Diwali Picks

SAMVAT 2078

MOTILAL OSWAL Investment Services PHYGITAL

The Physical & Digital of Investing

Dear Investors,

Equity markets had a historical journey in Samvat 2077, as it touched new life time highs with Nifty/Sensex surpassing 18k/60k mark for the first time in history. The recent sprint to 15k in Feb'21 and 18k in Oct'21, from pandemic lows of 7.6k in Mar'20 – amid lockdowns and other health challenges – has been led by a benign global liquidity, containment of COVID-19 cases, significant pickup in the pace of vaccination, sharp recovery in corporate earnings and a market-friendly budget.

Macroeconomic trends saw good recovery, with high-frequency indicators (GST collections, e-way bills, PMI readings, power & fuel demand) improving month-on-month. Exports have emerged as a growth engine with India reporting the highest ever export in a single quarter in 2QFY22. The country witnessed the third consecutive year of normal monsoon which is also likely to aid rural demand, and with the government balance sheet in good stead, we expect the government to press the fiscal pedal to drive growth over the next 6-12 months. Corporate India too surmounted the challenges posed by Covid with unprecedented cost containment measures with parallel improvement in balance sheet as well as cash-flows.

Nifty has given around 43% returns in Samvat 2077 so far, while Midcaps/Smallcaps have outperformed and are up 70%/82% respectively. All sectors delivered positive returns, with top gainers being Metals (+128% YoY), Realty (+113%) and PSU Banks (+93%). On the other hand, Pharma (+23%), FMCG (+29%) and Private Banks (+30%) were underperformers as defensives took a breather. The theme of Samvat 2077 was high beta, cyclicals and value. FII flows in equities were the highest ever at INR1.6 lakh crore while DII saw outflows after five consecutive years of inflows.

For Samvat 2078 we expect the following key themes to play out

Earnings Normalisers: With improving economy, certain pockets of the large caps are well poised to show sharp improvement in earnings.

Travel & Tourism: With India crossing 100 crore vaccination and opening up of various sectors, we expect the Leisure segment to do very well over next 6-12 months.

Real Estate & ancillary: We believe real estate is on the cusp of an upcycle with several macro factors supporting like low interest rates, benign prices and rising affordability coupled with low home ownership in India.

Long term Compounders: The pandemic has provided long term growth drivers for certain sectors like increased spending on Technology and change in consumer behaviour for QSR which is providing them with long term growth visibility.

Mid-caps: Stock selection was the key in generating returns within the Midcap space – a trend which we believe could continue going ahead as well.

Wishing everyone a 'Happy Diwali & Prosperous Samvat 2078'

Diwali Picks SAMVAT 2078

Key Financials Summary

Sr.No	Company	M.Cap	CMP	52W High	52W Low	EPS CAGR (%)	RoE (%)		PE (x)		PB (x)	
		(INR b)	(INR)	(INR)	(INR)	FY21-23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Earnings Normalisers												
1	SBI	4,574.3	512.6	518.3	185.9	41.7	12.6	14.7	13.7	10.2	1.8	1.6
2	Tata Motors	1,824.6	508.7	532.4	130.0	687.2	2.2	21.2	156.4	14.6	3.4	2.8
Travel & Tourism												
3	United Sprits	606.3	834.5	925.5	495.2	51.6	16.4	18.4	75.0	57.1	12.3	10.5
4	Indian Hotels	246.7	207.5	237.5	91.5	LTP	-10.8	10.2	NM	72.2	7.6	7.1
5	VIP ^	74.8	528.8	592.6	269.4	LTP	11.2	26.5	121.4	42.7	12.9	10.8
Real Estate and ancillary												
6	Ultratech	2,098.3	7,269.1	8,073.3	4,440.0	16.3	14.2	14.1	31.5	28.2	4.0	3.8
7	Macrotech^	473.6	1,058.7	1,225.3	421.2	476.4	15.9	15.4	44.5	31.5	5.7	4.8
Long term Compounders												
8	Infosys	7,259.9	1,703.7	1,848.3	1,051.0	19.8	30.6	38.4	32.2	26.1	3.4	2.9
9	SBI Life	1,172.3	1,172.1	1,315.0	755.3	9.8	16.7	16.9	77.1	66.8	2.8	2.4
10	Jubilant Food	490.3	3,715.6	4,590.0	2,099.6	71.9	25.6	29.1	101.1	72.0	25.9	21.0
Mid Caps												
11	Tata Power^	719.9	225.3	269.7	51.7	32.4	8.2	9.6	38.3	30.8	3.2	3.0
12	Varun Beverages	356.9	824.3	954.4	430.1	80.4	16.9	23.1	55.5	33.7	8.7	7.0
13	Trident	203.3	39.9	43.4	7.1	65.2	23.0	20.0	23.2	22.0	4.8	4.0
14	APL Apollo	201.7	807.5	1,049.9	299.0	43.0	27.9	27.3	39.5	30.3	9.5	7.3
15	Orient Electric	72.2	340.5	368.0	194.0	24.5	25.0	27.2	52.4	38.9	13.1	10.6

