TOP PICKS

August 2021

AXIS SECURITIES

Healthy Performance Once Again; Sustainability is the Key!

Axis Top Picks basket delivered an excellent 9% return in Jul'21 (one of the best monthly returns), beating all major benchmarks by a significant margin. Our Top Picks basket has delivered ~100% (99.24% to be precise) since its inception in May'20. Even as the broader market continued to outperform, July month witnessed trends similar to those in the prior months with NIFTY showcasing limited returns. Nonetheless, the benchmark NIFTY index hit a new high during the month with the July high being 4% higher than the February 15th high, which stands significant. The sectors that delivered excellent returns during the month were Real Estate (+16%), Metals (+10%), and IT (+5%). Other sectors, however, were a mixed bag. The BFSI sector has been sideways since the 2nd COVID-19 wave. And though select stocks such as ICICI Bank, Bajaj Finserv, and a few others have outperformed, NPA and growth challenges have slowed the overall sector performance.

Notwithstanding the challenges in the BFSI sector, the Small and Mid Cap indices once again delivered a healthy performance during the month. We continue to see the broader market doing well but the focus is shifting towards sustainability of the returns. We believe the returns from the current levels will be more calibrated and focus on quality and value will yields more sustainable returns, going forward. We maintain our top picks for August unchanged from July picks as we foresee robust performance sustaining during the month.

Our Key themes are as follows:

Q1FY22 earnings mixed bag: The Q1FY22 earnings to date can be considered a mixed bag with a few positive surprises as well as significant earnings miss. The IT sector performance was healthy overall with Infosys upping the guidance for the year. Tech Mahindra and Wipro, too, reported a good set of numbers while HCL tech reported a marginal miss. Furthermore, TCS reported a good operating performance but the numbers can be considered a shade miss. However, the IT midcaps reported healthy numbers which helped the sector to become the largest Indian sector by market capitalisation. The BFSI continued its mixed trend with the industry bellwether HDFC Bank reporting a sluggish growth and higher-than-expected NPAs. While the NPAs continue to remain manageable, concerns over growth have started to surface. ICICI Bank reported excellent growth and overall better numbers. Maruti reported a miss on margins on account of rising input costs even though the revenue numbers were largely in line. Asian Paints and Hindustan Unilever also reported lower-than-estimated margins. Though the Pharma sector was expected to report healthy numbers, the sectoral performance has been a mixed bag with Dr Reddy missing the expectations while Sun Pharma beating the estimates. There has been margin pressure in the US business but the industry has been judiciously adapting with new product lines and specialty products. Overall, the quarter results have seen a mixed response but the trend is still constructive and earnings visibility continues to remain good.

Volatility continues to reduce, signaling the continuance of strong bull market: While the markets seemed volatile on a few occasions during the month, the spook index (India VIX) continued to trend downwards. India VIX has trended down to 13 now which is significantly lower than the long-term average of 22. Lower VIX is a significant positive for the Small and Mid Cap stocks which continued to deliver strong returns during the month. We believe VIX Index may go up during the Q1FY22 results but we don't expect a meaningful rise in it, meaning a sharp market correction is unlikely.

Mid Cap, Small Cap, and Large Cap Value to remain key allocation themes; Quality coming back in focus though: Small and Mid Cap indices delivered a healthy 7% and 4% returns, respectively. Value investment style outperformed Growth and Momentum styles by a significant margin though Quality is coming back in flavor now. Quality gels well with our sustainability theme and our focus may increasingly shift to Quality. Currently, we maintain our allocation themes of Mid Cap, Small Cap, and Large Cap Value which have delivered healthy returns.

Maintain December NIFTY target to 17400: We maintain our Dec'21 NIFTY target of 17400 (22x FY23E earning). Overall, we remain constructive on the market and believe that the dips should be utilized to build positions in the above-mentioned themes.

Based on the above themes, we recommend the following stocks:

ICICI Bank, SBI, Federal Bank, Equitas Small Finance Bank, Varun Beverages, Camlin Fine Sciences, Mold-Tek Packaging, Amber Enterprises India, Minda Corporation, Steel Strips Wheels, Lupin, Tech Mahindra, Bharti Airtel, HCL Technologies, Orient Cement, Ashok Leyland

TOP PICKS

August 2021

Axis Securities Top Picks

INVEST IN ONE CLICK

Company Name	Sector	Stock price	Target Price	Upside (%)	12 Month Fwd PE	12 Month Fwd P/BV	Dividend Yield	TR 1M%	TR 3M%	TR 6M%	TR YTD%
ICICI Bank Ltd	Financials	683	810	19	23.1	2.9	0.3	7.1	14.2	11.1	28.2
State Bank of India	Financials	432	510	18	11.1	1.4	0.9	2.1	23.7	31.3	59.1
Federal Bank Ltd	Financials	87	100	14	8.7	1.0	0.8	2.3	9.9	9.7	31.9
Equitas Small Finance Bank Ltd	Financials	63	76	21	14.4	1.9	NA	3.8	9.2	40.9	60.7
Varun Beverages Ltd	Consumer Staples	762	900	18	56.6	8.6	0.3	9.5	24.3	35.8	29.0
Camlin Fine Sciences Ltd	Materials	188	215	14	25.0	3.7	NA	-0.3	26.0	80.5	58.4
Mold-Tek Packaging Ltd	Materials	527	585	11	24.6	4.8	1.3	8.9	18.7	56.1	87.3
Amber Enterprises India Ltd	Consumer Discretionary	2,992	3,330	11	53.9	5.8	NA	2.9	-1.9	12.1	29.2
Minda Corporation Ltd	Consumer Discretionary	139	155	12	19.1	2.6	0.5	10.5	37.7	44.0	55.9
Steel Strips Wheels Ltd	Consumer Discretionary	1,508	1,669	11	NA	NA	0.1	61.3	111.3	150.0	198.5
Lupin Ltd	Health Care	1,107	1,400	26	29.2	3.4	0.6	-2.8	5.4	9.2	15.4
Tech Mahindra Ltd	Information Technology	1,210	1,350	12	19.4	3.8	1.7	13.1	28.3	28.7	26.6
Bharti Airtel Ltd	Communication Services	562	700	25	58.7	4.8	NA	7.5	5.1	-5.9	10.7
HCL Technologies Ltd	Information Technology	1,025	1,150	12	20.7	4.2	1.9	5.6	15.6	10.8	12.2
Orient Cement Ltd	Materials	160	180	13	16.7	2.2	0.9	17.8	54.5	75.1	88.0
Ashok Leyland Ltd	Industrials	133	150	13	41.0	5.3	0.4	9.8	19.3	1.6	40.8

Source: Company, Axis Securities, CMP as on 30thJul 2021

Sector Outlook

Sector	Current View	Outlook
Automobiles	Equal Weight	While the Indian automobile sector has seen a significant improvement in demand and most categories are seeing good traction, the current lockdowns are expected to have an unfavorable impact on the demand scenario. Moreover, the rising input costs are wreaking havoc in the Auto companies with leading companies such as Maruti reporting margin disappointment. Auto companies do expect demand revival and many companies offer decent upside from the current levels. However, the sector remains a mixed bag for now as lower-than-expected volume may result in weaker-than-expected margins. We downgrade the sector to Equal Weight from Over Weight.
Banking and Financial services	Equal Weight	The BFSI outperformed the broader market from November to February as the COVID-19 challenges were less significant than anticipated and banks were better prepared. However, the re-imposition of lockdowns will have an impact on the banks. Even as Axis Bank and ICICI bank reported a good set of numbers, the economic challenges cannot be wished away and the banks will bear the brunt of the challenges. The pick-up in credit demand as the economy gradually recovery remains to be seen. We downgrade the sector to Equal Weight and remain watchful on the developments in the sector.
Capital Goods	Equal Weight	The sector attained normalcy at the end of FY21 with Q4FY21 being supported by a rise in the Gross Fixed Capital Formation. The government's Capex cycle continues to be robust while house registrations in the metro cities continue to witness strong traction. It is only a matter of time that the private Capex cycle will pick up which will aid the capital goods sector. We upgrade our stance on the capital goods sector to Equal Weight from the prior Underweight stance.
Cement	Equal Weight	The cement sector has had pricing power in Q4FY21 and managed to withstand tough times. We maintain our stance to Equal Weight as we foresee better pricing scenario evolving, moving ahead. Demand scenario is also picking up in the number of regions which has been a positive surprise. Overall, we find the cement sector has been able to cope better than expected. Hence, we maintain our outlook.

Sector Outlook (Cont'd)

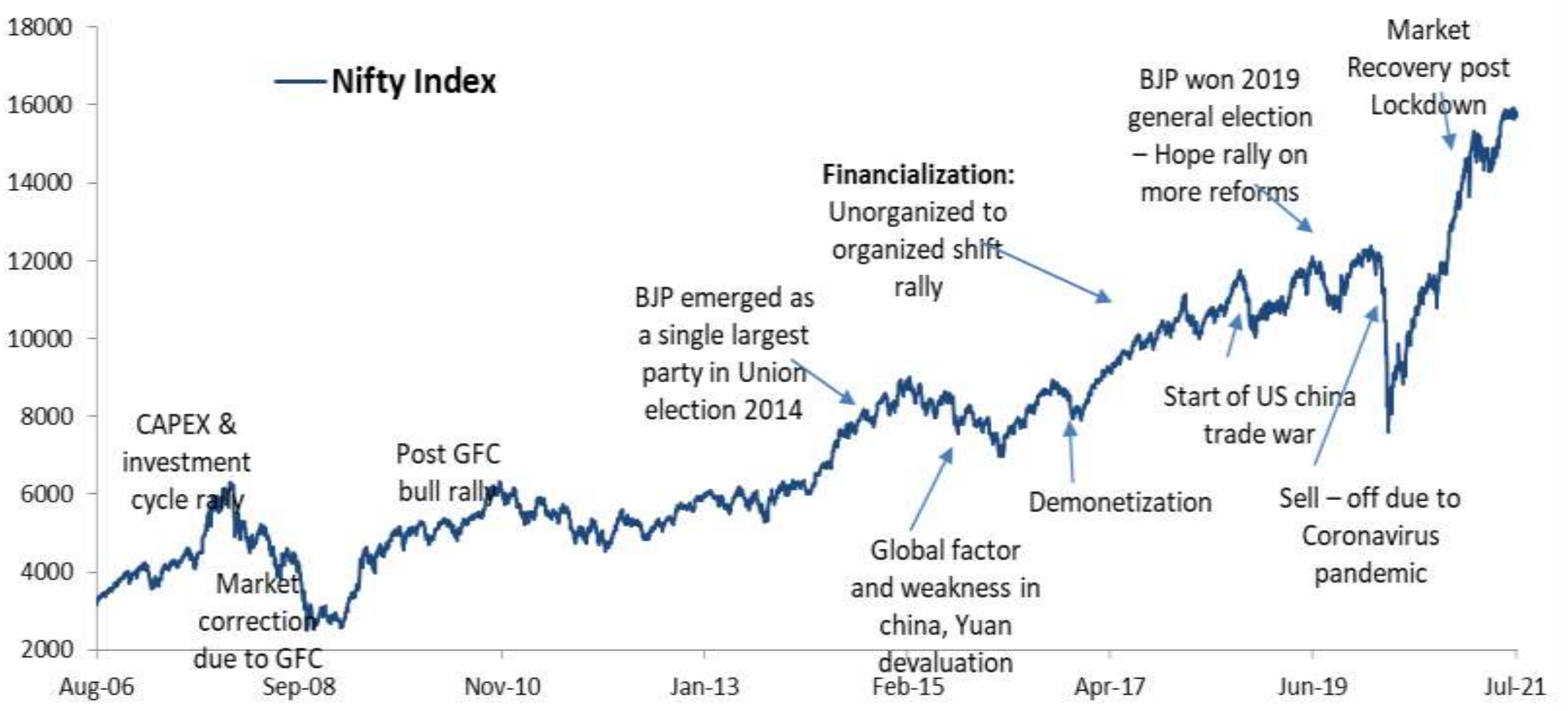
Sector	Current View	Outlook
Consumer staples	Equal Weight	The consumer staples sector witnessed a good demand recovery and posted solid top-line growth in Q4FY21. However, gross margin pressure was clearly visible due to RM headwinds. While the sector has strong earnings visibility and best-in-class return ratios, the expensiveness versus other sectors limits the upside as earnings visibility will improve across the board. We maintain the FMCG sector to Equal Weight.
Consumer Discretionary	Equal Weight	While the consumer discretionary space is witnessing a strong revival and many categories are normalizing, the current lockdowns are posing a serious challenge to the recovery. However, with recovery in the COVID-19 trajectory, the outlook of the sector is improving. We continue with the Equal Weight stance and remain watchful on the development in this space.
Information Technology	Over Weight	Large IT companies continued with a growth momentum in Q4FY21 led by strong deal closures and the in-line performance on the margins front. The sector is in a re-rating cycle and this trend is likely to persist over the medium term. The information technology space is marked by companies having strong balance sheets and play on the current trend of digitization. Even at current levels, the IT sector valuations are reasonable. Thus, we recommend an Overweight stance on the sector.
Metals and Mining	Over Weight	The Metals & Mining sector has seen a significant pricing uptrend with an improvement in the global scenario. This trend is likely to persist in the medium term and Metal stocks are likely to perform well. We upgrade the sector to Over Weight.
Oil and Gas	Equal Weight	Oil marketing companies benefited from the inventory gain and better GRMs in Q4FY21. OMCs delivered better performance overall. The sector's bottom line is likely to stay stable on account of higher crude prices and the likelihood of high refining margins due to improved balance on supply and demand. Upstream companies may surprise positively in the scenario of higher-than-expected crude prices. We upgrade the sector from Underweight to Equal Weight.

Sector Outlook (Cont'd)

Sector	Current View	Outlook
Pharmaceuticals	Equal Weight	Q4FY21 results were a mixed bag with a not-so-encouraging performance from the US business. Margins were strong but a large portion is factored in into the market prices. For the domestic formulation companies, cost-saving measures were the biggest driver in their Q4FY21 performance. We believe moderate recovery is likely to continue in domestic Pharma revenues while significant improvement in operating metrics is needed for further re-rating. We foresee risks to this and continue with an Equal Weight stance on the sector.
Real Estate	Equal Weight	The real estate sector is witnessing record registrations in the metro cities. Demand has picked up as real estate prices are low and interest rates are very attractive. The sector is likely to see more traction in 2021 and hence we upgrade real estate to an Equal Weight stance.
Specialty Chemicals	Over Weight	The specialty chemicals sector has been one of the sunrise sectors of the country. India has been gaining a global market share in this space leveraging its capabilities and supply chain realignment from China to India. We believe Indian companies would gain further ground as companies reduce dependence on China after the COVID-19 pandemic and shift their supply chains to India. Apart from the long-term supply chain shift theme, many specialty chemicals form a part of essentials and the facilities have started opening up post-lockdown relaxations. The decline in raw materials prices would also support margins and reduce working capital needs. However, input costs are a pass-through for most companies and benefits may be limited. Overall the specialty chemicals industry is likely to continue to perform well in the medium term. We recommend an Over Weight stance on the sector.
Telecom	Over Weight	Telecom has become the most critical sector during the current challenging times to keep the businesses up and running. Even before the COVID-19 outbreak, the sector was seeing an improved pricing environment. The industry is highly consolidated with two strong and one weak player in the wireless space. We recommend an Over Weight stance on the sector.

Nifty Events Update: Volatile month; trend constructive

- The Indian equity market touched an all-time high of 15924 on 15th July, up 4% from the previous high on 15th Feb. Delta variant of Covid-19 has kept the markets volatile but the overall trend remains constructive. The trend is further supported by a positive revision in revenue guidance by the major IT players.
- The volatility index continues its downward trajectory. Currently, VIX is trading below 13 level vs. the long-term average of 22, indicating a positive setup for the market with limited downside. If VIX continues to head southward, it will trigger a further rally in the broader market as we are witnessing for the last 2-3 months.
- The vaccination drive has further picked up in Jul'21 vs. vaccine shortages in May'21. In our opinion, vaccinating a significant part of the population will take ~4 to 5 months.



