,452
EBITDA	5,798	5,669	6,846	7,902
EBITDAM (%)	12.7	13.4	14.0	14.3
APAT	3,345	3,404	4,187	4,907
APATM (%)	7.4	8.0	8.5	8.8
EPS (Rs)	28.0	28.5	35.1	41.1
PE (x)	25.0	24.6	20.0	17.1
RoE (%)	9.7	9.5	10.7	11.5

Source : Company; RBL Research

NBFC **Manappuram Finance Ltd.**

BUY

CMP (Rs)	164
Target Price (Rs)	205
Potential Upside	25.0%
Sensex	46,974
Nifty	13,749

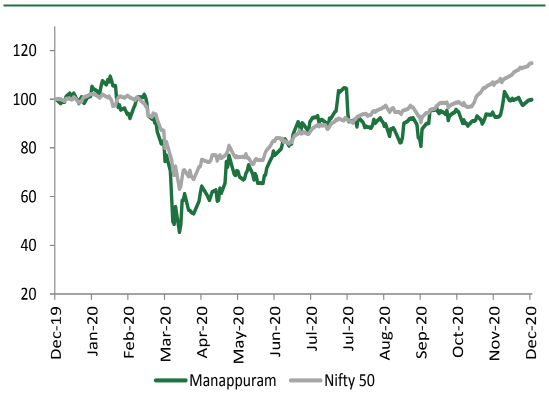
Key Stock data

BSE Code	531213
NSE Code	MANAPPURAM
Bloomberg	MFGL:IN
Shares o/s, Cr (FV 2)	84.20
Market Cap (Rs Cr)	13,881
3M Avg Volume	1,307,784
52 week H/L	195/74

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	35.1	35.0	35.0
FII	39.4	38.4	39.0
DII	8.5	9.8	8.8
Others	17.0	16.7	17.2

1 Year relative price performance



Resilient during tough times

Incorporated in 1992, Manappuram Finance is one of the leading NBFCs in India which offers a diversified product portfolio constituting gold loans, microfinance loans, vehicle and equipment finance, home loan finance, on-lending and insurance brokerage business. It has a wide distribution network of 4,622 branches across 22 states and 6 Union Territories. Loan assets of INR252bn and employee count of 27,721. Gold loan constitutes 67% of the consolidated loan book as of FY20 with the gold loan under the management of Rs. 170 bn.

Investment Rationale

- **Gold AUM to drive growth:** Manappuram gold loan AUM has registered a healthy CAGR of 15% over FY17-20 primarily driven by price action, aggressive expansion of branches, massive spending on marketing and rapid acquisition of customers. We expect a similar trend to continue, given the low penetration of gold loans by organized players, rising funding requirements due to economic uncertainty, increased awareness of gold loans and constant focus on increasing online gold loans. Further, with gold loan LTV of ~59% and the average ticket size of about Rs. 38,500, the company's gold loan portfolio is quite well insulated against gold price fluctuation and also results in low credit loss for the company.
- **Other businesses to witness gradual recovery:** Over the last four years, the company has diversified into microfinance, housing finance and vehicle finance business contributing ~33% of its overall AUM. Within the other businesses, we believe the micro-finance would pick up in the near term as easing restrictions would lead to a revival in economic activity and thereby disbursements. However, the recovery vehicle finance business would be gradual, given that the company largely focuses on commercial vehicles. The encouraging part is that the collections that had got impacted heavily due to COVID-19 have seen a considerable pickup and have returned to pre-COVID levels for most of the businesses.

Outlook & Valuation

The pandemic has impacted growth momentum especially in its microfinance, vehicle finance and housing business, which we believe would pick up in FY22E. In terms of asset quality, despite a higher share of gold loans, we expect the asset quality to deteriorate in FY21E, given the stress in other businesses. Nonetheless, we like Manappuram given its large gold loan portfolio, strong funding position and the company's focus on customer acquisition and increase penetration bodes well for the long-term growth prospects of the company. We initiate with a Buy rating on the stock with a target price of Rs. 205.