**Price data as on 26th October 2021; ^ Consensus estimates for non-coverage stocks*

Source: Bloomberg, MOFSL

Stock Name	Rationale
Earnings Normalisers	
SBI	Among PSU Banks, SBIN remains the best play on a gradual recovery in the Indian economy, with a healthy PCR, Tier I of ~11.3%, strong liability franchise and improved core operating profit. It appears well positioned to report strong uptick in earnings, led by normalization in credit cost. We estimate PPOP at 14% CAGR over FY21-23E v/s 6% CAGR (FY18-21), enabling SBIN to achieve ~15% RoE (decadal high) by FY23E.
Tata Motors	Recovery is underway in all of the three businesses of TTMT. While India CV business would see cyclical recovery, JLR is witnessing both cyclical and structural, supported by a favorable product mix. This could drive recovery in JLR's EBIT margins and leave scope for a surprise on profitability. The India PV business (~34% CAGR) would witness structural recovery aided by refreshed product portfolio and market share gains which will bring it on track to achieve FCF breakeven by FY23.
Travel & Tourism	
United Sprits	Recovery post the second COVID wave has been faster than that in FY21 and continues to improve. The outlook appears promising with: a) on-trade channel returning to normalcy; b) increased occasions for home indulgence; c) the ongoing strategic review of half of the Popular portfolio to be concluded by Dec'21, which would offer further primacy to the Prestige & Above (P&A) segment; d) potential success in the P&A segment in terms of both growth and margin; e) the new CEO taking over recently; and e) faster-than-expected deleveraging.
Indian Hotels	We expect gradual recovery in FY22E and sharp recovery in FY23E on (a) a low base, (b) improvement in ARR once normalization is achieved, (c) improved occupancies, (d) positivity in cost rationalization efforts in FY21, (e) an increase in F&B income as banqueting and conferences resume, and (f) higher income from management contracts. The company is on the right track to grow its EBITDA as new revenue-generating avenues are seeing higher EBITDA margins.
VIP	VIP industries is the largest luggage manufacturing company and would immensely benefit from opening up of the economy and pick up in domestic leisure travel

Stock Name	Rationale
Real Estate and ancillary	
Ultratech	UTCEM enjoys leadership position across regions, which helps it maintain its premium pricing in most markets. UTCEM is setting up Cement capacities of 19.5mtpa, which would drive sales volume CAGR of 10% over FY21-24E. We expect UTCEM to turn cash positive in FY24E and expect RoE to improve further to 15% by FY24E on higher asset turnover, led by an enhancement in capacity utilization, continued debt reduction, and improvement in EBIT margin.
Macrotech	Lodha is one of the largest real estate developers in India, benefitting from the recent demand pick-up and the optimism behind the expected upcycle. Prices have hit rock bottomed and are expected to pick-up gradually in the near term as the supply crunch is likely to see demand exceeding launches.
Long term Compounders	
Infosys	We expect Infy to deliver top quartile growth performance in FY22E on the back of its strong capabilities and ramp up of large deal wins in FY21. We expect INFO to be able to sustain margin , led by: 1) strong top-line growth and resultant operating leverage, 2) further flattening of the pyramid, and 3) continued operating efficiency measures. We continue to see INFO as a key beneficiary of an acceleration in IT spends, given its capabilities around Cloud and Digital transformation.
SBI Life	SBILIFE witnessed strong traction in premium growth across all product segments, with both agency and banca channel contributing to overall growth. We estimate APE growth at 20% CAGR over FY21-24E, led by continued momentum in non-PAR savings and Protection products, while growth in ULIP has also recovered. We estimate VNB margin to improve to 25.5% by FY24E, driving 24% CAGR in VNB over FY21-24E. Persistency ratios are holding well across cohorts, while cost leadership continues. We expect operating RoEV to sustain ~18% and estimate 17% EV growth over FY21-24E.
Jubilant Food	With the lifting of lockdown restrictions, dine-in levels are picking up significantly. Delivery is sustaining at much higher than pre-COVID levels. JUBI has the best business model in the QSR space to take advantage of the enhanced growth opportunity after the lifting of COVID-related restrictions. Its technological and logistical moats are also being strengthened further.

Stock Name	Rationale
Mid Caps	
Tata Power	We expect Solar EPC to give a leg up in earnings for the next two years. Recent award wins, particularly from NTPC, have seen its EPC order book inflate to ~INR85b, thereby providing strong visibility. EBITDA from Solar EPC is expected to post a 30% CAGR over FY21–23. This – coupled with the commissioning of renewable projects and the takeover of Odisha DISCOMs – should lead to a 33% PAT CAGR over FY21–23. Furthermore, the possible benefit from the merger of CGPL with itself provides an upside to profitability.
Varun Beverages	VBL is expected to deliver strong volume growth across all the three product segments, with an increase in consumption patterns to pre-COVID levels. We expect strong demand traction over the next few years due to: a) strong distribution network, b) rising penetration in the newly acquired region (south and west India), c) diversifying product portfolio, and d) growing refrigerator penetration in rural/and semi-rural areas per household and higher power availability hours. We expect a revenue/EBITDA/PAT CAGR of 20%/25%/56% over CY20-23E.
Trident	Trident is witnessing robust demand after the lifting of COVID-related lockdown restrictions. The demand trend in Home Textiles is expected to continue, with freight cost gradually subsiding and pent-up demand in the US and Europe market. The Paper segment is expected to see a sharp recovery with the opening of offices and educational institutes.
APL Apollo	We expect strong volume growth and improved profitability on the back of: a) increasing shift towards structural tubes (from RCC structures), b) a pan-India presence, coupled with diverse product offerings, c) behemoth market share, increasing the share of value-added products. Several cost-control measures, kicking-in of operating leverage, and growing share of VAP is expected to lead to improved margin and higher cash generation. We expect a revenue/EBITDA/PAT CAGR of 26%/26%/36% over FY21-24E.
Orient Electric	With demand scaling back gradually and the upcoming festive season ahead, we believe OEL is best placed to capture this trend, with its strong manufacturing and distribution capabilities. We forecast a revenue/EBITDA/adjusted PAT CAGR of 19%/21%/25% over FY21-24E.

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