

# ***InvestPro***

***Top Idea Picks***

***January 2021***



## High Conviction Stocks Idea Attributes

- **Company:** a) Sound / resilient business; b) Consistent strong financials; c) High growth potential; and d) High return on invested capital
- **Industry:** a) Market leaders / Strong brand value; b) High growth opportunities; c) Strong entry barriers
- **Management:** a) Visionary Leadership; b) Strong & Effective Management; and c) High corporate access, including promoters and CXOs
- **KRChoksey Differentiators:** a) Analytics that predicts market movements; and b) High quality actionable research

### State Bank of India Ltd.

**Risk-reward trade off favourable**

ACCU. | Target Price: 300 | Upside: 6.5%

[Read Report](#)

### ACC Ltd.

**New Capacities to drive growth**

BUY | Target Price: 1,957 | Upside: 18.9%

[Read Report](#)

### Bajaj Auto Ltd.

**Heading towards strategic growth**

ACCU. | Target Price: 3,778 | Upside: 8.2%

[Read Report](#)

### Alembic Pharmaceuticals Ltd.

**US market to drive growth**

BUY | Target Price: 1,286 | Upside: 17.9%

[Read Report](#)

### Tata Elxsi Ltd.

**Story of robust growth through vertical diversification, but it's priced in**

REDU. | Target Price: 1,785 | Downside: 8.8%

[Read Report](#)

### Bandhan Bank Ltd.

**Focus on growth elements**

ACCU. | Target Price: 457 | Upside: 13.7%

[Read Report](#)

Note: Prices as on 05 January 2021  
Source: FactSet, KRChoksey Research

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### Risk – reward trade off favourable

CMP INR 282	Target INR 300	Potential Upside 6.5%	Category Large Cap.	Market Cap (INR Mn) INR 2,511,386	Recommendation <b>ACCUMULATE</b>	Sector Financials
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State Bank of India is a key beneficiary among PSUs, for tailwinds in the industry. Its customer pool is relatively low risk, lower non-performing assets, higher pricing power. Its subsidiaries enjoy strong market position. While there is a tail risk of credit costs, despite our conservative estimates on account of chunky loans and lower credit costs than private peers. However, the risk reward trade off remains favourable and there is unlikely to be any risk of additional capital contributions to distress peers. It currently trades at 0.94x FY22E P/ABV, alluding to favourable risk reward tradeoff.

### Tail risk of credit costs remain:

- The bank has front-ended a large part of the credit cost towards the likely stress book. It has provided 50 bps of provisions in H1FY21 against our estimate of 120 bps in FY21. However, we have been conservative in our estimate of the stress pool. We believe there is likely to be tail risk in credit costs on account of higher slippages and restructuring especially in the MSME book.

### Operating performance to remain buoyant:

- It has maintained its trend in advance growth in line with the GDP. While GDP remains constrained, bank is poised to gain market share from its PSU peers. Recent growth trend have been from retail secured book, which augurs well. It has not let the peddle off from deposit acquisition despite the excess liquidity. The deposit acquisition remains strong at a reasonable cost with CASA at ~44%. The bank is well poised for growth with favorable C-D ratio and one of the better CAR especially among PSUs. We expect CAGR ~7% and ~10% in Advance and Deposit over FY20-22E at ~3% NIM.

The bank has one of the high-quality books amongst PSU and is likely to remain the best beneficiary. We expect 11% CAGR in PAT over FY20-22E and clock a ROA of 50 bps. While it is underperforming the private bank peers, the risk reward ratio is favorable. It currently trades at 0.94x FY22E P/ABV. We have been conservative in our estimates and we value the bank at INR 300 per share, valuing the bank at 1x FY22E P/ABV. The MF subsidiary is a value unlocking proposition. We recommend “ACCUMULATE” rating on the shares of State Bank of India Ltd.