Lifetime high: 15,924 on 15th July

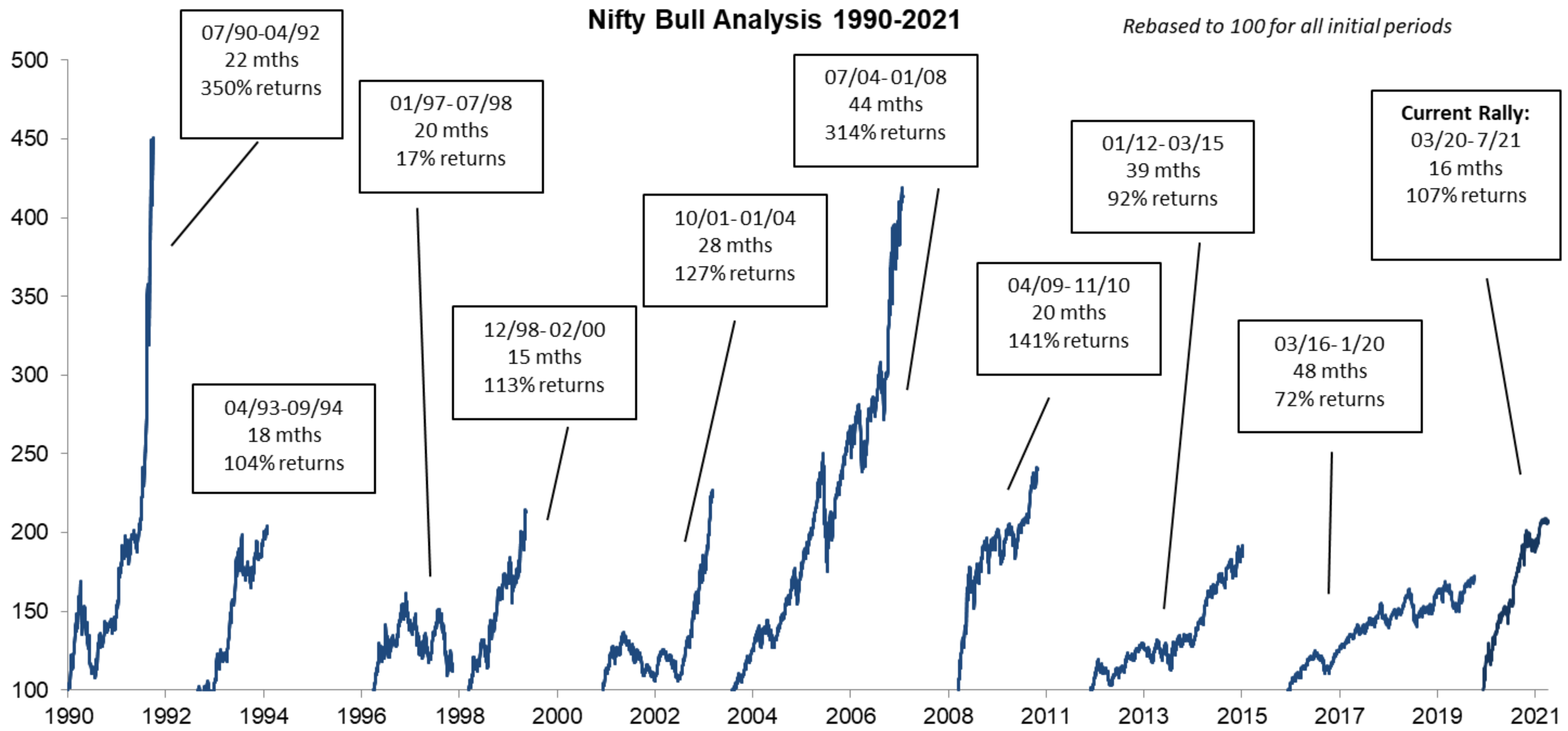
Broader market outperformed in July:

Benchmark up by 0.5% while Mid Caps/Small Caps up by 4%/7%

Source: Bloomberg, Axis Securities

Nifty Bull rally analysis: Is the current rally is a repetition of 2004-07 Bull Run?

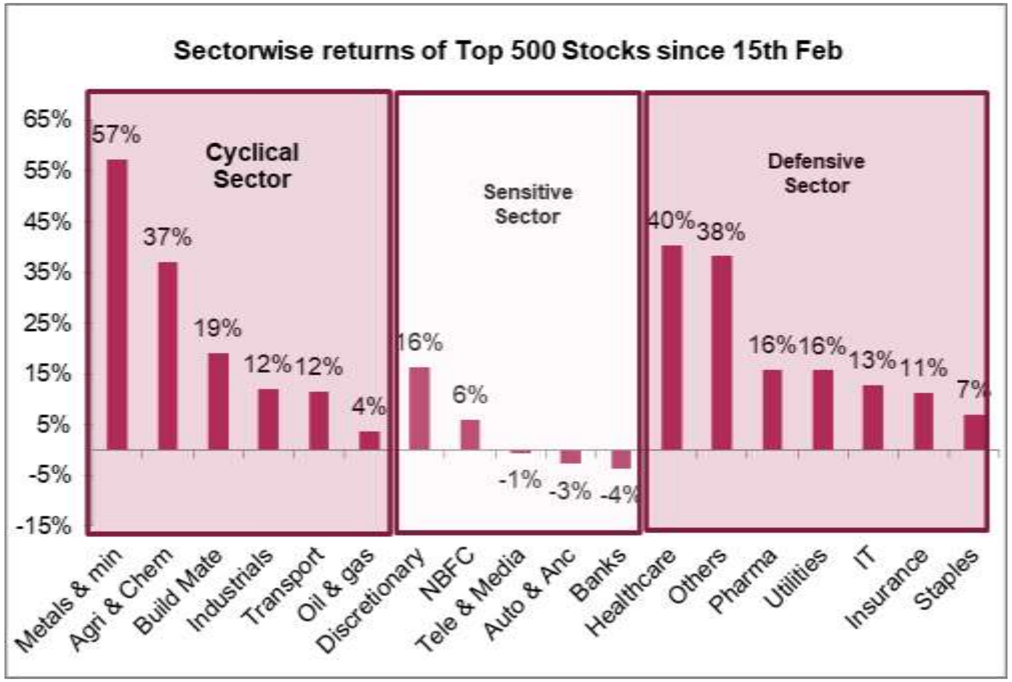
- Historically, Nifty had seen 10 bull phases.
- The average bull-phase return stood at 144% with an average period of 27 months.
- In 7 bull phases including the current one, Nifty has been up by over 100%
- In the current rally, Nifty had given a return of 107% in 16 months

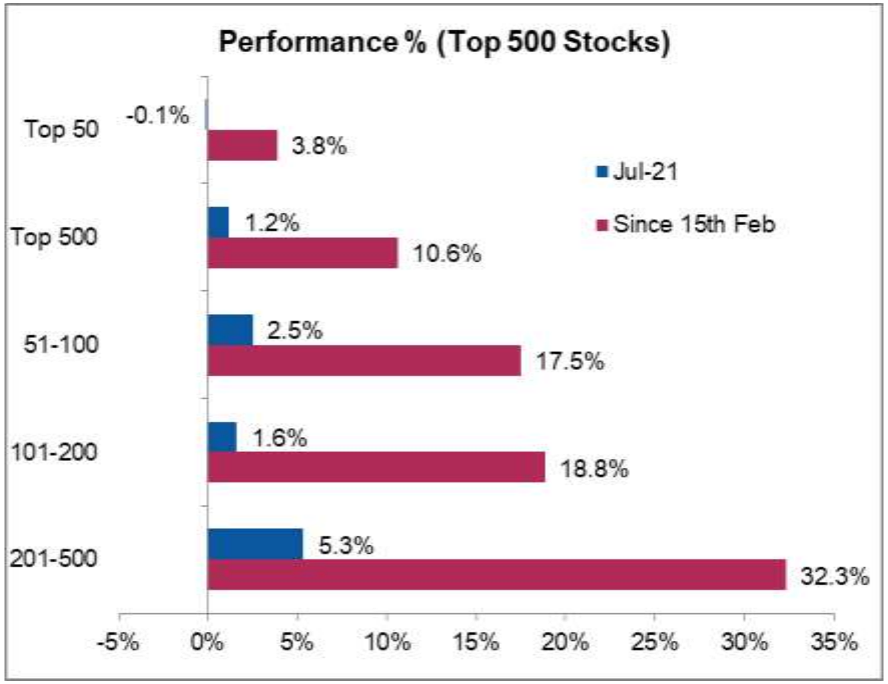


Source: Bloomberg, Axis Securities

What Happened Since 15th Feb – Small Caps steals the show!

- The equity market scaled to a record high of 15924 on 15th July, up 4% from the previous high of 15314 on 15th Feb. Though the benchmark index scales a new high, the broader market has outperformed the Large Cap universe (top 50 stocks) by a significant margin during the same period. The stocks ranking from 201-500 rallied 32% since 15th Feb while Top 50 stocks were up by only 4% over the same period.
- As anticipated, the market positioning has slowly shifted towards Defensive and Selective Cyclical plays that have outperformed the Sensitive sectors' play since 15th Feb. The BFSI and Auto sectors have been the laggards in the current rally primarily due to challenges posed by COVID 2.0. However, barring Q1FY22, the outlook for these remains positive as the emergence of visibility in sectors may provide significant alpha, moving forward.
- The discretionary sector is outperforming on account of an improved outlook.





Source: Bloomberg, Axis Securities

What Happened Since 15th Feb: Nifty Recovered and is Trading At 4% Above its Previous High!

- Since 15th Feb, a broader market rally was visible across the sectors. Even as the benchmark index is already crossed the previous high for the same period, 82% (410) companies out of the Top 500 companies had given a positive return since 15th Feb. Almost 90 companies have been corrected and given a negative return from the Nifty top level.
- 88 companies rallied more than 50%, of which 65 are Small Caps and 17 are Mid Caps.
- Most of the correction was visible in the NBFC, Auto, Discretionary, and Telecom space while positive momentum continued in the IT, Healthcare, Pharma, Agri, and Metal space. More than 90% of the PSU universe is up from the 15th Feb levels.

Showcasing no of stocks for different price returns from 15 Feb, 21 to 30 Jul, 21 for top 500 companies

Sector	No of Stocks	>0%<20%	>20%<50%	>50%	<0%
Agri & Chem	35	6	18	10	1
Auto & Anc	34	9	9	0	16
Banks	28	8	3	3	14
Build Mate	34	20	6	5	2
Discretionary	46	19	15	4	8
Healthcare	46	16	18	5	6
Industrials	47	19	16	8	4
IT	23	3	7	11	2
Metals & min	21	5	3	13	0
NBFC	56	19	14	7	16
Oil & gas	13	8	3	0	1
Others	51	10	20	14	7
Staples	27	12	9	3	3
Tele & Media	16	5	2	1	8
Transport	11	4	4	2	1
Utilities	12	4	5	2	1
Total	**500**	**167**	**152**	**88**	**90**
Large Cap	**100**	**44**	**22**	**6**	**28**
Mid Cap	**150**	**55**	**49**	**17**	**26**
Small Cap	**250**	**68**	**81**	**65**	**36**
PSUs	**55**	**25**	**12**	**12**	**6**

Source: Bloomberg, Axis Securities

Top 500 stock performance

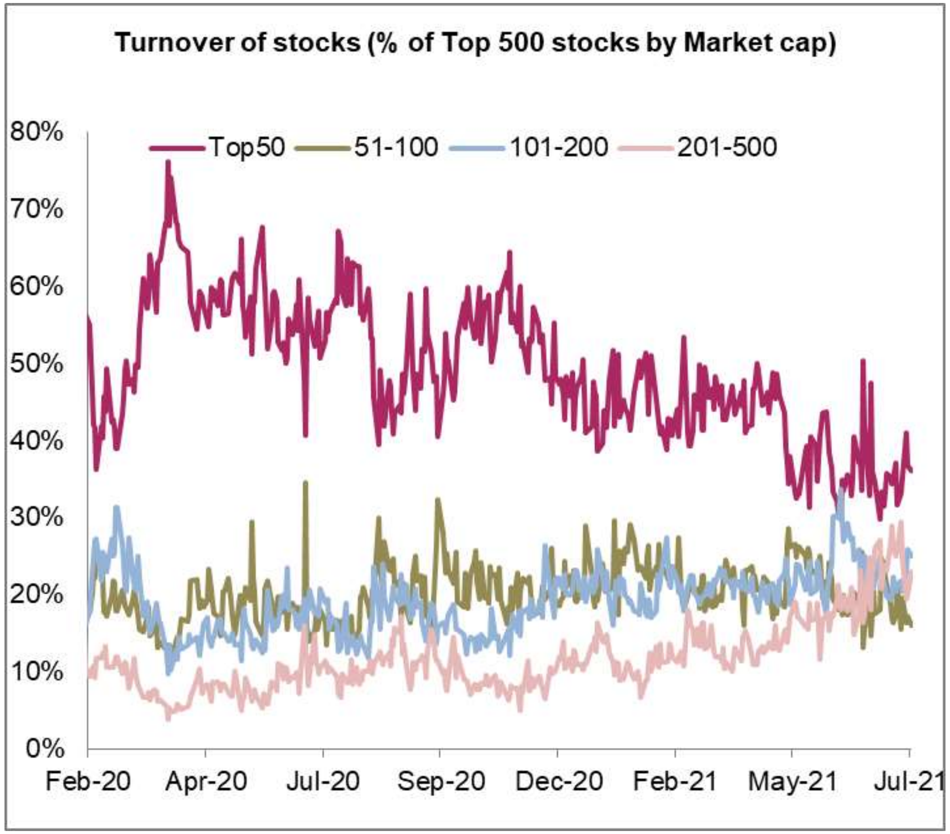
- The market cap of top 500 stocks has risen 51% YoY to Rs 211 Tn for the first time in Jul'21 vs. 97.4 Tn on 23rd Mar'20.
- Metal stocks' Mcap is up 138% since the last one year.
- IT sector Mcap has overtaken Mcap of the Banks and holds 29.6 Tn in the Top 500.

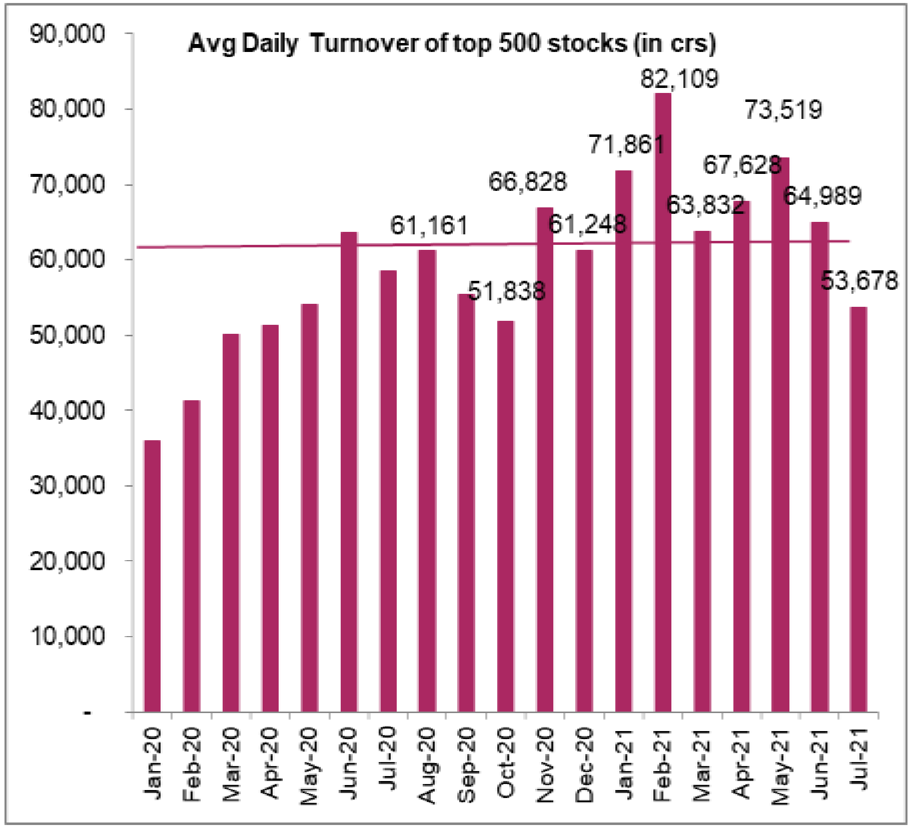
	No of	Sectoral market cap of Top 500 stocks in Tn as of										YoY
	companies	Dec-19	31-01-2021	20th Feb	Mar-20	Jul-20	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Chg (%)
Banks	35	24.9	23.9	23.7	13.8	17.5	26.6	26.1	28.4	28.3	27.9	60%
IT	23	16.6	16.7	17.2	12.1	18.7	26.5	26.0	27.3	29.3	29.6	58%
Oil & gas	15	16.0	14.9	15.3	9.4	18.5	18.8	18.7	20.4	20.2	19.5	5%
NBFC	49	14.2	14.3	15.2	8.2	10.6	15.8	15.9	16.9	17.4	18.1	70%
Staples	27	13.8	14.1	14.4	11.1	14.1	15.5	15.1	15.7	16.1	16.0	14%
Discretionary	49	9.8	10.2	11.0	7.3	8.8	12.9	12.7	13.9	14.5	14.9	68%
Auto & Anc	36	9.4	9.3	9.0	5.5	8.3	11.6	11.3	12.3	12.5	12.1	46%
Pharma	35	6.7	6.9	7.2	5.6	9.0	9.7	10.6	11.0	11.4	11.7	30%
Industrials	47	6.2	6.4	6.1	3.8	4.9	8.1	8.0	8.7	8.8	9.0	83%
Build Mate	33	5.6	6.1	6.0	3.8	5.1	8.3	7.9	8.4	8.5	9.5	87%
Metals & min	20	5.6	5.2	5.2	3.1	4.4	7.4	9.1	9.7	9.7	10.5	138%
Tele & Media	18	4.0	4.4	4.6	3.1	4.6	4.3	4.4	4.5	4.6	4.8	4%
Insurance	6	4.2	4.2	4.0	2.2	3.9	4.2	4.3	4.4	4.6	4.6	19%
Utilities	12	4.0	3.9	3.9	2.7	3.5	6.4	6.4	7.5	7.2	6.7	90%
Others	45	3.2	3.5	3.6	2.1	3.1	5.5	5.8	6.3	6.8	7.2	134%
Agri & Chem	30	3.2	3.4	3.5	2.3	3.3	4.5	4.7	5.1	5.4	5.7	72%
Transport	12	1.2	1.2	1.2	0.7	0.9	1.4	1.4	1.6	1.6	1.5	69%
Healthcare	8	0.7	0.8	0.8	0.6	0.8	1.3	1.4	1.5	1.7	1.8	116%
Total	**500**	149	150	152	97	140	189	190	204	209	211	51%

Source: Bloomberg, Axis Securities

Market Turnover (% of top 500 Names)

- Turnover was at 9 months low and significantly reduced on an MoM basis.
- The share of small stocks has improved significantly in the last few months.

