Happy Diwali

24th October 2022

Shining stars in a sideways market

In the year gone by, the broader markets have broadly consolidated between Nifty level of 18,604 made on 19 October 2021 and 15183.40 made on 17 June 2022. From a theoretical perspective the market did not close below 20% from the highs, which is normally construed as entering a bear market. Within this range, overvalued sectors and stocks like technology and metals which have a decent weightage in indices corrected thereby giving an opportunity to savvy investor to buy into undervalued stocks and sectors. Thus returns in the last one year have mainly come from some PSU names largely in defense, cement sector and from financial sectors. If one has to analyze both these sectors have underperformed in the previous rally and have outperformed in the rallies starting after the correction.

We believe at the index level markets may still continue to be sideways and remain in this band for a while until negative global factors recede. Unless that happens inflation in the western world is likely to be elevated due to supply chain constraints. India is taking this opportunity and creating infrastructure and facilities to make up for the global supply chain disruption. At a valuation level a PE of approximately 20 for India for FY23 is reasonable for investors to bring in more money into equities. With this background we continue to remain bullish on consumption including automobiles, travel and leisure and also sin industries. Besides this we remain positive on PSU companies in defense and railways. Cement sector has entered a secular uptrend with demand outlook going up significantly and input cost coming down gradually. In financials and pharmaceutical sector the play will be more on individual names and stocks specific activities.

To conclude we continue to remain under weight on external looking sectors like IT and metals and we remain constructive on domestic catering sectors. With interest rates hovering above 4% in the US, FIIs may not be in a hurry to invest in India, but soon the noise globally may get louder asking central banks to refrain from further and sharper rate hikes. Hence, we believe that buying the dips would continue to be rewarded to Indian equity investors.

VIP Industries Ltd. CMP: INR 683

VIP Industries is India's largest luggage manufacturing company which manufactures luggage and travel accessories. It is based in Mumbai, India and is the world's second-largest and Asia's largest luggage maker. The company has more than 8,000 retail outlets across India and a network of retailers in 50 countries. It acquired United Kingdom-based luggage brand Carlton in 2004

Key Investment Rationales

Immense scope for margin expansion: GMs have been under pressure over last few quarters due to persistent rise in RMs and freight cost. However, key RMs like PP, PC, and nylon have declined by ~20% odd on sequential basis. Similarly, freight cost is also down by >75% from peak levels. Consequently, we expect gross margins to improve, as full benefits of owning the manufacturing value chain will start getting reflected over next few months.

Re-opening of Future Group stores and burgeoning exports to add volumes: Future Group (now to be operated by Reliance) accounts for ~15% of revenues and out of 430 stores across banners, 44 were operational in 1QFY23. All stores are expected to open by Dec-Mar which is likely to aid revenue contribution from modern trade segment. Exports/international business hold a strong potential, as post pandemic most countries are looking to de-risk supply chain from China. Leveraging on this opportunity, management is targeting 15% revenue contribution from exports in next 3 years (~6% contribution in 1QFY23).

Valuation & Outlook

We remain structurally positive on the growth prospects of the luggage industry. With strong top-line growth, we believe further improvements should follow — especially in the handbags and school bags segments. Captive operations in Bangladesh give VIP a strong advantage on the raw material front compared to its peers. Also, its leadership in the luggage industry and brand positioning remains unmatched. Hence, we have a positive view on the stock.

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sales	17,847	17,144	6,186	12,895
Growth	*26%*	*-3.94%*	*-63.92%*	*108.47%*
EBIDTA	2,354	3,090	-159	1,825
EBIDTAM	*13.19%*	*18.02%*	*-2.57%*	*14.15%*
Adj. PAT	1,453	1,117	-975	669
Growth	*14.61%*	*-23.09%*	*-187.25%*	*-168.65%*
Adj. EPS (INR)	10.28	7.91	-6.9	4.73
P/E (x)	66.44	86.35	-98.99	144.40

Infosys Ltd. CMP: INR 1491

Infosys Ltd provides IT consulting and software services, including e-business, program management and supply chain solutions. The Group's services include application development, product co-development, and system implementation and system engineering. Infosys targets businesses specializing in the insurance, banking, telecommunication and manufacturing sectors.