### Key Financials

Particulars (INR Mn)	FY20	FY21E	FY22E
NII	9,80,848	10,63,748	10,90,560
PPoP	6,19,170	6,74,591	6,78,884
Adj. PAT	1,44,881	1,96,442	2,18,060
EPS (INR)	16.23	22.01	24.43
PPoP Margin	2.9%	3.0%	2.9%
Adj. NPM	14.8%	18.5%	20.0%
P/ABV (x)	1.2	1.0	0.94

Source: KRChoksey Research

### Shareholding Pattern

Particulars (%)	Sep-20	Jun-20	Mar-20
Promoters	57.6	57.6	57.6
FIIIs	7.8	7.9	9.6
DIIIs	12.9	13.2	13.6
Others	21.7	21.3	19.2
Total	100	100	100

Source: Bloomberg

## New capacities to drive growth post CY21

CMP <b>INR 1,645</b>	Target <b>INR 1,957</b>	Potential Upside <b>18.9%</b>	Category <b>Large Cap.</b>	Market Cap (INR Mn) <b>INR 309,098</b>	Recommendation <b>BUY</b>	Sector <b>Cement</b>
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ACC Ltd.'s revenue in Q3CY20 rose 35.9% QoQ (flat YoY) to INR 35,370 Mn. Steller QoQ growth was supported by volume growth in both the segments of Cement & RMX. Realization were stable YoY as well as QoQ. EBITDA margin came in at 19.4%, an improvement of 328bps YoY (-148bps QoQ). Expansion in EBITDA margin was led by operational efficiency and cost reduction initiatives.

### New capacities to gain traction from CY22E onwards

- Over the past five years, the company has lost market share to other large players with no major new capacities coming up during this period either through the greenfield or M&A route, while other players in the industry kept on adding new capacity. This resulted in ACC losing out potential production share. In order to grow its share, the company is adding 5.9 MT new cement capacity at a total capex of INR 30 Bn. This would be majorly funded through internal accruals. However, the new capacity would likely come on stream only by the end of CY21E. Hence going forward, we expect ACC to be on positive-growth trajectory and report robust revenue and profitability growth post CY21E onwards.

### Healthy Balance Sheet

- Amongst the peers, ACC has the strongest balance sheet with no debts in its accounts and consistent Free Cash Flow (FCF) generation. With consistent generation of FCF, ACC will be able to fund its upcoming capex plan through its internal accrual.

### Recovery in Demand to aid growth

- We see further demand recovery in cement at industry level especially from the retail front and traction in the rural economy. Also, revival in infrastructure projects and government spending will drive volume growth for the cement industry.

**The shares of ACC are currently trading at EV/EBITDA multiple of 11.0/9.8x on CY20/21E. We maintain our target EV/EBITDA multiple at 12x on CY21E EBITDA to arrive at a target price of INR 1,957/share, an upside potential of 18.9% on CMP. Accordingly, we reiterate our "BUY" rating on the shares of ACC Ltd.**

## Key Financials

Particulars (INR Mn)	CY19	CY20E	CY21E
Revenue	1,56,576	1,36,269	1,52,957
EBITDA	24,128	23,775	26,783
Adj. PAT	13,775	14,396	16,996
Adj. EPS (INR)	73.3	76.6	90.4
EBITDA Margin	15.4%	17.4%	17.5%
Adj. NPM	8.8%	10.6%	11.1%
P/E (x)	22.4	21.4	18.2

Source: KRChoksey Research

## Shareholding Pattern

Particulars (%)	Sep-20	Jun-20	Mar-20
Promoters	54.5	54.5	54.5
FIIIs	6.6	8.1	7.8
DIIIs	25.8	18.6	21.2
Others	13.1	18.8	16.5
Total	100	100	100

Source: Bloomberg

## Heading towards strategic growth

CMP	Target	Potential Upside	Category	Market Cap (INR Mn)	Recommendation	Sector
INR 3,493	INR 3,778	8.2%	Large Cap.	INR 1,009,949	ACCUMULATE	Auto

We expect Bajaj Auto Ltd. to post a CAGR of 5% and 2% in Revenue and PAT respectively over FY20-23E on the back of improvement in the economic situation in exports and better realization in the domestic markets. While domestic demand continue to remain under pressure, we retain our positive stance on Bajaj Auto.