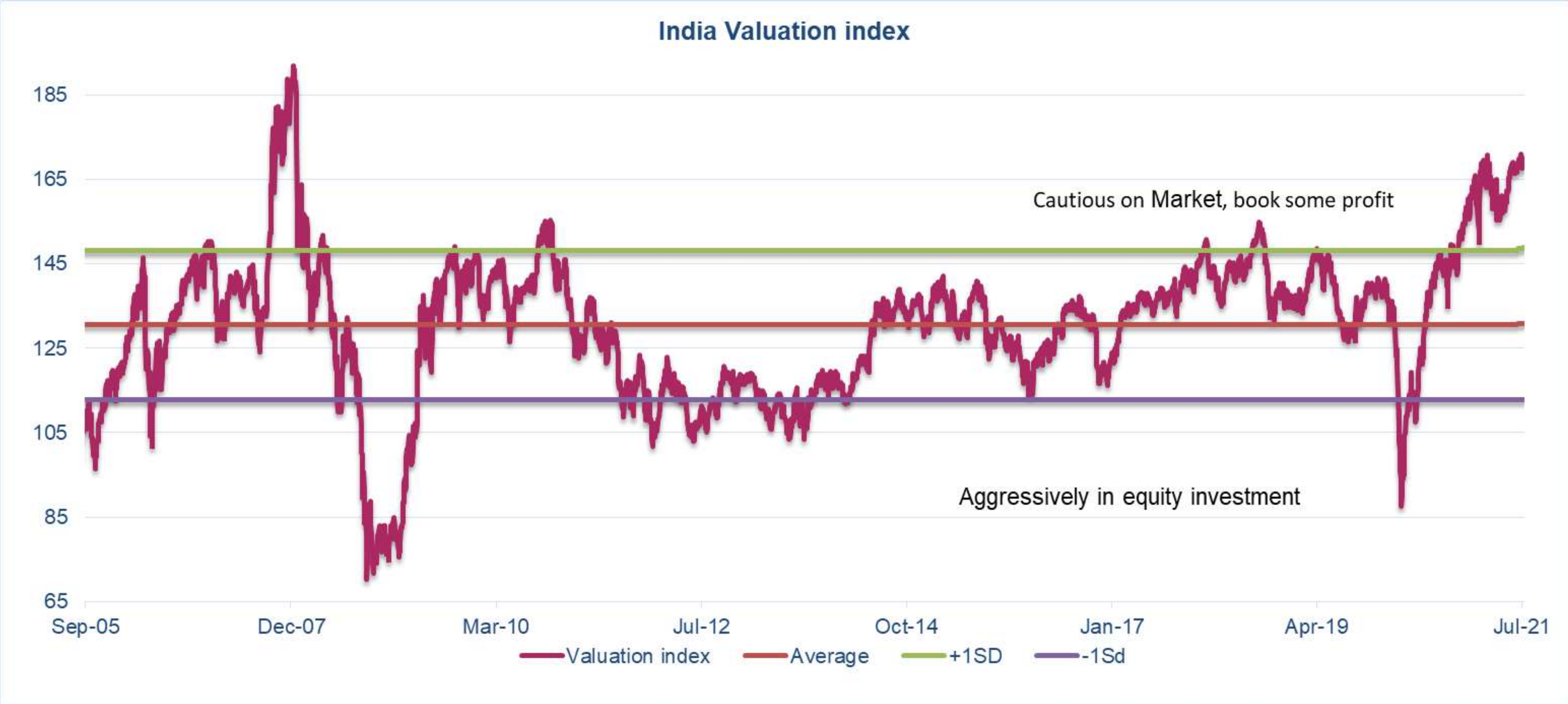




Source: Bloomberg, Axis Securities

India Valuation Index: Retracing Back To Cautious Zone after the Recent Run-Up but Earnings Upgrades More Critical

Our Market valuation index has retraced back to the cautions zone after the recent run-up (earlier seen in 2018). Current levels indicate some profit booking in the market (especially Large Caps). Stock picking and Sector Rotation are keys at the current levels to achieve outperformance. The calculation of the India Valuation Index is based on four fundamental market parameters (12m fwd PE, 12m fwd PB, Bond Equity Earnings Yield Ratio, and Mcap to GDP Ratio).



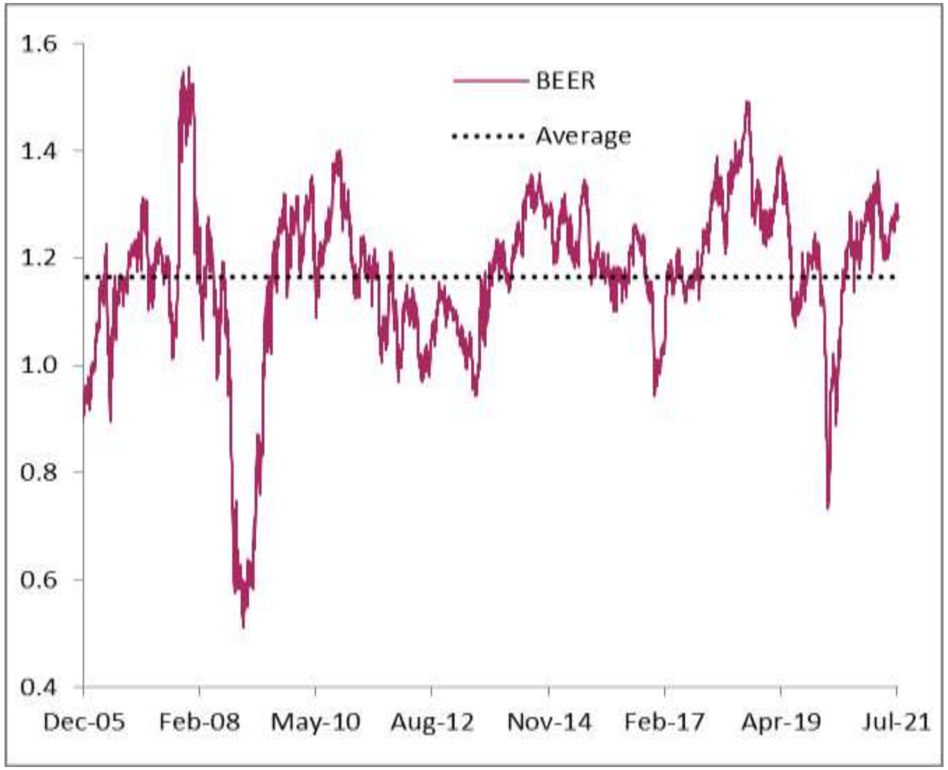
Source: Bloomberg, Axis Securities

Two Fundamental Ratios Are Trading Slightly Above Their LTA after A Recent Run Up!

BEER: With the recent rollover of earnings, the BEER ratio is trading slightly above its LTA which indicates the stock market is slightly expensive at the current level as against the bond market.

India's total market cap to GDP is trading at 118%; above its long-term average. The current Mcap is 12%/22% above the 15th Feb/1st Jan levels, indicating a broader market rally.

Historically, similar upward earning momentum was seen for FY10 earnings immediately after the GFC crisis, which took a market cap to GDP to the range of 95-98%. With this positive earnings momentum in the current cycle, it is likely to see higher levels of Mcap to GDP in the upcoming quarters.

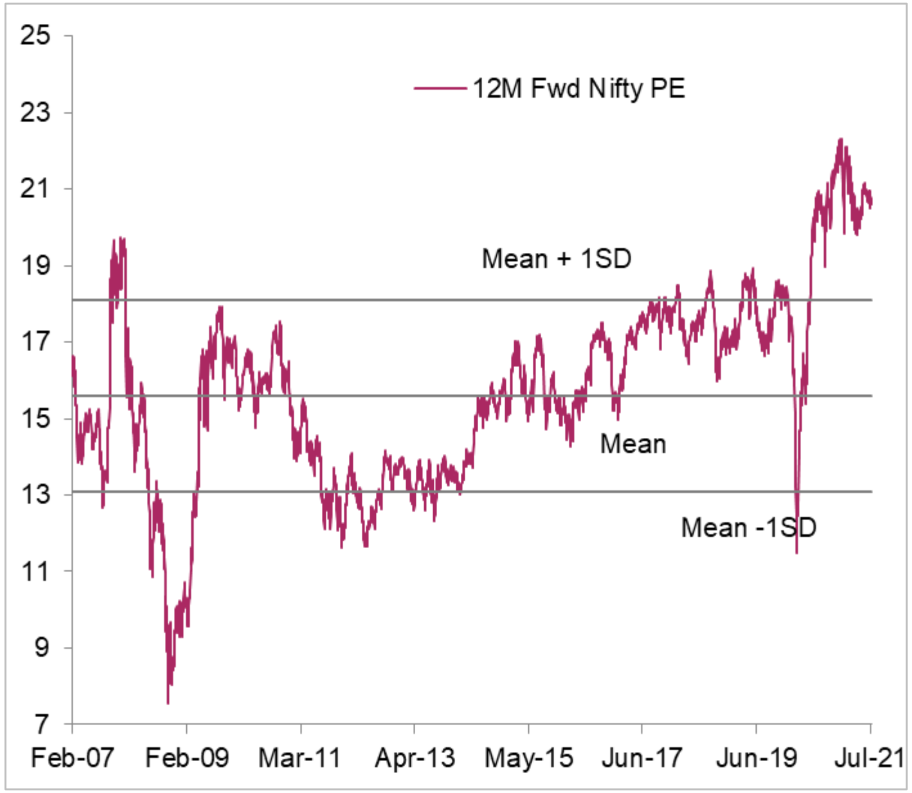


Source: Bloomberg, Axis Securities

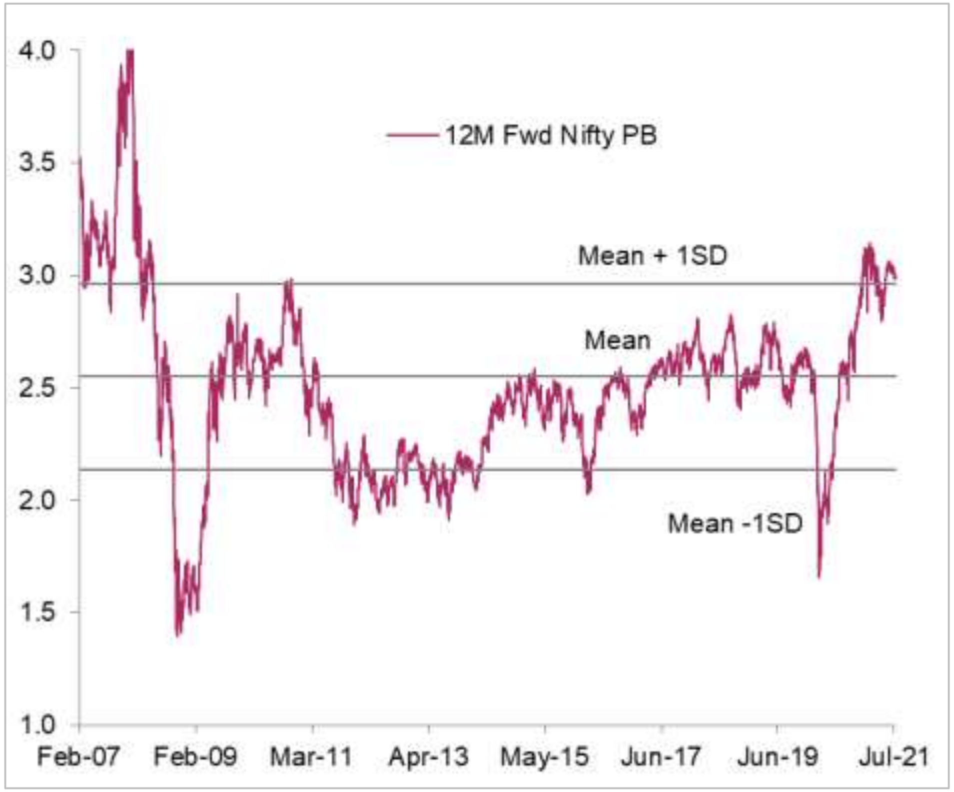
Market Valuations: With Rollover in FY22, 12m Fwd PE Is Now Trading At 20x

- Nifty is currently trading at 20.5x on 12m fwd PE, 2 std above its long-term average while it is trading 1.0 std on 12m Fwd PB.
- The top 10 are trading at 24.0x while the remaining 40 are trading at 18.0x on 12m forward PE.