Key Investment Rationales

Increased comfort in the near-term: Revenue in 2Q FY23 grew 4% QoQ in CC. It witnessed acceleration in implementation across segments. Revenue growth was once again led by Manufacturing, up 45% YoY in CC. Cloud revenue has crossed an important milestone of USD1bn this quarter. EBIT margin improved by 150bp led by rupee depreciation (70bp) and cost optimization (90bp) and lower sub-contrasting cost (40bp). Strong US$1.5bn net-new large deal wins in 2Q FY23, a seven-quarter high, supports the adjustment in its FY23 CC revenue growth guidance to 15%-16% (from 14%-16% earlier). Management highlighted its deal pipeline is bigger than the past few quarters and is populated by larger cost-takeout deals. If converted, this could limit the impact of softness in discretionary spend that is now spreading across verticals.

Margin headroom has improved: Sharp rupee depreciation towards quarter-end helped its 2Q FY23 Ebit margin by 70bps; we suspect management may prefer reinvesting incremental currency gains than letting it flow into reported margins. That said, attrition continues to moderate, indicating growing headroom in execution costs—a 7-year high trainee bench is an additional lever

Valuation & Outlook

Infosys' reported impressive numbers in 2Q FY23 with a larger margin beat, strong deal wins and an unexpected calibration of FY23 revenue growth and margin guidance. Its results, like peers, underline the resilience of the service portfolio and adeptness of the cost structure of Indian IT services companies. Thus, while the clouds of macro risk remains an overhang, we believe a likely pause in downgrades & the proposed buyback could revive investor interest.

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sales	826,750	907,910	1,004,720	1,216,410
Growth	*17.23%*	*-2.60%*	*8.70%*	*-0.20%*
EBIDTA	230,520	250,700	300,900	337,860
EBIDTAM	*27.88%*	*27.61%*	*29.95%*	*27.78%*
Adj. PAT	154,040	165,940	193,510	221,100
Growth	*-3.90%*	*7.73%*	*16.61%*	*14.26%*
Adj. EPS (INR)	35.44	38.97	45.61	52.52
P/E (x)	42.07	38.26	32.69	28.39

Easy Trip Planners Ltd. CMP: INR 399

Easy Trip Planners Ltd. (EMT) Easy Trip Planners Limited operates as a travel company. The Company offers ticket booking, transport arrangement, tour planning, and accommodation services. Easy Trip Planners serves customers in India.

Key Investment Rationales

Sharp recovery; Indian OTA gross booking to be Rs 1.5 trn by FY25E: Online Travel Agents (OTA) space in India is all set for a sharp recovery with Gross Booking Revenue (GBR) of Rs 1.5 trn by FY25E (46%/ 11% CAGR over FY22-25E/ FY20-25E) led by (i) pent-up demand post Covid, (ii) increasing online buyers, (iii) demand for longer duration vacation and premium products and (iv) OTAs adding new products/ services. Indian OTAs can generate healthy returns like their global OTA peers given (i) moderate competitive intensity, (ii) cost optimization and (iii) gains from operating leverage on increasing GBR.

Robust business model: EMT has a resilient lean business model that can adapt to changing environment. This has helped it stay profitable during Covid pandemic and gain market share. We like its (i) low-cost business model, (ii) strong growth potential (both organic and inorganic), (iii) healthy financial position with elevated returns and (iv) improving brand visibility post IPO. EMT increased its international presence to capture the international traffic for the next leg of growth. EMT has presence in the UAE, Singapore, the UK, the Philippines, Thailand, New Zealand and the US. . In particular, EMT registered a stellar performance in its Dubai business and reported GMV of INR7.07cr in just three months, majorly from its air ticketing segment.