### To set-up INR 6.5 Bn manufacturing plant in Chakan, Maharashtra:

- Riding on a strong double-digit growth of its premium bikes, Bajaj Auto is doubling its capacity for higher-priced models. The company has signed a MoU with the state government of Maharashtra to set-up a manufacturing facility with a proposed investment of INR 6.5 Bn in Chakan, the biggest industrial corridor near Pune. The facility is expected to start its operations in 2023 and will be utilised for manufacturing high-end KTM, Husqvarna and Triumph motorcycles as well as for electrical vehicles starting with Chetak. With a new range of global bikes being readied under its premium brands, it will add more 1 Mn units of fresh capacity, this will take up the total capacity to 2.2 Mn units.

### Domestic demand outlook grim in near-term; Export markets offers cushion

- As per the latest data released by Auto Dealer's Association, 2-Wheeler sales were weak in Navaratri and Dussehra. Overall demand for moped and gearless scooters were constrained. Most distributors had high inventory. Nonetheless, export market displayed buoyancy as evident from the latest results. Bajaj Auto recorded highest ever exports in December 2020 of 209,942 units, which increased by 31% compared to corresponding month last year. LATAM and Africa region witnessed strong revival in demand. Domestically, the 2-Wheeler sales in India is expected to grow significantly amid positive demand drivers, supported by growing per-capita income over the last few years. In addition, focus on personal mobility, increase in rural income, increased affordability and greater penetration would support 2-Wheeler demand.

We assign a P/E multiple of 20x on FY23E EPS of INR 188.9; to arrive at a target price of INR 3,778 per share; implying an upside potential of 8.2% from CMP. Accordingly, we recommend an "ACCUMULATE" rating on the shares of Bajaj Auto Ltd.

### Key Financials

Particulars (INR Mn)	FY20	FY21E	FY22E	FY23E
Revenue	299,187	270,244	316,816	342,621
EBITDA	50,956	45,905	52,866	55,802
Adj. PAT	52,119	44,749	52,027	54,661
EPS (INR)	180.2	154.6	179.8	188.9
EBITDA Margin	17.0%	17.0%	16.7%	16.3%
Adj. NPM	17.4%	16.6%	16.4%	16.0%
P/E (x)	19.4	22.6	19.4	18.5

Source: KRChoksey Research

### Shareholding Pattern

Particulars (%)	Sep-20	Jun-20	Mar-20
Promoters	53.69	53.69	53.66
FIIIs	13.56	13.71	13.94
DIIIs	10.42	9.12	8.76
Others	22.33	23.48	23.64
Total	100	100	100

Source: Bloomberg

## US market to drive growth

CMP <b>INR 1,091</b>	Target <b>INR 1,286</b>	Potential Upside <b>17.9%</b>	Category <b>Large Cap.</b>	Market Cap (INR Mn) <b>INR 214,057</b>	Recommendation <b>BUY</b>	Sector <b>Pharmaceuticals</b>
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For Q2FY21, Alembic Pharma reported strong Revenue growth of 17.4% YoY (up 8.6% QoQ) led by strong growth in the Rest of World (ROW) market and the Active Pharmaceutical Ingredients (API) segment. EBITDA grew 28.3% YoY (up 8.9% QoQ). EBITDA margin expanded to 30.4% in Q2FY21 (from 27.8% last year). Net Profit rose 35.4% YoY (up 10.6% QoQ) while Net Profit Margin for the quarter expanded 303 bps YoY to 22.9% (up 40 bps QoQ) from 19.8% in Q2FY20.

### Fund raising to reduce debt and expand API/Injectable manufacturing facilities:

- In August 2020 Alembic Pharma carried out fund raising of INR 7.50 bn through a qualified institutional placement (QIP) to reduce the debt and expand API/Injectable facilities. From the total proceeds, company reportedly would utilize ~INR 4.0 bn for debt repayment, while the remaining will be used for expansion activities. It should be noted that, in last 5 years company has spent ~INR 27.3 bn on capital expenditure at an average rate of 15% of revenue (highest in industry). In FY21, company's capex is likely to peak out at INR 7.0 bn and from FY22 onwards it will normalize to ~ INR 3.0-3.5 bn, post which we expect improvement in return ratios.