Nifty 12m Fwd PE

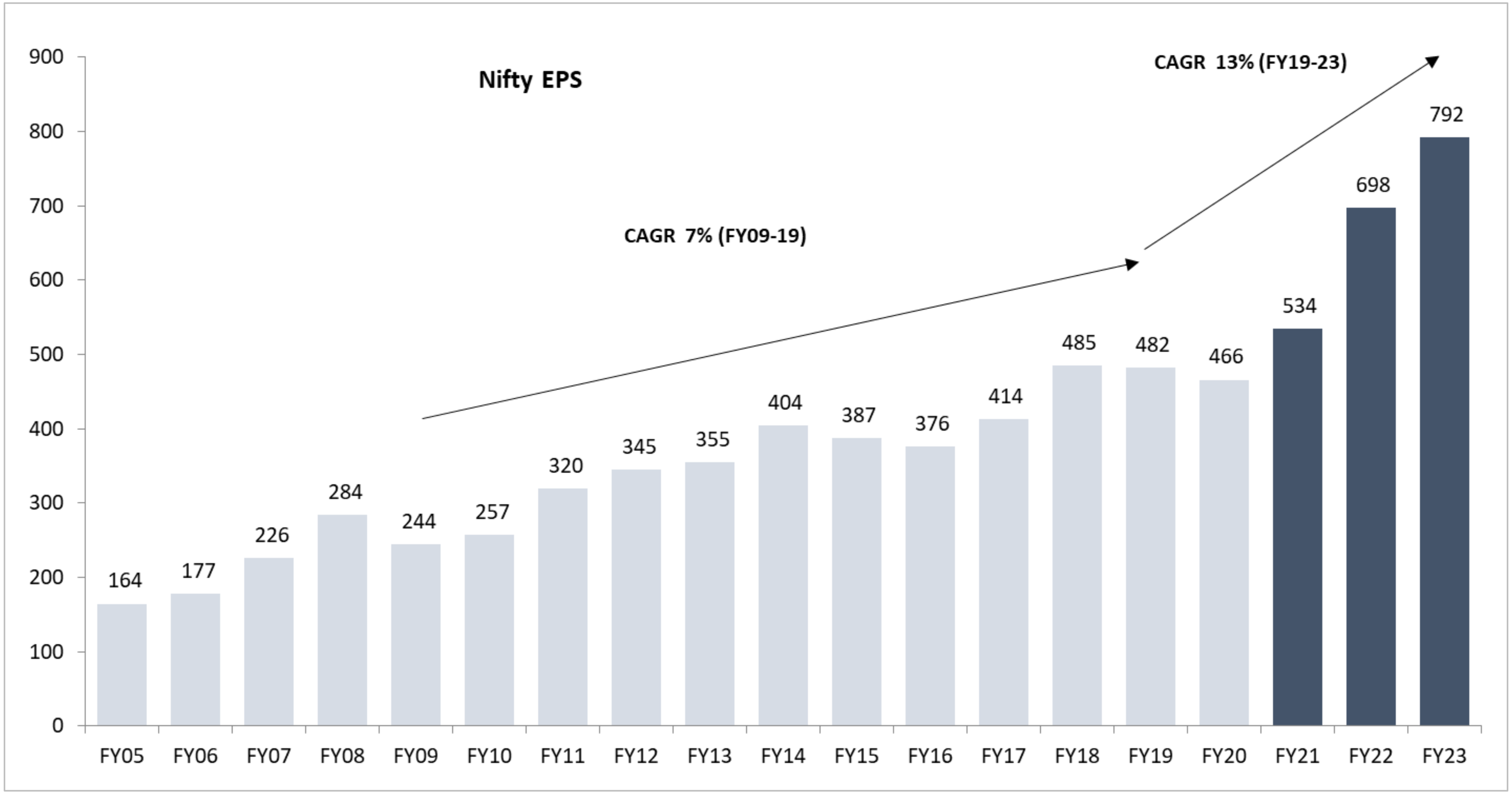


Nifty 12m Fwd PB



Source: Bloomberg, Axis Securities

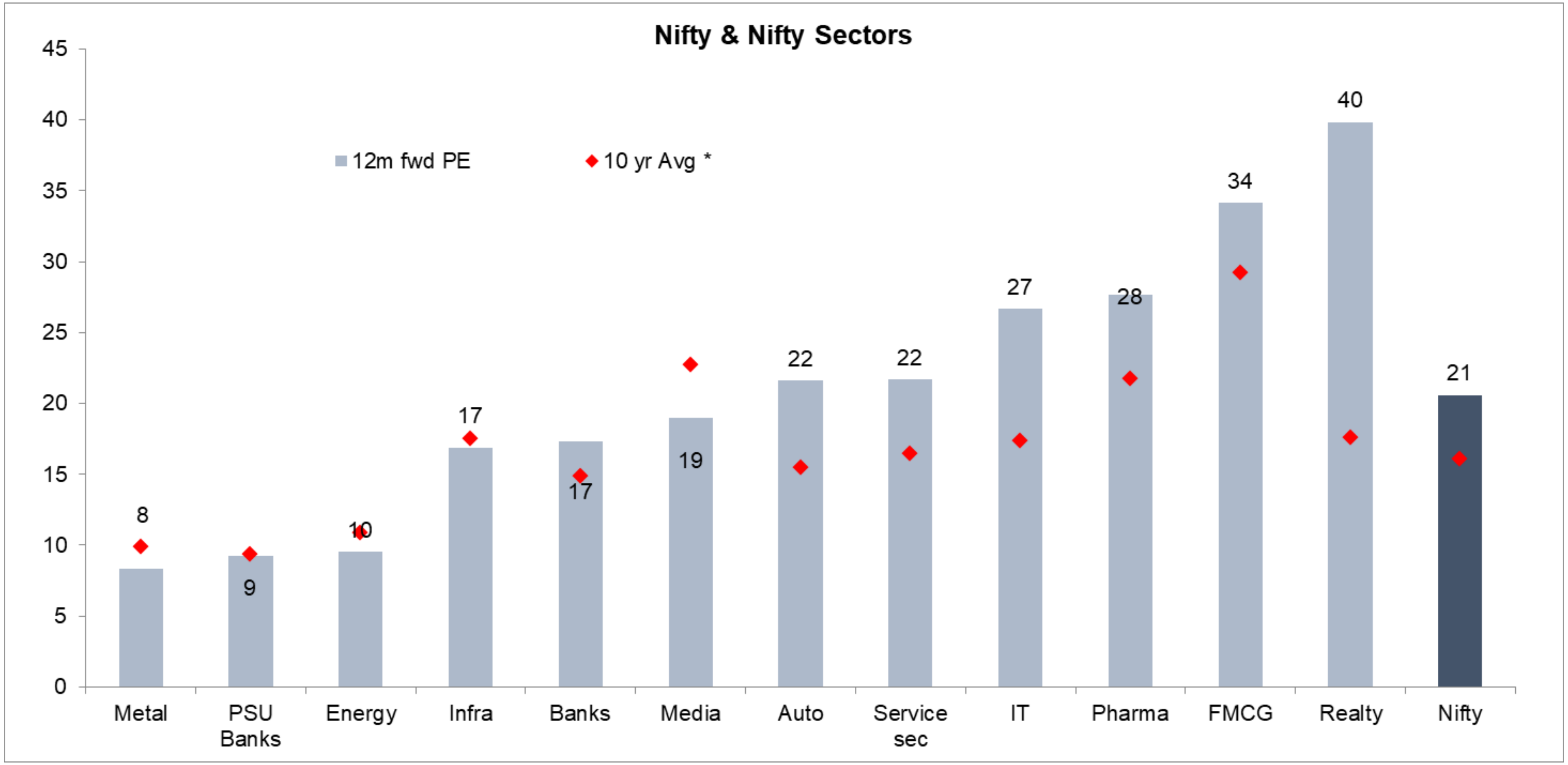
Nifty EPS growth: 13% CAGR growth over FY19-23



Source: Bloomberg, Axis Securities

Nifty and Sectors

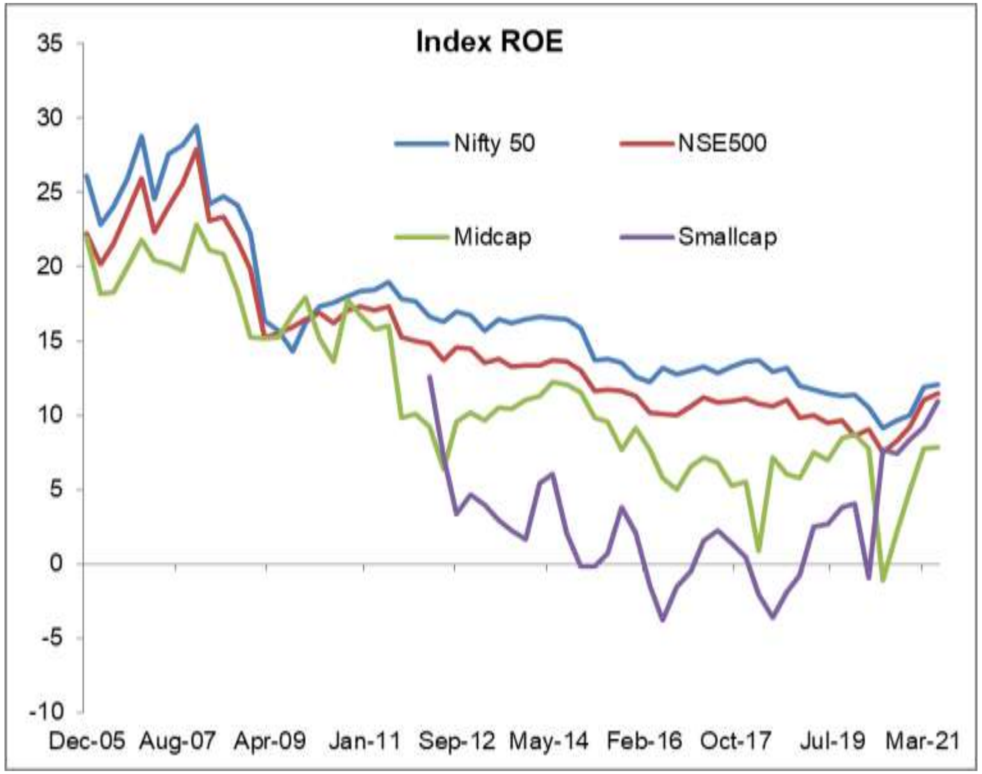
PSU banks, Energy, and Metal Index provide valuation comfort at the current levels. Valuations for the IT, Pharma, and Auto sector are expensive. IT sector valuations are likely to persist on account of the strong structural theme emerging.

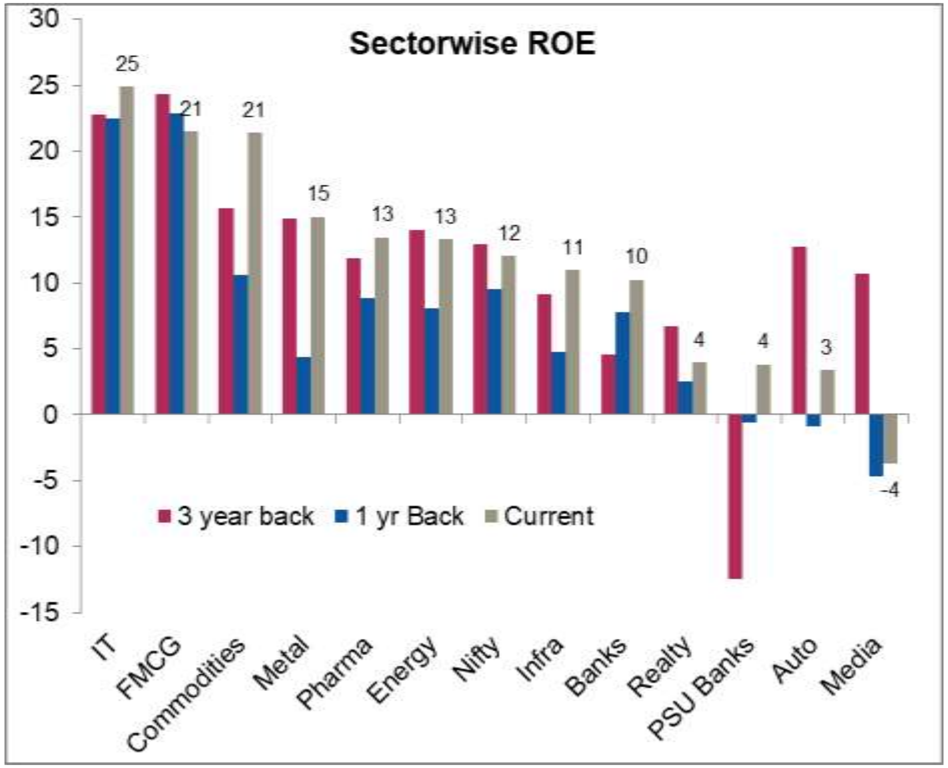


Source: Bloomberg, Axis Securities

Return Ratios are improving

- ROE is improving across the market caps while smaller stocks have showcased significant improvement.
- ROE of cyclical sectors has improved in the last one year. Moreover, current ratios are higher than pre-pandemic levels.
- Significant improvement seen in the PSU banks in the last 3 years.
- Automobiles have improved on a YoY basis but are still far below the levels seen in 2018.

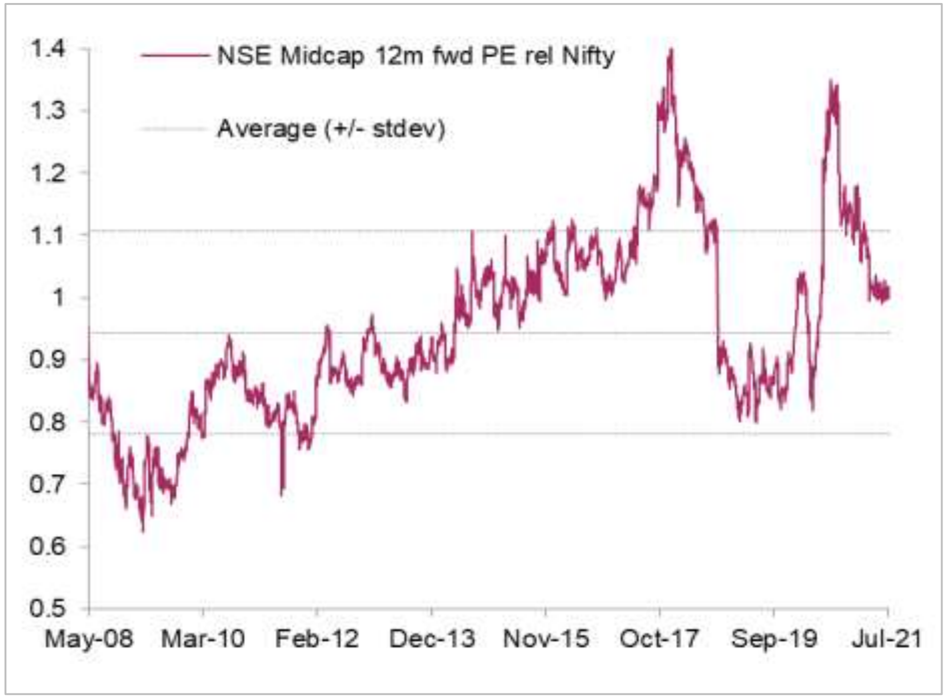




Source: Bloomberg, Axis Securities

Midcaps look attractive: Mid Caps trading at only 2% premium to large caps

- From a valuation perspective, the Mid Caps look more attractive against Large Caps. Historically, Mid Caps traded at a 45% premium to Large Caps during the 2017 bull phase. The recent spate of IPOs and their success clearly indicate the appetite for Mid and Small Cap stocks. The stellar listing of Zomato IPO also signifies the euphoria among the investors and the strong risk appetite for novel and next-generation business models.
- Since Nov'21, Small and Mid Caps are picking up steam and are expected to deliver robust returns in 2021 as the economic uncertainties and volatility decline.



Source: Bloomberg, Axis Securities

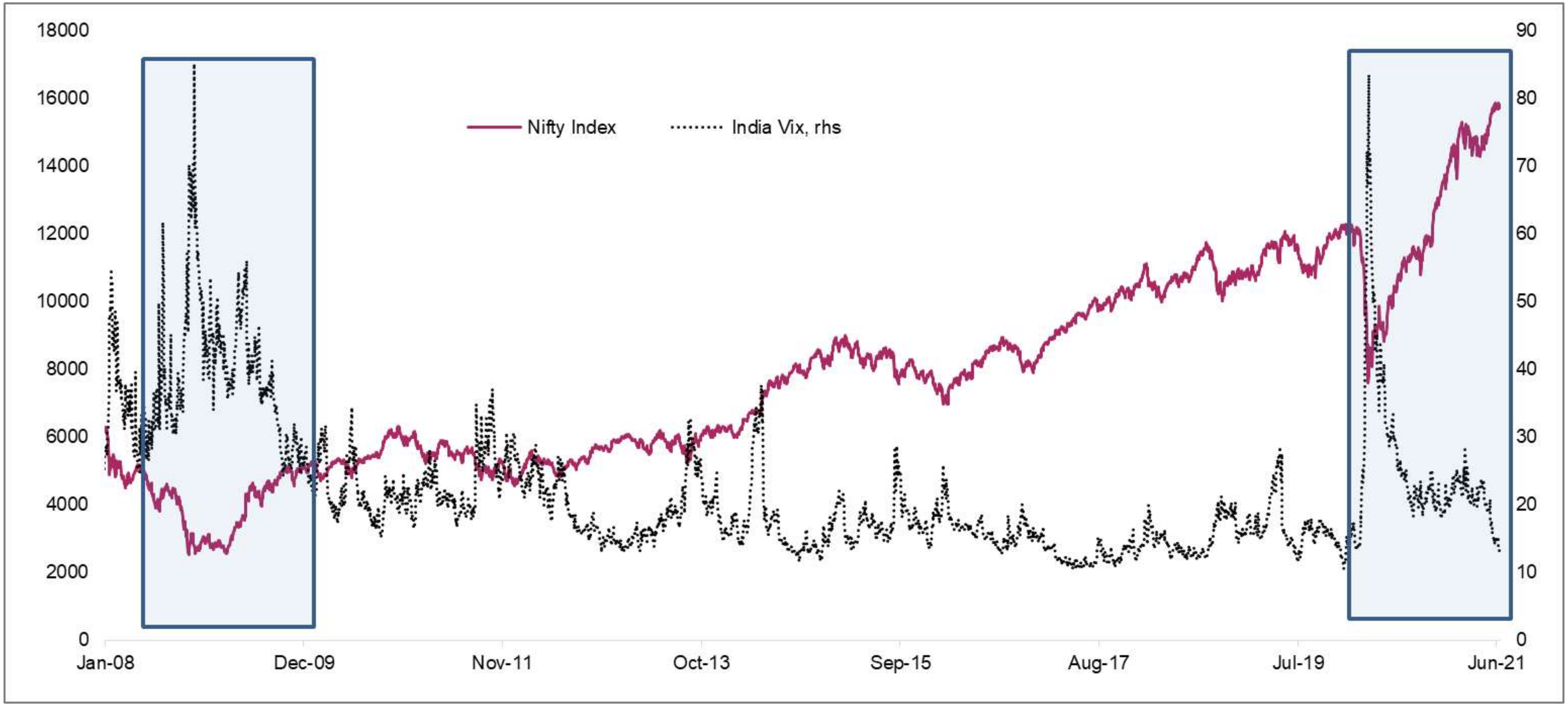
Mean reversion in 2 years rolling returns

- Our case for two-year-rolling returns indicates the market has turned in favor of Small and Mid Cap stocks which are more reasonably valued and offer higher upside potential.
- Relative 2-year-rolling returns had turned positive in the last 2 months. Relative returns in Small Cap are almost equivalent to Jan'18 levels.