Valuation & Outlook

Robust pickup in air travel in domestic and international markets bodes well for EMT, in our view. Moreover, the company is focusing on expanding its non-air verticals from FY23. It strategically pursued inorganic growth by acquiring innovative companies across diverse travel segments and by evolving into a complete travel ecosystem

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sales		1,414	1,385	2,354
Growth			*-2.02%*	*69.94%*
EBIDTA		499	876	1,469
EBIDTAM		*35.29%*	*63.23%*	*62.39%*
Adj. PAT		330	610	1,059
Growth			*84.98%*	*73.61%*
Adj. EPS (INR)		3.04	2.81	4.87
P/E (x)		131.25	141.99	81.93

ITC Ltd. CMP: INR 332

ITC Ltd., a member of BAT Group of UK, is a holding company, which has a diversified presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri Business, Packaged Foods & Confectionery, Branded Apparel, Greeting Cards and other FMCG products.

Key Investment Rationales

Core business to continue driving growth: Cigarette volumes rebounded in FY22, surpassing pre-covid levels in H2FY22. Product launches and innovation, premiumization of segments and expanding product reach cemented ITC's leadership. FMCG saw annual spend surpass INR 240bn, reaching more than 200mn households. ITC expanded its market/outlet coverage by 1.4x/1.1x YoY in FY22. Agri-business grew 28.7% YoY driven by robust wheat, rice, spices and leaf exports, with India benefitting from global supply chain issues. Paperboards reported 36% YoY growth led by demand revival, improved mix and exports. Hotels saw exit-occupancies in FY22 exceed pre-covid levels—average room rate improving YoY but below pre-covid levels.

Value unlock on cards: ITC is looking at alternate structures for hotels and will evaluate various options. Value unlock for different businesses will be evaluated via alternate structures, demerger, listing etc. Hotel value unlock is back on the table with the sector seeing strong revival.

Valuation & Outlook

A stable tax environment for Cigarettes in recent years has allowed ITC to calibrate price increases to avoid a disruption in demand. We expect this trend to continue and result in improved Cigarette volumes and earnings visibility over the medium-term. The breadth of ITC's FMCG product portfolio gives it an advantage in a rapidly changing demand environment. Its leadership position in some categories gives it pricing power to offset incremental input cost pressures in other categories, where pricing power is not as strong.

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sales	483,527	494,041	492,728	606,681
Growth	*11.29%*	*2.17%*	*-0.27%*	*23.13%*
EBIDTA	206,061	218,848	196,487	225,154
EBIDTAM	*42.62%*	*44.30%*	*39.88%*	*37.11%*
Adj. PAT	125,923	153,062	131,612	152,427
Growth	*11.72%*	*21.55%*	*-14.01%*	*15.82%*
Adj. EPS (INR)	10.3	12.47	10.7	12.37
P/E (x)	32.23	26.62	31.03	26.84

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Bharat Electronics Ltd. CMP: INR 102

Bharat Electronics Limited is an Indian state-owned aerospace and defence company with about nine factories, and several regional offices in India. It is owned by the Indian Government and primarily manufactures advanced electronic products for the Indian Armed Forces. Guided by a farsighted vision to make the country self-reliant in Defence electronics, Bharat Electronics Limited (BEL) was set up in Bangalore in 1954 by the Government of India under the Ministry of Defence (MoD). From a humble beginning, BEL has come a long way. It is now a Navratna PSU and India's foremost Defence electronics company.

Key Investment Rationales

Impressive diversification; sustainable leverage on capabilities: BEL's non-defence revenues – from smart cities, medical devices, VVPAT machines, etc – have become a significant and sustainable stream, which is a function of its expansive systems integration capabilities. The company is also making investments to grow this business, and the leadership team expects non-defence to be 20–25% on a sustainable basis, which we believe is fairly achievable.

Robust order pipeline over next 3 years: While the active order pipeline stands at INR500bn+, including surface-to-air missiles (new-LRSAM, QRSAM, MRSAM, Akash), naval equipment (NGMV, OPVs) and EW systems/radars (ground and airborne), mgt gave annual inflow guidance of INR200bn, as they may be spread out over multiple years.

Valuation & Outlook

We believe BEL is the best play in India's defence sector with strong order book, which provides healthy 15-18% revenue growth visibility over the next 2-3 years. Further, we expect the company's top line to be a beneficiary through (a) strong technological capability, (b) partaking in the modernisation drive of defence forces, (c) 'Atmanirbhar Bharat' initiatives via DPEPP, 2020, and (d) growing opportunities in exports and non-defence market.