Financial Summary - consolidated

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Operating Income	5,465	6,230	6,978	7,746
Net Profit	1480	1628	1954	2149
EPS (Rs)	17.6	19.3	23.2	25.5
Book Value (Rs)	67.3	81.5	96.6	102.4
PE (x)	9.4	8.5	7.1	6.5
PB (x)	2.5	2.0	1.7	1.6
RoE (%)	22.9	25.1	24.5	25.0

Source : Company; RBL Research

RELIGARE | BROKING
Values that bind

Pharma | **Natco Pharma Ltd.**

BUY

CMP (Rs)	932
Target Price (Rs)	1,135
Potential Upside	21.8%
Sensex	46,974
Nifty	13,749

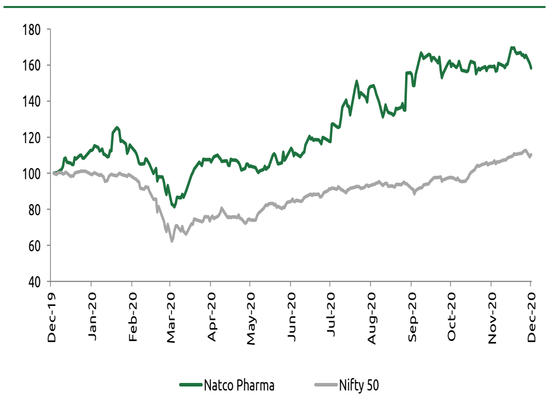
Key Stock data

BSE Code	524816
NSE Code	NATCOPHARM
Bloomberg	NTCPH:IN
Shares o/s, Cr (FV 2)	18.2
Market Cap (Rs Cr)	16,979
3M Avg Volume	471,134
52 week H/L	996/402

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	48.9	48.9	48.9
FII	21.7	20.4	19.3
DII	10.6	12.8	13.7
Others	18.8	17.9	18.1

1 Year relative price performance



First mover advantage

Natco Pharma is a vertically integrated and R&D focused pharmaceutical company engaged in developing, manufacturing and marketing finished dosage formulations (FDF) and active pharmaceutical ingredients (APIs). It markets and distributes products in over 40 countries and have strong presence in United States, India, Europe and the rest of the world for its FDF products.

Investment Rationale

- **First-mover advantage for Revlimid in the US markets:** Amongst the formulation business, 40-42% revenue is earned from international markets wherein the company has a huge presence especially in US markets and other markets such as Canada, Singapore and Brazil. Natco operates via a partnership model wherein it brings in manufacturing capabilities while market strategy is decided by the partner. The company has exclusive rights to market pomalidomide (Pomalyst) and its analogue drug lenalidomide (Revlimid) which represents an opportunity of USD 1.7 bn and USD 6.9 bn in the US. Both these drugs are used for multiple myeloma which is a kind of blood cancer. For Revlimid, Natco Pharma would be the first company to launch Revlimid (lenalidomide) in March 2022. It is expected that Natco will garner revenue of USD 900 mn approx from this opportunity leading to higher profitability and growth going forward.
- **Domestic business to drive growth:** Natco has a strong brand presence in the domestic formulation business wherein sales are largely driven by oncology (33 active product), Cardiology and Diabetology (5 product in total) and Pharma Specialties (90% is Hepatitis C and 18 active products) portfolio. In FY20, the company faces a demand slowdown, pricing challenges and then Covid-19 related business decline however it launched around 8 products. Going forward, Natco plans to continue its focus on innovating new products and strengthening its position across segments, which will help in gaining market share.
- **API business to support growth:** API business is one of the important segments as it focuses on supporting its formulation business and it is expected to grow at a decent pace with more complex molecules. Currently, the company has 39 active DMF.

Outlook & Valuation

Natco is a strong player in the specialty business which is a higher margin segment. Going forward, the company plans to launch 6-8 new products in domestic segments largely oncology, expanding in newer markets for formulations business. The company has a settlement agreement in place with Bayer for Sorafenib (Nexavar) and has 180-day exclusivity for the same. Besides, it has a decent financial and strong balance sheet, which is positive for the company's growth. We have a positive view on the stock and thus have initiated a buy with a target price of Rs 1,135.