Source: Bloomberg, Axis Securities

India's Nifty Index Vs. VIX: Lead Volatility Indicator is Trending Below Long-Term Average

- **Volatility has significantly reduced in the last four months and the volatility index is continuing with its downward trajectory. Currently, VIX is trading below 13 level vs. the long-term average of 22, indicating a positive setup for the market with limited downside. If VIX continues to head southward, it will trigger a further rally in the broader market.**
- **During the first phase of lockdown in the last year, the VIX index had touched the panic level of 80.**

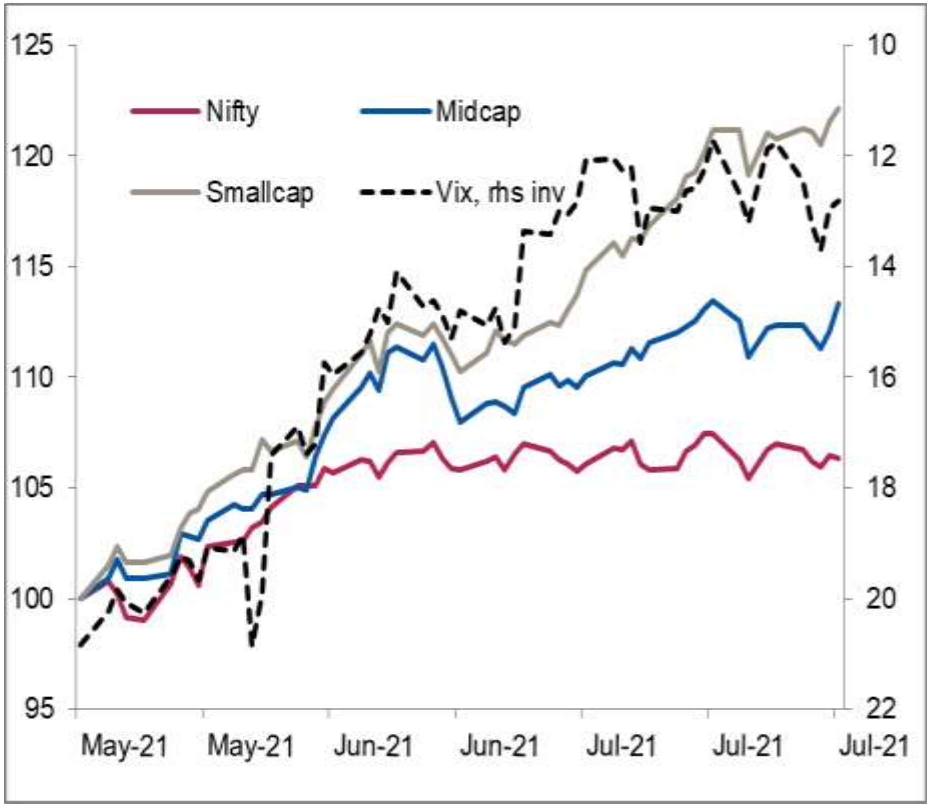


Source: Bloomberg, Axis Securities

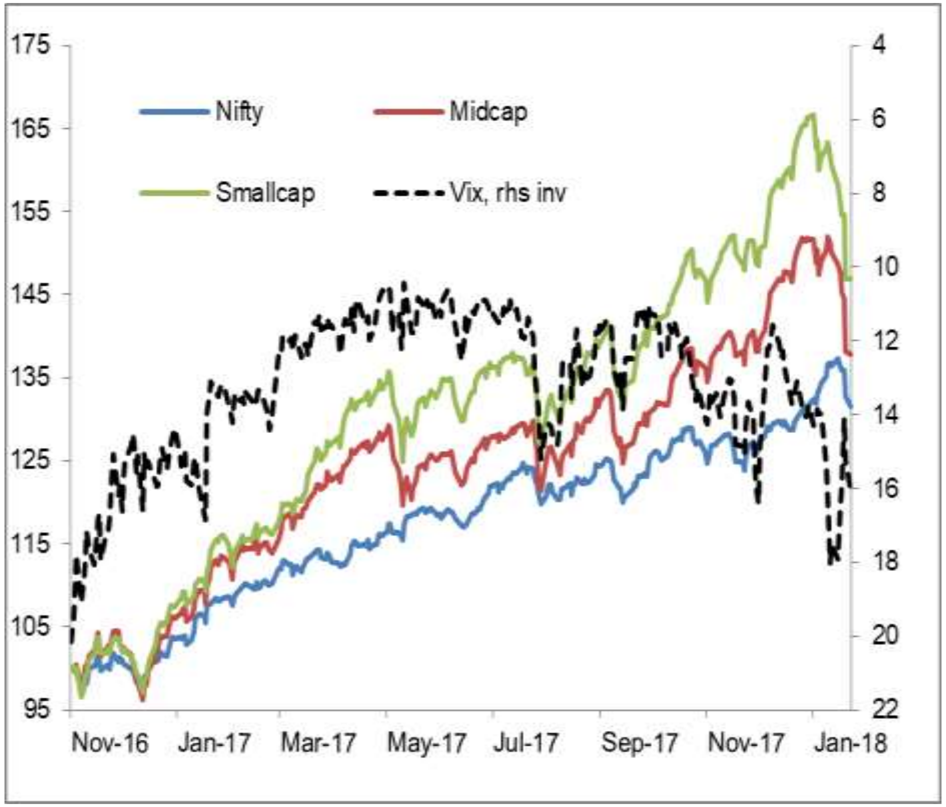
India's Nifty Index vs. VIX: Is the current trend a repetition of 2017?

- High correlation of downward trajectory of VIX and the Small Cap performance.
- A similar broader market rally was earlier seen in 2017 with the downward trajectory of VIX.

Current Rally



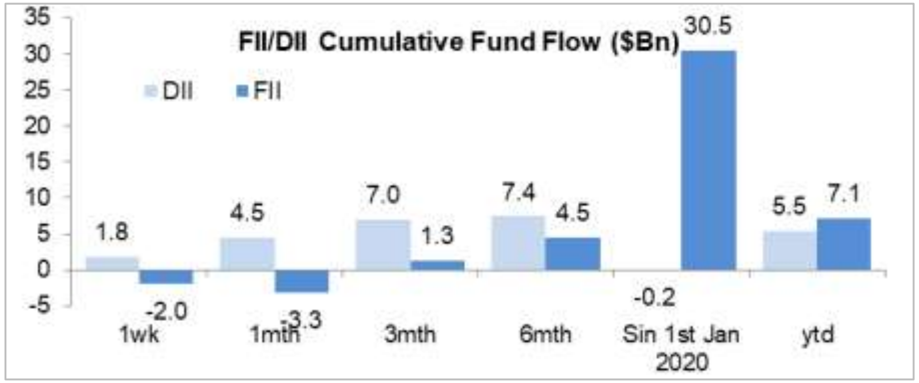
2017 rally

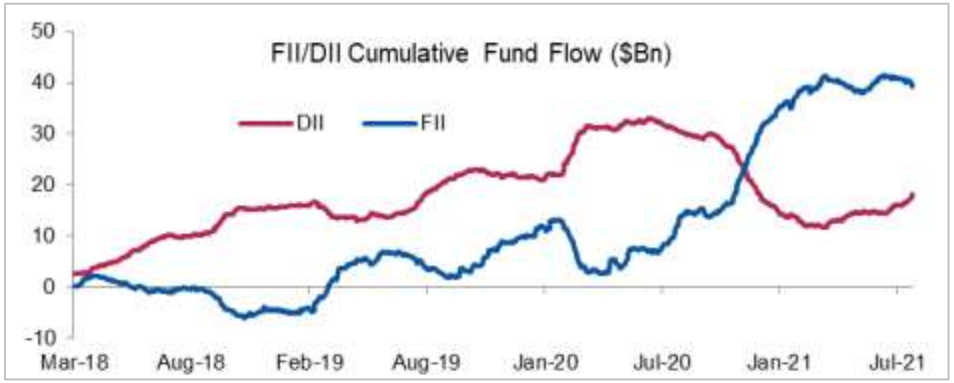


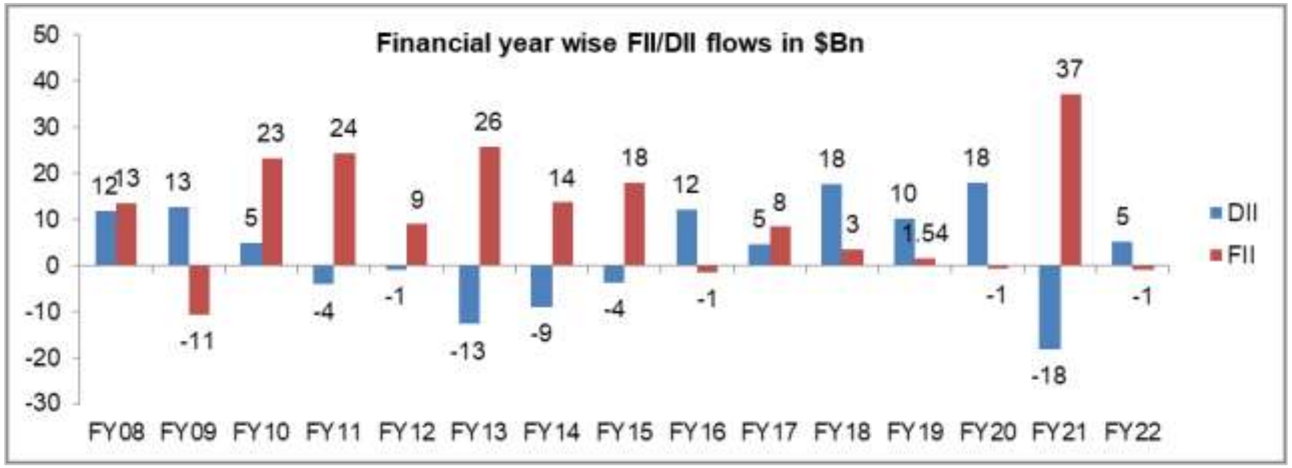
Source: Bloomberg, Axis Securities

DIIs turns net buyers in the last one month

FIIs pulled out US$ 3.3 Bn and DII have added US$ 4.5 Bn in the last one month. Since Jan'20, FIIs have bought a massive amount of US$ 30.5 Bn while the DIIs have sold US$ 0.2 Bn from the Indian equity market. The highest-ever FII inflows were seen in the FY21 at US$ 37 Bn, which stands higher than FY10/FY11/FY13 levels.







Source: Bloomberg, Axis Securities

India Starts Outperforming: Small and Mid Caps Lead the Show in 1m

Indian market performance was more resilient in the last one month. While the concern of the Delta Covid-19 variant has emerged in the global market, the Indian market performance continued to be range-bound. As expected, earnings season was a mixed bag; IT had shown strong results while some concern on asset quality was visible in the banking sector due to the second Covid-19 wave.

Real estate emerged as an outperformer in the last one month on account of improved outlook. The outperformance of Small and Mid Cap companies has continued in Jul'21.

Positive Near-term Outlook for IT, Telecom, Consumer Staples, Rural, and Export themes

Improving Outlook: Discretionary

Mixed bag: BFSI and Auto

Well placed: Metals, Commodities-linked stocks, and Selective Cyclical (Cement)

National Index						
Index Performance (%)	1m	3m	6m	2019	2020	FY2021
Nifty 50	0.5%	5.8%	15.6%	12.0%	14.9%	78.0%
Nifty Next 50	1.9%	12.7%	24.0%	0.5%	14.8%	65.4%
Nifty 500	1.6%	9.0%	20.9%	7.7%	16.7%	82.1%
Nifty Midcap 100	3.5%	14.5%	33.0%	-4.3%	21.9%	106.5%
Nifty SmallCap 250	7.4%	25.2%	48.7%	-8.3%	25.1%	119.3%
Sector Index (%)	1m	3m	6m	2019	2020	FY2021
NIFTY AUTO	-6.0%	2.8%	2.4%	-10.7%	11.5%	111.8%
NIFTY BANK	-0.3%	2.6%	13.1%	18.4%	-2.8%	82.9%
NIFTY COMMODITIES	5.3%	14.3%	45.0%	0.0%	10.7%	100.8%
Nifty Financial Services	0.6%	2.6%	12.9%	25.6%	4.5%	75.7%
NIFTY ENERGY	-3.9%	4.8%	17.2%	11.0%	6.4%	68.8%
NIFTY FMCG	-0.5%	6.0%	8.8%	-1.3%	13.5%	32.5%
NIFTY IT	5.1%	17.8%	23.7%	8.4%	54.9%	114.6%
NIFTY INFRA	2.4%	9.0%	20.7%	2.5%	12.2%	79.0%
NIFTY MEDIA	0.1%	15.6%	8.8%	-29.7%	-8.6%	54.3%
NIFTY METAL	10.8%	18.8%	87.5%	-11.2%	16.2%	156.0%
NIFTY PHARMA	-0.1%	8.5%	18.5%	-9.3%	60.6%	74.7%
NIFTY PSU BANK	-3.2%	17.6%	34.6%	-18.3%	-30.6%	68.2%
Nifty Private Banks	-1.4%	-0.2%	7.7%	16.2%	-2.9%	83.4%
NIFTY REALTY	16.3%	27.7%	30.4%	28.5%	5.1%	94.2%
NIFTY SERV SECTOR	0.6%	5.1%	14.2%	16.9%	12.5%	81.4%

International Index						
Index Performance (%)	1m	3m	6m	2019	2020	FY2021
Shanghai Comp	-5.3%	-2.2%	-2.5%	22.3%	13.9%	25.9%
Bovespa	0.0%	4.7%	9.2%	31.6%	2.9%	64.3%
Russia	-1.6%	7.9%	19.2%	44.9%	-10.4%	49.5%
south africa	3.5%	1.8%	9.3%	8.8%	7.0%	52.1%
Korea	-2.4%	0.9%	7.6%	7.7%	30.8%	81.6%
Mexico	2.2%	5.5%	22.2%	3.6%	5.0%	50.1%
Indonesia	1.1%	0.9%	3.5%	1.7%	-5.1%	34.0%
Argentina	8.5%	34.5%	39.5%	37.6%	22.9%	89.5%
Japan	-5.0%	-6.1%	-1.4%	18.2%	16.0%	61.5%
Hongkong	-9.9%	-11.4%	-8.2%	9.1%	-3.4%	22.9%
Philipines	-10.0%	-3.3%	-5.2%	4.7%	-8.6%	19.1%
Taiwan	-2.6%	-1.8%	13.9%	23.3%	22.8%	70.0%
Singapore	1.4%	-1.7%	9.1%	5.0%	-11.8%	29.7%
Thailand	-4.5%	-4.3%	3.7%	1.0%	-8.3%	43.6%
Veitnam	-7.6%	5.7%	24.0%	7.7%	14.9%	75.2%
Dow	1.3%	3.0%	17.0%	22.3%	7.2%	57.5%
Nasdaq	1.8%	4.9%	13.1%	35.2%	43.6%	80.0%
FTSE 100 INDEX	-1.5%	0.8%	9.5%	12.1%	-14.3%	23.1%
DAX INDEX	-0.6%	2.3%	15.4%	25.5%	3.5%	57.2%
CAC 40 INDEX	1.0%	5.0%	22.6%	26.4%	-7.1%	44.2%
S&P 500 Index	2.3%	4.9%	19.0%	28.9%	16.3%	60.8%

Source: Bloomberg, Axis Securities, Note: Data as of 31st July

Market Indicators

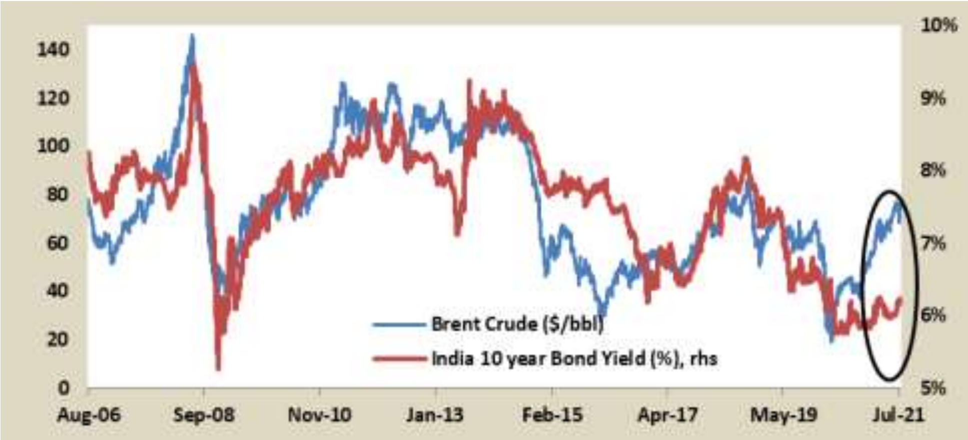
Precious Metal: Gold prices up 3% in the last one month on account of softness in the bond yields.

Commodities: Steel prices rallied by 47% while Copper is up by 25% in the last 6 months.

Crude: Brent crude has regained the level of $75/bbl on vaccine optimism and improved growth outlook for 2021. However, the gap between the crude prices and the 10-year bond yields has widened in recent months.