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sales	121,642	129,677	141,087	153,682
Growth	*16.95%*	*6.61%*	*8.80%*	*8.93%*
EBIDTA	29,824	28,579	33,387	35,759
EBIDTAM	*24.52%*	*22.04%*	*23.66%*	*23.27%*
Adj. PAT	18,864	18,239	20,989	23,989
Growth	*31.76%*	*-3.32%*	*15.08%*	*14.29%*
Adj. EPS (INR)	7.74	7.49	8.62	9.85
P/E (x)	13.18	13.62	11.83	10.36

Sundram Fasteners Ltd. CMP: INR 916

Sundram Fasteners Ltd. (SFL) is engaged in the manufacture and sale of fabricated metal products and motor vehicle parts and accessories. Its products include bolts and nuts, water and petrol pumps, sintered products, cold extruded components, hot and warm forged parts, and radiator caps.

Key Investment Rationales

Cooling RM cost and positive operating leverage to add margins: SFL is witnessing strong traction from its domestic and global OEMs, driven by recovery in automotive and non-automotive demand. The outlook remains positive going forward, driven by pent-up demand, post normalization of the economy. Operating profit margin (OPM) would expand on account of operating leverage benefits, cost-control measures, and its ability to pass on the cost increase to customers.

Product diversification to de-risk business model and support the growth going forward: SFL has planned an investment of Rs.350 cr over a period of 5 years to manufacture Advanced Automotive Technology Components like power train sub-assemblies for electric vehicles and select internal combustion engine vehicles. The company is also focusing on developing new products such as tower fasteners, valve body housing and swash plate for hydraulic power systems, electric water pumps for passenger utility vehicle, sintered pulleys for electric scooter applications

Valuation & Outlook

SFL continues its efforts to de-risk its business model from dependency on one-customer or one-product. We expect strong earnings growth going forward, driven by new client acquisitions and expansion of the product portfolio. Exports will also be a key driver as the company is committed towards expanding its export portfolio to 50% of overall revenue from the current 33% contribution to total revenue over the next 3-5 years. The company has a strong long-term revenue visibility, given its strong relationships with OEMs, both in India and globally

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sales	45,579	37,232	36,443	49,021
Growth	*18.24%*	*-18.31%*	*-2.12%*	*34.51%*
EBIDTA	8,272	6,210	6,983	8,407
EBIDTAM	*18.15%*	*16.68%*	*19.16%*	*17.15%*
Adj. PAT	4,575	3,249	3,592	4,567
Growth	*18.35%*	*-28.98%*	*10.55%*	*27.16%*
Adj. EPS (INR)	21.77	15.46	17.1	21.74
P/E (x)	42.08	59.25	53.57	42.13

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IDFC First Bank Ltd. CMP: INR 55.80

IDFC FIRST Bank td (IFB) was founded by the merger of IDFC Bank and Capital first in December 2018. IDFC FIRST Bank has a nationwide presence and operates in Retail Banking, Wholesale Banking, and other banking segments. Customers can choose where and how they want to bank: 651 branches across India with 807 ATMs, 25000+ employees, and growing.

Key Investment Rationales

Successful transition from infrastructure finance company to a diversified lender: IFB has successfully transformed itself from infrastructure lending to building a diversified retail-focused loan book (the retail book is now 66% of the total loan book). Moreover, it has reduced its high-risk infrastructure book to 5% of the loan book in FY22 from 37% in FY18 and the management has guided that the same is expected to reduce further.

Improvement in ROA and ROE to continue further: The bank has witnessed significant improvement in ROA over the last four quarters with ROA going up from 0.37% in Q2FY22 to 0.97% in Q1FY23. We expect the bank to continue its journey moving forward to further augment its ROA/ROE by leveraging a) Its powerful unit economics, b) Incremental retail lending business (ROE of 18-20%), c) Improving branch productivity with normalized cost to income ratio and, and d) Scaling up its fee income from new business launches like Wealth, FASTag, credit card, CMS, among others.