Financial Summary - consolidated

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	1,915	2,394	2,442	2,490
EBITDA	583	790	732	772
EBITDAM (%)	30.4	33.0	30.0	31.0
APAT	458	588	559	590
APATM (%)	23.9	24.5	22.9	23.7
EPS (Rs)	25.2	32.3	30.7	32.4
PE (x)	36.6	28.5	30.0	28.4
RoE (%)	12.1	13.5	11.4	10.7

Source : Company; RBL Research

RELIGARE | BROKING
Values that bind

Insurance | **SBI Life Insurance Company Ltd.**

BUY

CMP (Rs)	874
Target Price (Rs)	1,069
Potential Upside	22.3%
Sensex	46,974
Nifty	13,749

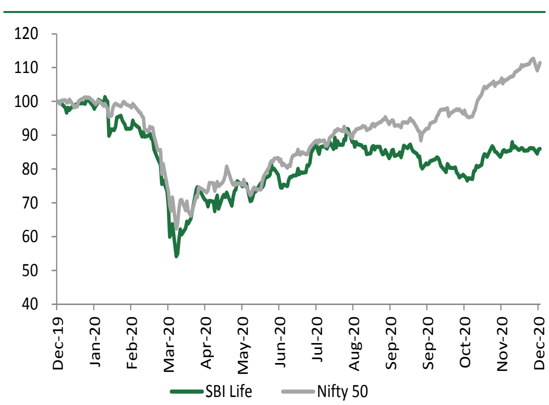
Key Stock data

BSE Code	540719
NSE Code	SBILIFE
Bloomberg	SBILIFE:IN
Shares o/s, Cr (FV 10)	100.0
Market Cap (Rs Cr)	87,395
3M Avg Volume	1,752,367
52 week H/L	1,020/519

Shareholding Pattern

(%)	Mar-20	Jun-20	Sep-20
Promoter	62.8	60.7	60.7
FII	25.9	26.2	25.8
DII	5.7	7.0	7.0
Others	5.6	6.1	6.5

1 Year relative price performance



Best play on life insurance industry

SBI Life Insurance Company Ltd. is a joint venture between State Bank of India and BNP Paribas Cardiff S.A. It is one of the leading life insurers in India with a healthy market share of 13.3% in terms of Individual rated premium. SBI Life offers a comprehensive range of life insurance and pension products at competitive prices, ensuring high standards of customer service and world-class operating efficiency. The company offers individual and group products which include savings and protection plans to address the insurance needs of diverse customer segments. It has a multi-channel distribution network comprising of an expansive Bancassurance channel with SBI, which has an unrivaled strength of over 23,000 branches across the country. SBI Life also has a large and productive agent network comprising of 154,158 agents.

Investment Rationale

- **Strong growth momentum to continue:** The life insurance industry has seen strong growth momentum in the last decade led by structural changes in the economy and higher preference towards financial assets. The growth in new business premium (NBP) has been one of the highest in the world and we believe similar growth momentum to continue given the under penetration of insurance as a product. Further, compared to its peers, India has one of the highest protection gaps in the world (92%) and the premium as a percentage of GDP is one of the lowest at 2.82%.
- **SBI remains a preferred pick:** SBI Life is well placed to capitalize on growing industry trends, given its exclusive access to the client base of SBI. Its wide range of products and services for various types of customers bodes well for the premium growth of the company. Additionally, SBI Life enjoys one of the lowest cost ratios amongst peers and a higher revenue share from high margin businesses would further aid margin improvement for the company.

Outlook & Valuation

The COVID-19 pandemic had impacted growth momentum for a bit however, we believe the long-term growth story remains intact for India's life insurance industry on the back of favourable demographics, rising disposable income, growing urbanisation and increased awareness of insurance. Within the industry, SBI Life is one of our preferred picks given its huge untapped client base, wide distribution reach and industry-leading cost ratios. Further, increased focus on business through digital channels and a strong distribution platform should lead to consistent market share gains for the company. We initiate with a Buy rating on the stock with a target price of Rs. 1069.

Financial Summary

Particulars, bn	FY20	FY21E	FY22E	FY23E
New Business Premium	166	159	183	205
New Business Annualised Premium Equivalent	107	92	105	121
EPS (Rs)	14.2	16.8	20.4	24.1
EV (Rs)	276.4	310.1	356.6	395.8
PE (x)	61.3	51.9	42.6	36.1
P/EV (x)	3.1	2.8	2.4	2.2
RoEV (%)	16.8	13.2	15.1	15.8

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.

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