Market Indicator	30-07-2021	1m ago	3m ago	Dec-19	Dec-20	01-04-2021
Brent Crude ($/bbl)	75.9	75.8	68.6	66.0	51.8	63.5
Bond Yield (GOi 10Yr)	6.2	6.0	6.1	6.6	5.9	6.2
USD/INR	74.4	74.6	74.0	71.4	73.1	73.1
India Vix	12.8	12.8	23.3	11.7	21.1	20.6

Commodity Index	1m	3m	6m	2019	2020	FY2021
Gold ($/OZ)	2.9%	3.2%	-1.1%	18.3%	25.1%	7.3%
Steel ($/ton)	3.3%	6.2%	46.5%	-1.0%	41.2%	70.8%
Aluminium ($/ton)	3.0%	5.1%	28.7%	-3.7%	9.9%	51.2%
Copper ($/ton)	5.4%	-0.9%	24.6%	3.4%	26.0%	83.6%
Zinc ($/ton)	1.6%	1.9%	16.4%	-8.7%	18.8%	51.7%

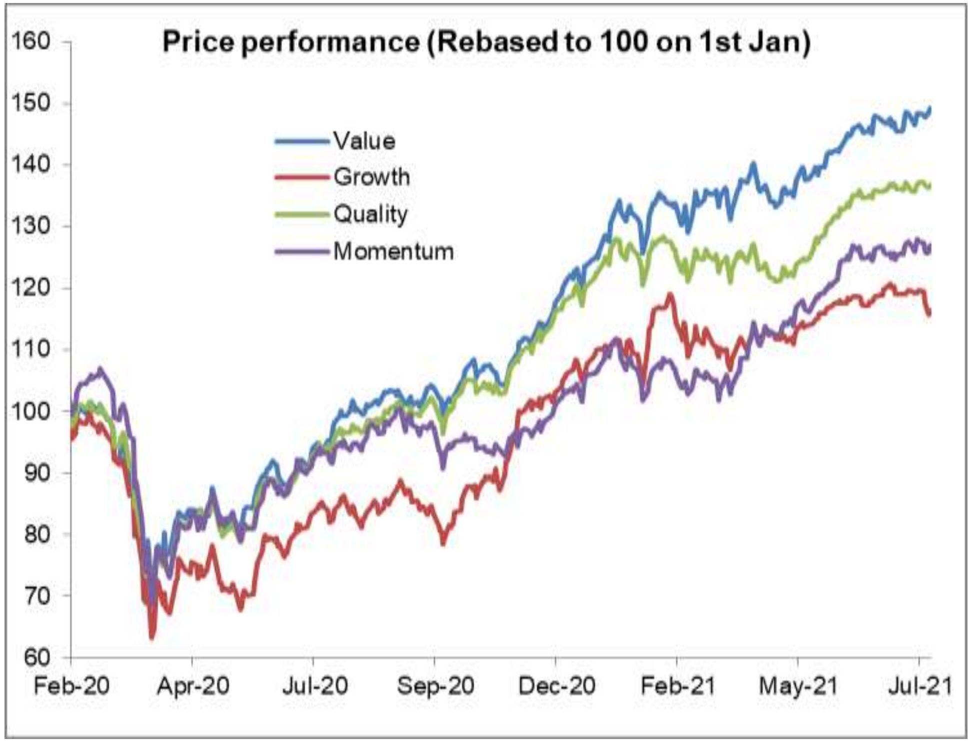


Source: Bloomberg, Axis Securities

Value continues with outperformance in the last one month

Value and Momentum are the best performers in the last six months while Quality was the laggard. However, the performance of the Quality bucket has picked up in the last 3 months and it has emerged as one of the best performers.

Moreover, selected Value stocks under Metals, Commodity, and Cement space are well-placed to outperform. Value stocks in the BFSI space, which were the underperformers for the last couple of months, will likely outperform going forward. Furthermore, a structural growth play that offers long-term earnings visibility will continue to do well even amidst this challenging environment.



Performance (%)				
Perf	Value	Growth	Quality	Momentum
Till 23 Mar	-28.5%	-36.8%	-30.9%	-31.4%
Since 23 Mar	90.3%	76.4%	81.2%	55.1%
2020	24.9%	10.2%	22.6%	6.6%
1m	1.4%	-2.0%	0.8%	0.1%
3m	10.3%	4.6%	12.0%	11.3%
6m	18.7%	11.6%	13.4%	24.7%

Source: Bloomberg, Axis Securities

Nifty Q1FY22 Earnings: Mixed performance

- IT sector is well-supported by the positive revision in the revenue guidance by the major IT companies. We believe this will augur well for the IT companies and valuations will likely to sustain in the near future. However, the execution will be a key monitorable for the upcoming quarters of FY22.
- Asian paints have impressed the street on the volume front. However, challenges on the margins persist due to a sharp RM inflation and lower price hikes during the quarter.
- Ultratech Cement posted better realization and strong volume and the outlook for the sector remains positive due to a limited supply addition.
- HDFC bank posted below-than-expected numbers on the operational front and witnessed pressure on the NIM. The management indicated a possibility of more restructuring of loans in Q2FY22.
- Maruti continues to disappoint on the margin front.

Nifty Q1FY22	Earnings			EBITDA			Revenue		
Results Out	Beat	In Line	Miss	Beat	In Line	Miss	Beat	In Line	Miss
31	9	5	17	8	6	14	13	12	6

Q1FY22 Performance so far

Beat result - Ultratech, Wipro, JSW steel and ICICI bank

Weak Result: Dr Reddy, Maruti

FY22 EPS

Key Upgrade: Ultratech (7%), JSW Steel (+6.3%), Wipro (+5 %)

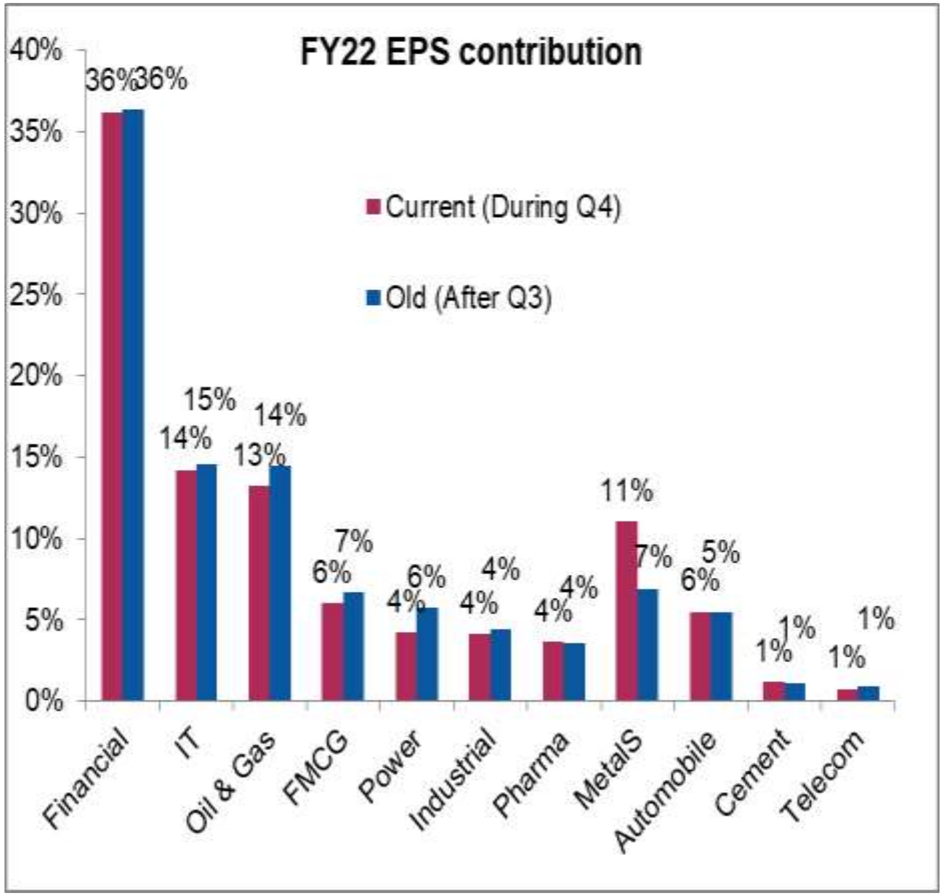
Key Downgrade: Tata Motors (-28%), Dr Reddy (-11%), Bajaj Finance (-10%), HDFC life (-5%)

FY22 EBITDA

Key Upgrade: Ultratech (6%), JSW Steel(+7%),

Nifty EPS Contribution

The financial sector continues to dominate Nifty EPS. The Metal sector is expected to contribute 11% in FY22 vs. 4% in FY20. Nifty FY22 earnings will be led by the cyclical sectors



	Nifty EPS			YoY (22 vs. 21)	
Sector	FY20	FY21	FY22	Chg	% chg
Financial	167	202	242	40.2	20%
IT	82	84	99	15.5	18%
Oil & Gas	61	95	93	-1.8	-2%
FMCG	40	38	46	7.9	21%
Power	32	29	33	3.7	13%
Industrial	34	33	29	-4.2	-13%
Pharma	13	17	25	8.7	52%
Metals	18	34	79	44.8	132%
Automobile	7	12	38	26.9	232%
Cement	7	7	8	1.0	15%
Telecom	5	-15	5	20.6	-134%
Total	466	534	698	163.4	31%
%Growth		15%	31%		

Source: Bloomberg, Axis Securities

Macro Indicators – Sequential improvement

- March quarter GDP grew at 1.6% YoY which was higher than street expectation, indicating strengthening economic momentum in the quarter. With this expectation beat, FY21 GDP is now closed at -7.3%, far better than anticipated during the first phase of the pandemic. On expected lines, in the recent monetary policy, the RBI cut FY22 GDP estimates by 100bps to 9.5% on account of localized lockdowns and a sharp surge in COVID 2.0 pausing economic momentum in Q1FY22.
- Activities at the E-way bill have improved sequentially in July'21 on account of relaxations in restrictions across the states. Google Mobility Data is also suggesting a sequential recovery. The vaccination drive has picked up in July'21 vs. vaccine shortages in May'21. In our opinion, vaccinating a significant part of the population will take ~4-5 months.
- April IIP has surged by 29% vs 135% in the last month (due to a lower base), modest impact of the second wave was visible in the May IIP number. Going forward, the Jun'21 numbers are likely to be subdued due to the localized lockdown during the month. However, restrictions were eased sequentially.
- June CPI was flat at 6.3% vs. 4.2% in Apr'21. This higher CPI number was led by a mix of global commodity prices and local supply-side disruptions. With vaccination progress normalizing supply conditions around the world, there stands a significant potential for oil commodities supply to improve.

Source: Bloomberg, Axis Securities

ICICI BANK – WELL-POSITIONED FOR GROWTH

ICICI Bank (ICICIBC) is amongst the largest private sector bank in India with business operations spread across Retail, Corporate, and Insurance, among others. It is supported by a strong liability franchise and healthy retail corporate mix. Its subsidiaries ICICI Venture Funds, ICICI Pru AMC, ICICI Securities, ICICI Prudential, and ICICI Lombard are amongst the leading companies in their respective domains.

Industry view

Equalweight

CMP
683

Target Price
810

Upside
19%

Key Rationale

- **Healthy traction in loan book/deposits:** In Q1FY22, domestic loan book grew by 20% YoY led by Retail/Business Banking/Corporate, up 20%/53%/11% YoY respectively. The liability franchise remained strong with a deposit growth of 15.5% YoY. The average CASA ratio improved to 43.7% from 42.5% QoQ.
- **Comfort on asset quality:** G/NNPAs were up to 5.15%/1.16% from 4.96%/1.14% QoQ. Slippages were higher at Rs 72 Bn vs. Rs 55 Bn QoQ mainly from the retail portfolio. PCR was maintained at 78%. The bank is carrying an additional provision of Rs 64.3 Bn (~0.9% of loans) and the management expects a meaningful reduction in slippages from H2FY22 onwards.
- **Operational performance strengthening:** Reported NIM has been improving in the last couple of quarters to 3.89% in Q1FY22 from 3.67%/3.84% in Q3FY21/Q4FY21, driven by benign cost of funds.
- **Outlook:** The management expects NIM to be steady on improving loan mix while excess liquidity is utilized with growth picking up. Asset quality is likely to strengthen considering adequate provisioning and stable credit costs. The recovery trend is likely to be better over H2FY22 (provided absence of COVID 3.0) and indicates a better asset quality going forward.
- **Valuation:** Higher loan growth, improving operating profits, and a strong provision buffer coupled with a strong deposit franchise will help ROAE/ROAA expansion over FY22-23E. Valuation-wise, we believe the bank has further scope for expansions vis-à-vis its peers. We maintain a BUY on the stock with a revised target price of Rs 810/share (SOTP basis core book at 2.6x FY23E and Rs 177 Subsidiary value), implying an upside of 19% from CMP.
- **Key risks:** a) Significant deterioration in retail asset quality, b) Delay in the resolution of stressed assets

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs)	PPOP (Rs)	PAT (Rs)	EPS (Rs)	ABV (Rs)	P/ABV (x)	ROAA (%)	NNPA (%)
FY20	33,267	28,101	7,931	12.3	144.7	4.0	0.8	1.5
FY21P	38,989	36,397	16,193	23.4	181.3	3.1	1.4	1.2
FY22E	46,682	40,893	20,948	30.2	206.4	2.6	1.6	1.2
FY23E	53,683	47,876	26,796	38.7	238.5	1.9	1.7	1.2

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Net Interest Income	33,267	38,989	46,682	53,683
Other Income	16,449	18,969	19,926	23,037
Total Income	49,716	57,958	66,609	76,719
Total Operating Exp	21,614	21,561	25,715	28,844
PPOP	28,101	36,397	40,893	47,876
Provisions & Contingencies	14,053	16,214	12,393	11,665
PBT	14,048	20,183	28,501	36,210
Provision for Tax	6,117	3,990	7,553	9,415
PAT	7,931	16,193	20,948	26,796

Source: Company, Axis Research

Balance Sheet (Rs Cr)]

Y/E March	FY20	FY21P	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	1,295	1,383	1,385	1,385
Reserves	1,15,206	1,46,126	1,64,775	1,88,631
Shareholder's Funds	1,16,501	1,47,509	1,66,160	1,90,016
Total Deposits	7,70,969	9,32,522	11,02,588	13,00,077
Borrowings	1,62,900	91,631	1,00,561	1,16,353
Other Liabilities & Provisions	47,995	58,770	62,184	68,395
Total Liabilities	10,98,365	12,30,433	14,31,494	16,74,841
APPLICATION OF FUNDS				
Cash & Bank Balance	1,19,156	1,33,128	1,34,098	1,57,986
Investments	2,49,531	2,81,287	3,48,767	4,05,607
Advances	6,45,290	7,33,729	8,59,823	10,13,829
Fixed Assets	8,410	8,878	9,321	9,788
Other Assets	75,978	73,411	79,485	87,630
Total Assets	10,98,365	12,30,433	14,31,494	16,74,841

Source: Company, Axis Research

Valuation ratios (%)

Y/E March	FY20	FY21P	FY22E	FY23E
EPS	12.3	23.4	30.2	38.7
Earnings growth (%)	134.8	91.1	29.2	27.9
Adj. BVPS	144.7	181.3	206.4	238.5
ROAA (%)	0.77	1.39	1.57	1.73
ROAE (%)	7.1	12.3	13.4	15.0
Core P/ABV (x)	4.0	3.1	2.6	1.9
Dividend Yield (%)	0.0	0.3	0.4	0.6
PROFITABILITY				
Yield on Advances (%)	9.3	8.3	8.4	8.5
Yield on Investment (%)	6.4	6.2	6.1	6.1
Cost of Funds (%)	4.7	4.1	4.0	4.2
Cost of Deposits (%)	4.6	4.2	4.0	4.1
NIM (%)	3.7	3.7	3.9	3.8
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.4	2.1	2.1	2.0
Cost-Income Ratio (%)	43.5	37.2	38.6	37.6

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E March	FY20	FY21P	FY22E	FY23E
Loan Growth (%)	10.0	13.7	17.2	17.9
Deposit Growth (%)	18.1	21.0	18.2	17.9
C/D Ratio (%)	83.7	78.7	78.0	78.0
Equity/Assets (%)	10.6	12.0	11.6	11.3
Equity/Advances (%)	18.1	20.1	19.3	18.7
CASA (%)	45.1	46.3	43.1	40.2
Total Capital Adequacy Ratio	16.1	17.6	16.9	16.5
Tier I CAR	14.7	16.3	15.9	15.6
ASSET QUALITY				
Gross NPLs	41,409	41,373	44,567	49,652
Net NPLs	9,923	9,180	10,318	11,888
Gross NPLs (%)	6.4	5.6	5.2	4.9
Net NPLs (%)	1.5	1.2	1.2	1.2
Coverage Ratio (%)	76.0	77.8	76.8	76.1
Provision/Avg. Loans (%)	1.5	2.0	1.5	1.2
ROAA TREE				
Net Interest Income	3.23	3.35	3.51	3.46
Non Interest Income	1.59	1.63	1.50	1.48
Operating Cost	2.10	1.85	1.93	1.86
Provisions	1.36	1.39	0.93	0.75
Tax	0.59	0.34	0.57	0.61
ROAA	0.77	1.39	1.57	1.73
Leverage (x)	9.2	8.8	8.5	8.7
ROAE	7.05	12.27	13.36	15.05

Source: Company, Axis Research

STATE BANK OF INDIA – RIPE FOR RE-RATING

State Bank of India (SBIN) is the largest public sector bank in terms of assets, deposits, branches, number of customers, and employees and has a pan-India presence as well. The RBI has designated SBI as a Domestic Systemically Important Bank (D-SIB), underscoring its continued functioning critical for the Indian economy.