Valuation & Outlook

IFB has demonstrated its resilience in the process of transformation in the past and we expect it to continue. IFB has a higher cost of funding at 5.2% compared to larger peers, providing a scope to cut down legacy high cost borrowings thereby improving NIM. We believe IFB is well-placed in the market to benefit from (a) Granular liability franchise, (b) One of the best CASA ratios in the industry, (c) Successful derisking of the loan book, (d) Pan-India geographical presence, and (e) Improving asset quality trends.

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sales	130,562	179,627	181,796	203,453
Growth	*27.77%*	*37.58%*	*1.21%*	*11.91%*
PBT	-32,096	-23,459	5,190	1,750
Adj. PAT	-19,079	-28,434	4,832	1,323
Growth	*-316.83%*	*49.03%*	*-116.99%*	*-72.62%*
Adj. EPS (INR)	-4.66	-5.94	0.88	0.21
P/E (x)	-11.97	-9.39	63.41	265.71
Net Sales	130,562	179,627	181,796	203,453

Fortis Healthcare Limited CMP: INR 272.10

Fortis Healthcare Limited, an IHH Healthcare Group company, is the leading healthcare organization in India with of 36 healthcare facilities in India with approximately 4,300 + operational beds. Fortis healthcare business is a mix of hospital, diagnostics and day care specialty services. Fortis has operations in India, United Arab Emirates (UAE) & Sri Lanka. Fortis provides full spectrum of integrated healthcare services from clinics to hospitals to quaternary care and a wide range of ancillary services and with its JV in SRL it has also entered into the business of diagnostics. Fortis manages its diagnostic business its joint venture with SRL which has over 2,745 collection centers all India. Aided by this acquisition SRL's B2C: B2B revenue mix strengthened to 55: 45 in the quarter. Further with Brownfield expansion the company plans to increase its hospital capacity with 1,500 operational beds in 3 to5 years. Fortis healthcare recently launched its state-of-the-art hospital in Greater Noida. This hospital is equipped with 200 beds and has over 50 expert clinicians across specialties. The current occupancy of hospital is stable at 69% and is expected to maintain the same levels in future even with new capex coming in.

Key Investment Rationales

Fortis transformational journey: Brownfield new beginning to show benefit: IHH being world leading hospital chain becoming promoter of Fortis health drew investment and capex plan creating better value for all stakeholder and reviewed entire portfolio of Fortis. Management is investing in high-performing units, transforming and scaling up high potential hospital locations. As a result of this up gradation in the services and management, the Company has experienced an encouraging start to FY 23 with a revenue growth of 18% and EBITDA by 39% translating into 17% EBITDA margins going forward this EBITDA will be taken as base point. This growth was mainly due to higher number of elective procedure which lead to better occupancy level and improved ARPOB (+21% YoY). ARPOB for the quarter was INR 1.96crore. Occupancy rate improved to 65%.Diagnostics revenue was down by 6% as compared to YoY mainly due to decrease in the COVID and COVID related test volumes, but diagnostic business made EBITDA margin of 21%. Further with decrease in the COVD and travel restrictions Fortis is experiencing higher footfall in international patients. Fortis is aiming to maintain this strong performance in the near future.

Outlook & Valuation

We remain positive on Fortis healthcare and expect the margins to show an upward trend due to the following consideration: 1) The increase in the footfall of the international patients; 2) Improved services and new expansions with better technology; 3) Improvement in the ARPOB and occupancy levels due to better case mix (including higher elective procedures); 4) Increase in Non COVID test volumes with increasing network expansion in diagnostics business.

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sales	4,697	4,758	4,125	6,085
Growth		1.30%	-13.30%	47.52%
EBITDA	**231**	**610**	**404**	**1,069**
EBITDAM	5%	13%	10%	18%
PAT	**-224**	**91**	**-56**	**790**
Growth		140.63%	-161.54%	1510.71%
EPS (INR)	-3.96	0.77	-1.45	7.35
P/E (x)	0	164.26	0	39.49

Railtel Corporation of India

CMP: INR 106.90

Railtel Corporation of India, incorporated in 2000 is wholly government owned company. It is an information and communications technology infrastructure provider. It provides broadband and VPN services. It was formed with an objective of creating a nationwide broadband, telecom and multimedia network, and to modernise train control operation and safety system of Indian Railways. It is a "MINIRATNA" PSE of the Government of India with its network passing through approximately 6000 stations all across the country, covering all major commercial centres. It is performing well with consistent profits and dividend. It is the only debt free company in the telecom space under government of India.