### Strong earnings visibility; US market to drive growth

- We expect Alembic Pharma's topline to grow at a CAGR of 16.8% over FY20-22E period and net profit to grow by CAGR of 13.9% over FY20-22E period. We are optimistic of company's growth prospects on the back of new product introductions in the US, new products filed from recently commercialized Aleor JV, and improvement in the revenue mix with contribution from general and oncology injectables. Growth in the US market to remain intact with 15-20 expected new launches a year for next three years. Company to see continued traction in the Azithromycin for at least two more quarters, which will drive the API business.

The shares of Alembic Pharma are currently trading at a P/E of 19.8x/19.9x on FY21E/22E earnings. We continue to apply P/E multiple of 23.5x on the FY22E EPS of INR 54.7/share in the wake of increased earnings visibility & maintain our target price at INR 1,286 per share; an upside potential of 17.9%. Accordingly, we reiterate a "BUY" rating on the shares of Alembic Pharma.

## Key Financials

Particulars (INR Mn)	FY20	FY21E	FY22E
Revenue	46,058	55,432	62,863
EBITDA	12,230	15,576	15,841
Adj. PAT	8,291	10,791	10,753
Adj. EPS (INR)	42.49	54.9	54.7
EBITDA Margin	26.6%	28.1%	25.2%
Adj. NPM	18.0%	19.5%	17.1%
P/E (x)	25.7	19.8	19.9

Source: KRChoksey Research

## Shareholding Pattern

Particulars (%)	Sep-20	Jun-20	Mar-20
Promoters	69.8	72.9	72.9
FIIIs	7.0	7.3	8.3
DIIIs	9.4	7.2	6.9
Others	13.8	12.6	11.9
Total	100	100	100

Source: Bloomberg

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## Story of robust growth through vertical diversification, but it's priced in

CMP INR 1,958	Target INR 1,785	Potential Downside 8.8%	Category Mid Cap.	Market Cap (INR Mn) INR 121,829	Recommendation <b>REDUCE</b>	Sector IT
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Tata Elxsi's stock has surged by 138% over the past year, and by >63% since our company report released in Sep'20. Prospects of improving growth as clients invest in digital transformation initiatives, strong 2QFY21 performance and market buoyancy aided by liquidity has driven stock performance. We remain positive on long term business prospects. However, the stock run-up has led to valuation going beyond comfort levels, at 28.4x FY23E EPS. We downgrade the stock from ACCUMULATE to REDUCE, even as we raise our TP to INR 1,785 (INR 1,600) due to 2-3% higher EPS estimates and a higher target PE multiple of 26x vs 24x. We recommend investors to book profits at current levels and would-be comfortable buying at 10-15% lower levels.

### Valuation at 3-4 SD above average of 24x-25x PE, time to take some profits off the table

- Tata Elxsi's stock has surged by as much as 129% over the past year, aided by improving growth prospects due to COVID-19 with clients investing more in digital transformation efforts, greater vertical diversification away from Transportation, into high-growth verticals like Broadcast and Medical Devices, solid 2QFY21 performance and overall buoyancy in the market, aided by ample liquidity.
- At the CMP, the stock trades at 28.4x FY23E EPS, which is a good 3-4 SD above its average of 24x-25x PE.
- While we remain positive on long term business prospects of the firm, we believe the recent rally has led to valuation moving above a comfort zone and would recommend investors to take some profits off the table. **It should be noted that this is more a valuation call than any change in our view on the long-term business prospects of Tata Elxsi. We would be comfortable buying at 10-15% lower levels.**

### Among the better-placed IT firms to benefit from up-tick in IT spend

- Improving vertical mix diversification, strong margin performance, relevant service portfolio in fast-growing areas of IT spend such as embedded software, automotive electronics, AR/VR, OTT media and medical devices, and healthy double digit EPS growth (16% CAGR over FY21-FY23E) underpin our positive stance on the specialised IT firm.
- Tata Elxsi's stock trades at a PE of 32.8x/28.5x FY22E/23E EPS. We downgrade the stock from ACCUMULATE to REDUCE, even as we raise our TP to INR 1,785 (INR 1,600) due to 2-3% higher EPS estimates and a higher target PE multiple of 26x vs 24x. We recommend investors to book profits at current levels and would-be comfortable buying at 10-15% lower levels.**