Industry view

Equalweight

CMP
432

Target Price
510

Upside
18%

Key Rationale

- **Asset quality outlook improves**: SBIN maintained a strong asset quality performance in Q4FY21 with slippages at ~ Rs 55 Bn (less than 1% of the book) and a stable restructured book (Rs 179 Bn). Headline GNPAs were restricted to ~5.0% vs. 5.44% QoQ (on a pro-forma basis). For FY21, the overall stressed asset accrual of Rs 464 Bn was much below the management's initial guidance of Rs 600 Bn with slippage for the bank at 1.2% and restructured loans at 0.73%. PCR improved to 71% in FY21 from 65% in FY20. The bank has ~Rs 254 Bn (104bps of loans) of additional non-specific provisions as well. The SMA pool (1&2) also dipped to Rs 115 Bn (~50bps of loans from ~ 80bps QoQ). Credit Cost as of FY21 end has declined 75 bps YoY to 1.12%.
- **Non-banking subsidiaries to boost overall performance:** Apart from core banking, SBI's subsidiaries will continue to add further value. It has a strong presence in various financial services operations such as credit cards, insurance (life and general), asset management, pension funds, investment banking, institutional, and retail broking, among others. Most of these financial services are generating stable returns and supporting the overall performance of the bank.
- **Outlook**: We believe SBIN's unsecured lending profile is robust with >90% comprising salaried government employees. Retail book traction at 16% remains healthy. It is supported by home loans and express credit and further improvement are likely in the coming quarters. The bank's market share in Home loans and Auto Loans is over 30%. The management indicated that the impact of the second Covid-19 wave is manageable. The bank's ROAs are expected to recover back to the historical range of 0.7%-1% after a 6-year down-cycle on account of contained stress formation, recoveries from legacy NPAs, and broad-based growth in the loan book.
- **Valuation:** SBIN continues to be the best play among PSU banks on the gradual recovery in the Indian economy given its healthy PCR, robust capitalization, a strong liability franchise, and an improved asset quality outlook. We believe credit costs normalization and improved operational performance will lead to double-digit ROEs of 13-15% by FY22-23E. We maintain a BUY on the stock with a target price of Rs 510/share (SOTP basis core book at 1.1x and subsidiaries at Rs 152), implying an upside potential of 18% from CMP.
- **Key risks:** a) Slower-than-expected recovery cycle.

Key Financials (Standalone)

Y/E Mar (Rs 00'Cr)	NII (Rs 00'Cr)	PPOP (Rs 00'Cr)	Net Profit (Rs 00'Cr)	EPS (Rs)	ABV (%)	P/ABV (%)	ROAA (%)	NNPA (%)
FY20	981	681	144	16	222	1.9	0.2	2.2
FY21	1,107	716	204	23	243	1.8	0.5	1.5
FY22E	1,240	782	334	37	275	1.6	0.7	1.3
FY23E	1,402	888	437	49	327	1.3	0.8	1.1

Source: Company, Axis Securities.

Profit & Loss (Rs 00'Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
Net Interest Income	981	1,107	1,240	1,402
Other Income	452	435	391	411
Total Income	1,433	1,542	1,632	1,813
Total Operating Exp.	752	827	850	924
Staff expenses	457	509	535	588
Other operating expenses	295	317	315	336
PPOP	681	716	782	888
Provisions & Contingencies	431	440	330	297
PBT	250	276	452	591
Provision for Tax	106	71	117	154
PAT	144	204	334	437

Source: Company, Axis Research

Balance Sheet (Rs 00'Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
SOURCES OF FUNDS				
Share capital	9	9	9	9
Reserves and surplus	2,074	2,530	2,864	3,301
Shareholders' funds	2,083	2,539	2,798	3,235
Total Deposits	32,416	36,813	40,126	43,737
Total Borrowings	3,147	4,173	2,866	2,959
Other Liabilities, provisions	1,868	1,820	1,965	2,123
Total	39,514	45,344	47,756	52,054
APPLICATION OF FUNDS				
Cash & Bank Balance	2,511	3,430	2,269	2,137
Investments	10,470	13,517	14,328	15,188
Advances	23,253	24,495	26,944	30,178
Fixed Assets & Other Assets	3,280	3,902	4,214	4,551
Total assets	39,514	45,344	47,756	52,054

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY20	FY21	FY22E	FY23E
VALUATION RATIOS				
EPS	16.0	22.9	37.5	49.0
Earnings Growth (%)	1502.8	43.0	63.5	30.9
DPS	0.0	4.6	3.0	3.0
BVPS	231.4	284.6	313.7	362.7
Adj. BVPS	222.4	242.6	274.7	326.7
ROAA (%)	0.2	0.5	0.7	0.8
ROAE (%)	3.5	8.8	12.5	14.5
P/E (x)	27.0	18.9	11.5	8.8
P/ABV (x)	1.9	1.8	1.6	1.3
Dividend Yield (%)	0.0	1.1	0.7	0.7
PROFITABILITY				
NIM (%)	2.8	2.9	2.9	3.0
Cost-Income Ratio	52.5	53.6	52.1	51.0

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY20	FY21	FY22E	FY23E
Loan Growth (%)	6.4	5.3	10.0	12.0
Deposit Growth (%)	11.3	13.6	9.0	9.0
C/D Ratio (%)	71.7	66.5	67.1	69.0
CASA	44.0	44.0	43.0	43.0
Tier 1	11.0	10.8	11.0	11.3
CAR	13.1	13.3	13.2	13.2
ASSET QUALITY				
Gross NPLs (%)	6.2	5.0	4.7	4.1
Net NPLs (%)	2.2	1.5	1.3	1.1
PCR	65.2	70.9	73.0	74.5
Credit costs	1.9	1.1	1.2	1.0

Source: Company, Axis Research

FEDERAL BANK – OPERATIONAL IMPROVEMENT ON TRACK

Federal Bank (FB) is a Kerala-based private sector bank. It has exposure to insurance and NBFC business through its joint venture with IDBI and wholly-owned subsidiary Fedfina. The bank continues to proactively execute its strategy of a branch-light and distribution-heavy franchise.

Industry view

Overweight

CMP
87

Target Price
100

Upside
14%

Key Rationale

- **Improving liability franchise:** FB has been amongst the few mid-tier banks that have improved their deposit base consistently. In Q1FY22, deposits growth was strong at 8% YoY. Retail deposits grew 11%/1% YoY/QoQ and form ~93% of the overall deposits. NR deposits forming ~39% of total deposits grew ~10%/3% YoY/QoQ. CASA ratio improved to 35% from 33.5%.
- **Improved loan-mix balance:** FB's loan book growth of 8%YoY was led by Retail (up 15% YoY) w/w Gold loans (up 54% YoY). While the bank already had Rupeek as the gold-lending partner, it has now tied up with Orocorp Tech for door-step gold loans. Gold loan growth is expected at 30-40% going forward. The bank is also keenly focused on neo-banking tie-ups to reach the country's under-banked population.
- **Asset quality manageable:** Asset quality was in control with G/NNPAs at 3.5%/1.23% vs. 3.4%/1.19% QoQ, marginally higher on mobility restrictions. PCR was maintained at 66%. Provisions were up 62%/165% YoY/QoQ to Rs 642 Cr. Total SMA book stands at ~4.6% of the loan book. The bank holds standard restructured advances of ~1.9%. Covid-related restructuring amounts to ~1.8% of total advances. Rs 850 Cr was restructured during Q1FY22 and the management indicated further Rs 400 Cr worth of loans may get restructured during Q2FY22. With a granular and largely secured portfolio, we expect slippages to remain range-bound for FY22E as well.
- **Outlook:** FB is cautiously building a loan mix toward high-rated corporate and retail loans. The bank's liability franchise remains strong with CASA plus Retail TD of +90% and one of the highest LCR amongst banks. Restructuring levels are also in control. The management intends to keep PCR in the range of 65-70% as a high proportion of the book is secured and LGDs historically have treaded below 40%. FB has been consistently improving across parameters including Efficiency, Deposits, and Fee Income, among others. In recent years, it has professionalized its senior management and done well on the corporate and retail loans (especially gold) fronts.
- **Valuation:** Key positives are increasing retail focus, strong fee income, adequate capitalization, and prudent provisioning. Given strong underwriting standards, changing loan mix, and strong retail deposit franchise, we expect the bank's valuation to improve from current levels if asset quality trends are maintained and ROA improvement keeps on track. We maintain a BUY with a target price of Rs 100/share (1.1x FY23E ABV), implying a 15% upside from the CMP.
- **Key risks:** a) Asset quality trends in coming quarters, b) Loan growth outlook.

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs Cr)	PPOP (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	ABV (%)	P/ABV (%)	ROAA (%)	NNPA (%)
FY20	4,649	3,205	1,543	7.8	64.9	1.3	0.9	1.3
FY21	5,534	3,787	1,590	8.0	73.8	1.2	0.6	1.2
FY22E	6,087	3,978	1,766	8.9	82.0	1.1	0.8	1.1
FY23E	6,878	4,520	2,274	8.0	92.6	0.9	1.0	1.0

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
Net Interest Income	4,649	5,534	6,087	6,878
Other Income	1,931	1,945	1,731	1,869
Total Income	6,580	7,479	7,818	8,748
Total Operating Exp	3,376	3,692	3,840	4,228
PPOP	3,205	3,787	3,978	4,520
Provisions & Contingencies	1,172	1,650	1,591	1,446
PBT	2,033	2,137	2,387	3,074
Provision for Tax	490	547	621	799
PAT	1,543	1,590	1,766	2,274

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	399	399	399	399
Reserves	14,518	15,724	17,341	19,445
Shareholder's Funds	14,916	16,124	17,739	19,844
Total Deposits	1,52,290	1,72,644	1,94,570	2,20,837
Borrowings	10,372	9,069	12,955	14,704
Other Liabilities & Provisions	3,458	3,531	3,885	3,885
Total Liabilities	1,81,037	2,01,367	2,29,150	2,59,270
APPLICATION OF FUNDS				
Cash & Bank Balance	12,575	19,591	27,328	31,928
Investments	35,893	37,186	41,430	44,430
Advances	1,22,268	1,31,879	1,47,045	1,66,896
Fixed Assets & Other Assets	10,301	12,711	13,347	16,016
Total Assets	1,81,037	2,01,367	2,29,150	2,59,270

Source: Company, Axis Research

Key Ratios (%)

Y/E MAR	FY20	FY21	FY22E	FY23E
VALUATION RATIOS				
EPS	7.8	8.0	8.9	11.4
Earnings Growth (%)	23.8	2.1	11.3	28.8
DPS	1.0	0.7	1.0	1.0
BVPS	72.8	80.8	88.0	98.6
Adj. BVPS	64.9	73.8	82.0	92.6
ROAA (%)	0.9	0.6	0.8	1.0
ROAE (%)	10.8	7.8	9.6	12.1
P/E (x)	10.5	10.3	9.3	7.2
P/ABV (x)	1.3	1.1	1.0	0.9
Dividend Yield (%)	1.2	0.9	1.2	1.2
PROFITABILITY				
NIM (%)	2.9	3.2	3.1	3.2
Cost-Income Ratio	51.3	49.4	49.1	48.3

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY20	FY21	FY22E	FY23E
Loan Growth (%)	10.9	7.9	11.5	13.5
Deposit Growth (%)	12.8	13.4	12.7	13.5
C/D Ratio (%)	80.3	76.4	75.6	75.6
CAR	14.3	14.2	14.1	14.1
CAR Tier I	13.3	13.2	13.2	13.3
ASSET QUALITY				
Gross NPLs (%)	2.8	3.4	3.2	3.0
Net NPLs (%)	1.3	1.2	1.1	1.0
Coverage Ratio (%)	53.2	65.0	65.6	66.7
ROAA Tree				
Net Interest Income	2.7	2.5	2.6	2.8
Non Interest Income	1.1	1.0	0.8	0.8
Operating Cost	2.0	1.9	1.8	1.8
Provisions	0.5	0.8	0.5	0.4
Tax	0.3	0.3	0.3	0.3
ROAA	1.1	0.5	0.8	1.1
Leverage (x)	12.2	12.5	12.8	12.9
ROAE	11.1	8.3	9.2	10.1

Source: Company, Axis Research

EQUITAS SMALL FINANCE BANK – PREPPING TO PUSH THE GROWTH PEDAL AS MACROS NORMALIZE!

Equitas SFB (EQSFB) offers a diversified suite of products spread across Microfinance, Small Business Loans, Vehicle Finance, Housing finance, SME Financing, and NBFC Financing. The bank primarily caters to the low and middle-income individuals and businesses that have limited or no access to formal banking and finance channels.

Industry view

Equal weight

CMP
63

Target Price
76

Upside
21%

Key Rationale

- **Improving liability franchise:** The bank continues to witness good traction in deposits, especially in the retail deposits and expects the momentum to continue. With a continued focus on the retail TDs and retail CASA deposits, we expect the deposits to grow at ~29% CAGR over FY21-23E. This is expected to improve the CASA ratio to ~44.3% in FY23E from 34.4% in FY21, thus improving CoF, which in turn, will support NIMs.
- **Diversified book skewed towards secured lending:** EQSFB's focus on diversifying its non-MFI secured book (~82% mix in Q1FY22) is visible in a continuous reduction in the mix of MFI loans (18% in Q1FY22) in the portfolio. With non-MFI products driving growth, the MFI loans mix is expected to reduce further and stabilize at 15% on a steady-state basis. Huge unmet demand and a large addressable market will help EQSFB grow its book by~25% CAGR over FY21-23E.
- **Asset quality stress to taper as macro conditions normalize:** ~82% of EQSFB's book is secured and LGDs across segments have been historically low. During Q1FY22, EQSFB witnessed a sharp spike in the restructured book primarily in the absence of any blanket moratorium. The bank expects to cap the restructured book impacted by COVID 2.0 at ~10% of advances (Rs 1,400-1,700 Cr). A higher restructured book would result in elevated provisions for FY22E. We believe EQSFB is likely to upfront the provisions in FY22E to avoid any spill-over in FY23E. The collection efficiency (CE) over Apr-May'21, especially in the vehicle finance and MFI segment, has been impacted due to strict regional lockdowns.However, as lockdowns eased across geographies, the bank has seen a strong rebound in the CE across all key segments.