Key Investment Rationales

Railtel the Largest Optical fiber cable provider in Indian Railways: RailTel is one of the largest neutral telecom infrastructure providers in India with an exclusive right of way (ROW) for connecting railways tracks passing through approx 7300+ railway station all across the India with optical fiber cable. Additionally, it has city wide access network that stands at over 18,000 kilometres and offers high capacity bandwidth of up to 800G at 87 locations in India. Apart for this, RailTel serves as a key network for Indian Railways. It provides a variety of services to the Indian Railways and has implemented MPLS data network for integrated payroll and accounting system, unreserved ticketing system, freight operations information system and coaching operations information systems.

Diversified Portfolio with a favourable Revenue Mix: RailTel offers a diversified portfolio of ICT services and solutions including MPLS-VPN, leased lines services, TPaaS, eOffice services and data centre services, large network hardware system integration, software and digital services. In addition to laying optical fibre cable network, the transport network is built on high capacity DWDM and an IP/ MPLS network over it to support communication requirements of the Indian Railways and other key customers. Railtel is putting in continues efforts in developing and strengthening its backbone network and deploying DWDM and MWDM to enable a high capacity next generation network. Further it also plans to diversify its portfolio by adding more variety of enterprise services which will boost the growth of Railtel

Healthy order book: RailTel has successfully completed a number of long-term projects for provision of ICT services across India. Currently the company is having a total order book of approximately Rs.5,800 crore and it has been adding more orders to its book consistently through competitive biddings. It has received large orders from the Indian Railways for services like content on demand, video surveillance system and e-office. It also has orders from Coal India Limited, Ordnance Factory Board, Indian Air Force, etc, for system integration and bandwidth requirements.

Valuation and Outlook:

We remain positive on the growth trajectory of Railtel with a healthy order book and expanding portfolio mix. Company has guided a 20% growth in the revenues as well in the EBITDA in FY23. Being the key network provider of Indian railways and taking benefit from lower equipment prices on better chip-set availability, Railtel aims to increase its margins and look forward for higher growth in its top line and bottom line.

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sale	1,038	1,116	1,411	1,627
Growth		7.51%	26.43%	15.31%
EBITDA	**302**	**334**	**327**	**368**
EBITDAM	29%	30%	23%	23%
PAT	**135**	**141**	**142**	**209**
Growth		4.44%	0.71%	47.18%
EPS (INR)	4.22	4.4	4.44	6.51
P/E (x)			28.57	12.92

United Spirits Limited

CMP: INR 825.75

United Spirits Limited (owned by Diageo) is a strong No. 1 leading player in the liquor industry. The company manufactures, sells, and distributes a wide portfolio of premium brands of liquor. Some of the famous brands sold are McDowell's No.1, Johnnie Walker, Signature, Royal Challenge, Smirnoff, Black Dog, Black & White, VAT 69, Antiquity, and Captain Morgan.USL has the largest market share of 25% in the Indian liquor industry. The company is improving its financials by increasing the margins due to premiumization . Further reduced custom duty on the imported liquor under the India – UK FTA likely to be finalized in the near term, will significantly boost the company's bottom line. The company has even reduced its debt over the period of time and is now on its way to be debt free.

Key Investment Rationales

Shift in the section of the society and higher purchasing power:

India being the largest consumer economies represents an incredibly attractive market given significant growth opportunities wherein people are moving towards the middle class and upper middle class section of the society. This shift has led to higher purchasing power within the consumers and increased standard of living of the population in last decade. Due to the popular brands the company offers, the company have an edge in comparison to the other competitors and may benefit from this shift.

Addictive nature of the Alcohol:

Alcohol makes people feel good and that it affects the brain. Drinking alcohol causes the release of naturally occurring feel good opioids known as endorphins in two key brain regions associated with reward processing. The finding suggests most of the people whose brains release more natural opioids in response to alcohol may get more pleasure out of drinking and may be more likely to drink too much and become alcoholics. Therefore this nature of the product makes it one of the strengths of United Spirits Limited.