## Key Financials

Particulars (INR Mn)	FY21E	FY22E	FY23E
Revenue	17,458	20,247	23,284
EBIT	4,060	4,764	5,514
Adjusted PAT	3,179	3,715	4,279
Adjusted EPS (INR)	51.0	59.7	68.7
EBIT Margin	23.3	23.5	23.7
PE (x)	38.3	32.8	28.5
EV/EBITDA (x)	25.2	21.3	18.3

Source: Company, KRChoksey Research

## Shareholding Pattern

Particulars (%)	Sep-20	Jun-20	Mar-20
Promoters	44.53	44.53	44.53
FIIIs	11.75	10.54	10.71
DIIIs	2.83	2.44	2.15
Others	40.89	42.49	42.61
Total	100	100	100

Source: BSE/NSE

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## Focus on growth elements

CMP INR 402	Target INR 457	Potential Upside 13.7%	Category Large Cap.	Market Cap (INR Mn) INR 647,051	Recommendation <b>ACCUMULATE</b>	Sector <b>Banking</b>
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A leader in micro lending business, Bandhan Bank Ltd (BBL) serves its customers with diversified asset portfolio. There was an uptick in housing demand during H1FY21 supported by government schemes. BBL is expected to get benefit from Gruh Finance network, as further momentum is expected during H2FY21. It has launched new asset segments with the focus on urban/metro areas while penetrating rural/semi-urban areas with fresh micro credit strategies to sustain its market position.

### Persistent demand in MFI & diversified asset segments to drive business growth

- As on Sep'20, deposits/advances stood at INR 661.3 bn/ INR 766.1 bn by 34.4%/19.4% of YoY growth, respectively. On YTD basis, BBL's deposit growth was stood at 15.8% which was ahead of 5.1% of industry growth; backed by 38.2% of BBL's CASA book.
- MFI Industry's loan book grew by 15% YoY to INR 2.3 tn as on Sep'20 as against 48% as on Sep'19; the contraction was observed due to COVID-19 pandemic. In micro banking segment, the bank is looking to convert eligible micro borrowers to SMEs where it follows individual loan assessment with monthly collections at branches.
- Recently, it has launched 2W loans, consumer, micro housing loans coupled with gold loans expansion across 500+ branches where it has observed demand.

### Improved collections and disbursements indicates potential demand

- As on Sep'20, collection efficiency for mortgage/SME/NBFC segments in value terms were stood at 98%/96%/100%, respectively. As on 27<sup>th</sup> Oct'20, bank's collection efficiency for EEB segment in value terms stood at 91%.
- Disbursements for the period 1<sup>st</sup> Sep-27<sup>th</sup> Oct'20 were at INR 86.4 bn where it almost reached pre-COVID level of INR 91.4 bn in 2019 for the same period.

BBL has a strong PAN India presence with stable asset quality and adequate capital. Though it has started operations in India's eastern region with strong credit growth, it will continue to diversify north, west and southern regions for financial inclusion to serve similar micro borrowers' profile. It is currently trading at a 4.3x of adjusted book value (ABV) of INR 92/share. We expect muted sequential growth in bottom-line for the quarter Dec'20 due to moderate provisioning and assign P/ABV multiple of 3.8x to FY22E ABV of INR 120.2/share to arrive at a target price of INR 457/share.

## Key Financials - Consolidated

Particulars (INR Mn)	FY20	FY21E	FY22E
NII	63,239	74,611	97,515
PPOP	54,466	61,626	76,484
PAT	30,237	30,660	42,840
EPS	18.78	19.04	26.61
ABV	91.96	99.41	120.21
P/E (x)	21.4x	21.1x	15.1x
P/ABV (x)	4.3x	4.0x	3.3x

Source: KRChoksey Research

## Shareholding Pattern

Particulars (%)	Sep-20	Aug-20	Jun-20
Promoters	40.0	40.0	60.9
FIIIs	32.2	27.3	14.5
DIIIs	5.8	4.9	2.4
Others	21.9	27.8	22.1
Total	100.0	100.0	100.0

Source: Bloomberg

Please click to read: [KRChoksey\\_Bandhan Bank\\_Initiating Coverage](#)

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