Festival season to boost the demand of liquor:

In last couple of year's industries across globally has been affected because of the pandemic. The most affected industry has been the service and related businesses like restaurants, hotels, cinemas, airlines, transportation and supply chain. Alcohol is one of the businesses which is greatly dependent on operations of these industries. However, after a two years gap alcohol companies are expecting buoyant sales this festival season which has also been supported by the revival of supply chain and logistics businesses.

Outlook and Valuation:

Apart from uncertainties in the government policies and government intervention in the alcohol industry, we remain positive on USL and expect higher margins due to premiumization which is led by the following favourable conditions 1) reduced custom duty on the imported liquor under the India – UK FTA; 2) due to higher purchasing power and USL being a leader in the liquor industry takes benefit over its competitors; 3) Alcohol is very addictive nature which makes consumers habitual to it; 4) USL reduced its debt and 5) This festive season is expected to bring higher demand as this season is being experienced after 2 years.

Y/E March (INR mn)	FY19	FY20	FY21	FY22
Net Sales	9,411	9,414	8,106	9,582
Growth		0.03%	-13.89%	18.21%
EBITDA	**1394**	**1569**	**1051**	**1,608**
EBITDAM	15%	17%	13%	17%
PAT	**684**	**621**	**362**	**811**
Growth		-9.21%	-41.71%	124.03%
EPS (INR)	9.64	9.07	5.28	11.4
P/E (x)	57.38	53.48	105.38	77.83

Quick Overview of our last year’s Diwali Picks:

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The journey of Indian equity markets from Jan 20121 till now has not had any decent correction.

We have moved from Nifty levels of around 14000 to 18000+ and India’s market cap has risen from USD 2.52 trillion on 31st December 2020 to USD 3.4119 trillion October 2021. Currently, our market cap to GDP stands at 120% vis-à-vis US Equities Market Cap to GDP at 194%. Although this is no indication or a like comparison, the idea is to highlight that although there has been a one-way upside journey, it does not necessarily indicate a high degree of overvaluation, but not akin to a bubble.

Currently, in Indian equity markets, there are pockets and sectors which are highly overvalued and rectification of this overvaluation has already begun in the last fortnight of October. Similarly, there have been a lot many pockets that have been undervalued and the process of markets recognizing this undervaluation has already begun in the last fortnight of October.

We believe that going ahead with this process of correction in overvalued stocks and accumulation/ buying in undervalued stocks will continue. Hence we have based our Diwali Picks on the theme of Value vs. Momentum. To recap most of the market performance in the last 9 months has been driven by technology stocks where although there is a lot of earnings visibility but valuations have reached phenomenally high levels to offer any significant upside to investors. Similarly, a lot many white goods manufacturers and outsourcers who were very richly valued at their peak have corrected in the last few sessions. On the other hand, there is deep value in most of the PSU stocks be it PSU Banks or other PSU names whether in defence or infrastructure. We also believe that there is a good potential and unlock trade in some of the auto names and chances are discretionary consumption may bounce back strongly. Further, the government is likely to become more aggressive on Infrastructure spending. Hence components of infrastructure like steel and cement and other players will continue to do well.

To conclude, Indices may not offer much of an upside going ahead and could also pose some downside risk due to accelerated correction in overvalued stocks and sectors, investors can still make wealth going ahead by investing in undervalued stocks and sectors. Based on this thesis we herewith share our Diwali Picks during this year. We hope investors and our valued clients benefit from our ideas.

S.No.	Name of the Script	Recommended Price	CMP	Returns (%)
1	Adani Ports & SEZ Ltd	693	786.2	13.45%
2	RVNL	35	37.65	7.57%
3	Poonawalla Fincorp	166	323.1	94.64%
4	Garden Reach Shipbuilders & Engineers	219	437.75	99.89%
5	Angel One Ltd.	1244	1625.75	30.69%
6	SAIL	115	78.4	-31.83%
7	Indian Hotels Ltd.	197	317.25	61.04%
8	NALCO	97	68.7	-29.18%
9	The India Cements Ltd.	206	233.4	13.30%

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