Key Rationale

- **Outlook:** EQSFB has been proactively reducing the share of MFI loans to build a strong, diversified, and secured product-dominated book. The bank continues to witness good traction in the deposits, especially retail deposits and expects it to improve further. Improving liability franchise will help lower CoF which will support NIMs as the bank shifts towards lower yielding secured lending. The recent consultative paper released by the RBI on the harmonization of norms for all MFI players has not indicated any cap on the margins for SFBs, thus removing the overhang of NIM compression. The operating efficiency is improving as a result of improving branch productivity and effectively leveraging technology to source deposits. This is expected to drive ROA/ROE expansion moving forward. EQSFB is also well-capitalised to fuel growth for the medium term with Tier I at 22.6%.
- **Valuation:** We believe EQSFB is eligible for re-rating given the improving profitability, asset quality, and return ratios. The bank has recently approved the scheme of amalgamation (reverse merger) with the promoter (Equitas Holdings), which would ensure compliance with regulatory requirements. This, coupled with its application for a universal banking license, further supports our re-rating rationale. We recommend a BUY with a target price of Rs 76 (2.1x FY23E ABV), implying an upside potential of 21% from CMP.
- **Key risks:** a) Asset quality stress from the high restructured book, (2) Growth moderation due to COVID 3.0

Key Financials (Standalone)

Y/E Mar (Rs Cr)	NII (Rs. Cr)	PPOP (Rs. Cr)	Net Profit (Rs. Cr)	EPS (Rs.)	ABV (Rs.)	P/ABV (x)	ROAA (%)	NNPA (%)
FY20	1,495	598	244	2.3	23.9	2.6	1.4	1.7
FY21P	1,798	887	384	3.4	27.5	2.3	1.7	1.6
FY22E	2,156	1,043	409	3.6	30.4	2.1	1.5	1.6
FY23E	2,596	1,343	660	5.8	36.4	1.7	2.0	1.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
Net Interest Income	1,495	1,798	2,156	2,596
Other Income	282	418	440	554
Total Income	1,778	2,216	2,596	3,150
Total Operating Exp	1,180	1,329	1,552	1,807
PPOP	598	887	1,043	1,343
Provisions & Contingencies	247	375	497	461
PBT	351	511	546	883
Provision for Tax	107	127	138	223
PAT	244	384	409	660

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	1,053	1,139	1,139	1,139
Reserves	1,691	2,257	2,636	3,295
Shareholder's Funds	2,744	3,396	3,776	4,434
Total Deposits	10,788	16,392	22,249	27,274
Borrowings	5,135	4,165	1,964	2,562
Other Liabilities & Provisions	647	762	876	981
Total Liabilities	**19,315**	**24,715**	**28,865**	**35,251**
APPLICATION OF FUNDS				
Cash & Bank Balance	2,537	3,379	3,114	3,272
Investments	2,343	3,705	4,006	4,365
Advances	13,747	16,848	20,918	26,717
Fixed Assets & Other Assets	688	783	827	897
Total Assets	**19,315**	**24,715**	**28,865**	**35,251**

Source: Company, Axis Research

Key Ratios (Rs Cr)

Y/E MAR	FY20	FY21E	FY22E	FY23E
VALUATION RATIOS				
EPS	2.3	3.4	3.9	5.8
Earnings Growth (%)	11%	46%	6%	62%
BVPS	26.1	29.8	33.4	39.2
Adj. BVPS	23.9	27.5	30.4	36.4
RoAA (%)	1.4%	1.7%	1.5%	2.1%
ROAE (%)	9.7%	12.5%	11.3%	16.0%
P/E (x)	27.2	18.7	17.6	10.9
P/ABV (x)	2.6	2.3	2.1	1.7
P/PPOP (x)	0.1	0.1	0.1	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
PROFITABILITY				
NIM (%)	9.1	8.4	8.3	8.3
Cost-Income Ratio	66.4	58.2	59.8	57.4

Source: Company, Axis Research

Balance Sheet Structure Ratios (%)

Y/E MAR	FY20	FY21E	FY22E	FY23E
Loan Growth (%)	18.6	22.6	24.2	27.7
Deposit Growth (%)	19.8	51.9	35.7	22.6
C/D Ratio (%)	127.4	102.8	94.0	98.0
CAR	23.6	25.1	23.7	22.4
CAR Tier I	22.4	24.2	22.2	20.9
ASSET QUALITY				
Gross NPLs (%)	2.7	3.6	3.8	3.2
Net NPLs (%)	1.7	1.6	1.6	1.1
Coverage Ratio (%)	45.0	59.0	60.0	65.0
Net Interest Income	8.5	8.2	8.1	8.1
Non-Interest Income	1.6	1.9	1.6	1.7
Operating Cost	6.7	6.0	5.8	5.6
Provisions	1.4	1.7	1.9	1.4
Tax	0.6	0.6	0.5	0.7
ROAA	1.4	1.7	1.5	2.1
Leverage (x)	7.0	7.2	7.4	7.8
ROAE	9.7	12.5	11.3	16.0

Source: Company, Axis Research

VARUN BEVERAGES – GEARED FOR GROWTH

VBL is the 2nd largest franchisee of PepsiCo in the world (outside the USA). Products manufactured by VBL include Carbonated Soft Drinks - Pepsi, Mountain Dew, Seven Up, Mirinda; Non-Carbonated Beverages - Tropicana Slice, Tropicana Frutz; and Bottled water – Aquafina. It operates in India and is also the exclusive bottler for PepsiCo in Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe.

Industry view

Equal Weight

CMP
762

Target Price
900

Upside
18%

Key Rationale

- **Q2CY21 peak season healthy growth YoY:** Even though lockdown was imposed across 95% states during April-May (peak season), the company performed better as it was well-prepared, thanks to the learning from CY20 lockdown, as well as due to partial operating hours at essential/grocery shops. In Q2CY21, the company reported volume growth of 45% YoY as the base quarter witnessed impact of nationwide lockdown. During Q2CY21, CSD volumes stood at 78% while water volumes improved to 15% vs 8% in base quarter even as realization/case improved marginally. Strong growth in unit volumes appears to be driven by continuation of in-home consumption trend and improved distribution in South territory. We do think rural growth continued to outgrow urban regions despite being adversely impacted during the second wave.
- **Low per-capita soft drink consumption in India** of 44 bottles as of 2016 as compared to 271 bottles in China, 1,496 bottles in the USA, and 1,489 bottles in Mexico offers massive growth headroom. Deeper penetration of soft drinks in India is a structural growth opportunity.
- **Key risks:** a) Seasonality, b) Re-imposition of lockdown to control any possible third wave and newer variants (50% OOH* consumption), c) Regulatory actions against soft drinks if any.
- **Outlook**: Given healthy performance in Q2CY21 despite adversity of COVID 2.0, VBL reported healthy performance. However, Gross Margins came under pressure due to RM inflation but owing to cost efficiencies VBL reported EBITDA Margins of 23.3% in Q2CY21. Going forward we do think VBL would be able to sustain a healthy margin profile. We also note, continuation of in-home consumption trend, higher demand for larger SKUs (>1 litre), product portfolio expansion, and some distribution-led market share gains in South and West territories from smaller players over the medium term. The trend of in-home consumption is likely to sustain as consumers are habituated to spend more time at home should there be resurgence in COVID cases. Rural could perform better than urban owing to Government support, improved off-take at MSP and steady monsoon.
- **Valuation**. We marginally tweaked our estimates and expect VBL to register Revenues/Earnings CAGR of 17%/53% respectively over CY20-23E on account of a low base in CY20. This growth will be driven by 1) Further in-roads in under-serviced South and West territories, 2) Distribution-led market share gains, 3) Debt reduction, and 4) Positive cash flow generation. **We value VBL at a premium of 17x its CY23 EV/EBITDA to arrive at our TP of Rs 900/share**.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales	EBIDTA	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
CY20	6,450	1,202	358	7.6	100.1	20.4	10.3	10.1
CY21E	8,800	1,778	781	18.0	42.2	19.4	19.9	17.6
CY22E	9,575	2,020	999	23.1	33.0	16.5	21.3	19.6
CY23E	10,428	2,263	1,197	27.6	27.5	14.2	21.1	21.1

Source: Company, Axis Securities; * OOH – Out-of-Home

Profit & Loss (Rs Cr)

Y/E DEC	CY20	CY21E	CY22E	CY23E
Total Net Sales	**6,450**	**8,800**	**9,575**	**10,428**
% Change	-9.5%	36.4%	8.8%	8.9%
Total Raw material Consumption	2,764	3,916	4,175	4,484
Staff costs	890	1,038	1130	1230
Other Expenditure	1,595	2,068	2,250	2,451
Total Expenditure	5,248	7,022	7,555	8,165
EBITDA	**1,202**	**1,778**	**2,020**	**2,263**
% Change	-17.0%	47.9%	13.7%	12.0%
EBITDA Margin %	**18.6%**	**20.2%**	**21.1%**	**21.7%**
Depreciation	529	561	590	619
EBIT	673	1,216	1430	1644
% Change	-29.8%	80.6%	17.6%	14.9%
EBIT Margin %	10.4%	13.8%	14.9%	15.8%
Interest	281	234	161	116
Other Income	37	62	67	73
PBT	**363**	**1,044**	**1,336**	**1,600**
Tax	5	263	337	403
Tax Rate %	*28.0%*	*25.2%*	*25.2%*	*25.2%*
APAT	**358**	**781**	**999**	**1,197**
% Change	-24.3%	118.3%	28.0%	19.8%

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E DEC	CY20	CY21E	CY22E	CY23E
Share Capital	**289**	**433**	**433**	**433**
Reserves & Surplus	3,235	3,762	4,642	5,695
Net Worth	3,589	4,260	5,139	6,193
Total Loan funds	2,693	2,293	1793	1293
Deferred Tax Liability	226	226	226	226
Long Term Provisions	204	289	308	331
Other Long Term Liability	25	36	38	41
Capital Employed	**6,737**	**7,104**	**7,505**	**8,084**
Gross Block	8,357	8,837	9,317	9,797
Less: Depreciation	2,529	3,090	3,681	4,300
Net Block	5,828	5,746	5,636	5,497
Investments	42	57	62	68
Sundry Debtors	242	241	262	286
Cash & Bank Bal	190	802	1473	2178
Loans & Advances	10	10	10	10
Inventory	929	987	858	921
Other Current Assets	429	585	637	693
Total Current Assets	**1,799**	**2,626**	**3,240**	**4,088**
Current Liabilities & Provisions	1,721	2,181	2,323	2,493
Net Current Assets	78	444	917	1,596
Total Assets	**6,737**	**7,104**	**7,505**	**8,084**

Source: Company, Axis Research; * Bonus Share Adjustment

Cash Flow (Rs Cr)

Cash Flow	CY20	CY21E	CY22E	CY23E
PBT	363	1,044	1336	1600
Depreciation & Amortization	529	561	590	619
Other Adjustment	273	234	161	116
Chg in Working cap	(111)	326	215	46
Direct tax paid	(78)	(263)	-337	-403
Cash flow from operations	**1,012**	**1,903**	**1965**	**1978**
Chg in Gross Block	(560)	(547)	-513	-513
Chg in Investments	-	-	-	-
Cash flow from investing	**(579)**	**(547)**	**-513**	**-513**
Proceeds / (Repayment) of Short Term Borrowings (Net)	247	-	-	-
Repayment of Long Term Borrowings	(471)	-	-	-
Loan Repayment	-	(400)	-500	-500
Finance Cost paid	(277)	(234)	-161	-116
Dividends paid	(72)	(109)	-120	-144
Cash flow from financing	**(574)**	**(743)**	**-781**	**-760**
Change in cash	**(32)**	**613**	**671**	**705**
Cash at Start	137	190	802	1473
Cash at End	105	802	1473	2178

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY20	CY21E	CY22E	CY23E
Growth (%)				
Net Sales	-9.5%	36.4%	8.8%	8.9%
EBITDA	-17.0%	47.9%	13.7%	12.0%
APAT	-24.3%	118.3%	28.0%	19.8%
Per Share Data (Rs.)				
Adj. EPS	7.6	18.0	23.1	27.6
BVPS	124.3	98.4	118.7	143.0
Profitability (%)				
EBITDA Margin	18.6%	20.2%	21.1%	21.7%
Adj. PAT Margin	5.5%	8.9%	10.4%	11.5%
ROCE	10.1%	17.6%	19.6%	21.1%
ROE	10.3%	19.9%	21.3%	21.1%
ROIC	10.4%	19.1%	23.4%	27.8%
Valuations (x)				
PER	100.1	42.2	33.0	27.5
P/BV	6.1	7.7	6.4	5.3
EV / EBITDA	20.4	19.4	16.5	14.2
EV / Net Sales	3.8	3.9	3.5	3.1
Turnover Days				
Asset Turnover	0.8	1.0	1.0	1.0
Inventory days	119.5	89.3	80.6	72.4
Debtors days	11.7	10.0	9.6	9.6
Creditors days	65.3	46.3	43.6	43.4
Working Capital Days	66.0	53.0	46.6	38.6
Gearing Ratio				
Debt: Equity (x)	0.8	0.5	0.3	0.2

Source: Company, Axis Research

MOLD-TEK PACKAGING – CONSISTENT PERFORMER; ATTRACTIVE VALUATION

Mold-Tek Packaging Ltd (MTEP), established in 1986, is the leader in rigid plastic packaging in India. It is involved in the manufacturing of injection-molded containers for lubes, paints, food, and other products. MTPL has seven processing plants and three stock points spread across India with a total capacity of around 41,000 MTPA. MTEP is the pioneer in the field of In-Mold label (IML) decoration in India and is the only completely backward-integrated company with its state-of-the-art integrated facility for IML.

Industry view

Over weight

CMP
527

Target Price
585

Upside
11%

Key Rationale

- **Consistent volumes growth:** MTEP has consistently reported +10-15% volume growth since Q1FY19. In Q4FY21, it reported a 30% YoY volume growth, driven by robust off-take and recovery across segments led by Paints and F&F sectors while Lubes saw a flattish growth. Paints volume increased by 15% QoQ on account of significant improvement in utilization levels at Mysuru and Vizag plants aided by Asian Paints. F&F volumes grew 55% YoY owing to strong demand for packaged food items, traction in ice-cream thin wall pails, and new product launches. Lubricant volumes were higher 21% YoY. IML/Non-IML volume/value mix for Q4FY21 was 67%/33% and 65%/35% respectively.
- **New product innovation helps maintain leadership:** MTEP has consistently launched new products in F&F, Paints, and Lubes segment. Its 'QR Code Printed IML pails' - a first of its kind product in the market, has received encouraging responses from customers in the market. Moreover, MTEP has also launched pumps (import substitution), hygienic packaging solutions for sweet boxes, and adhesive square pails, among others for F&F and the Personal Care industry. These innovative products have widened the technological gap between the company and its competition, allowing MTEP to maintain its leadership position.
- **Key risks:** a) COVID-19 led uncertainties; b) Sudden spike in RM prices and inability to pass price increases to the customers.
- **EBITDA/kg to grow with rising IML contribution:** Over the last three years, contribution of IML pails has increased from 50% to 63% in volume terms. This also led to a ~30% increment in EBITDA/Kg to over 35-37/kg from 22-24/kg over FY19-21. In Q4FY21, EBITDA/Kg stood healthy at Rs 37/Kg despite a 39% rise in RM prices, mainly on account of superior product mix. IML packaging is receiving increasing acceptance across key end-user industries. Additionally, entry into higher-margin pumps (import substitution opportunity) can further drive EBITDA/kg.
- **Healthy guidance for FY22 despite challenges:** For FY22, the company has guided for a 15-18% volume growth and sustainable EBITDA/Kg of Rs. 37/Kg driven by better volume off-take, superior product mix, and foray into new higher-margin industries (personal care/healthcare). In light of new product launches and rising IML share, MTEP expects to achieve EBITDA/Kg of Rs. 42/Kg over the next 2-3 years.
- **Valuation**: We expect Mold-Tek Packaging to register Revenue/EBITDA/PAT CAGR of 18%/23%/30% respectively over FY20-23E. For FY22, the management remains hopeful of scaling back to a positive volume growth trajectory despite Q1FY22 being impacted by the lockdown. **At CMP, the stock trades at 17x PE FY23E which is at a discount to its 5-year average valuation of 31x PE. We assign a target PE multiple of 20x FY23E EPS and arrive at a target price of Rs 585/share.**

Key Financials (Consolidated)

Y/E Mar	Net sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	438.2	76.8	34.6	13.5	36.1	19.0	17.5%	18.1%
FY21	478.9	94.5	48.8	17.2	28.4	15.5	19.9%	19.7%
FY22E	628.5	120.0	67.4	23.9	20.4	12.2	21.5%	22.2%
FY23E	716.6	141.9	82.4	29.2	16.7	10.0	21.5%	23.2%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Total Sales	**438.2**	**478.9**	**628.5**	**716.6**
Total RM Consumption	257.5	272.4	359.5	407.1
Staff Costs	50.0	32.9	71.7	81.0
Other Expenses	53.9	79.1	77.3	86.7
Total Expenditure	361.4	384.4	508.5	574.7
EBITDA	**76.8**	**94.5**	**120.0**	**141.9**
Depreciation	19.2	21.5	23.0	25.5
EBIT	57.6	73.0	97.1	116.7
Interest & Finance charges	10.4	9.9	9.8	9.3
Other Income	1.2	0.9	1.8	1.8
PBT (as reported)	48.3	63.9	89.1	109.1
Tax	10.9	16.0	22.4	27.5
APAT	**34.6**	**48.8**	**67.4**	**82.4**
EPS	**13.5**	**17.2**	**23.9**	**29.2**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Equity Share Capital	13.9	14.0	14.0	14.0
Reserves	183.6	242.0	299.3	369.4
Net worth	**197.5**	**256.0**	**313.3**	**383.3**
Total loans	106.6	98.9	108.6	103.6
Deferred tax liability (Net)	11.6	12.0	12.0	12.0
Long Term Provisions	2.6	3.5	3.5	3.5
Other Long Term Liability	0.1	0.0	0.0	0.0
Capital Employed	**318.4**	**370.4**	**437.5**	**502.5**
Net Block	**198.4**	**235.3**	**282.0**	**286.8**
CWIP	11.5	11.3	11.3	11.3
Inventories	50.0	70.8	77.5	88.4
Sundry debtors	58.9	90.1	108.5	123.7
Cash and bank	1.1	0.4	6.6	51.2
Loans and advances	0.2	0.3	0.3	0.3
Other Current Assets	18.0	7.8	7.8	7.8
Total Current assets	128.3	170.3	201.5	272.2
Total Current liabilities	44.9	66.1	76.4	86.8
Net Current assets	83.4	104.2	125.1	185.5
Capital Deployed	**318.4**	**370.4**	**437.5**	**502.5**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
PBT	**48.3**	**63.9**	**89.1**	**109.1**
Depreciation & Amortization	19.6	21.9	23.0	25.2
Finance costs	10.4	9.9	9.8	9.3
Changes in Working Capital	(4.7)	(12.5)	(14.7)	(15.7)
Cash Flow from Operations	**83.2**	**57.9**	**68.4**	**85.5**
(Increase)/ Decrease in Gross Block	(41.0)	(59.5)	(69.1)	(30.0)
Proceeds from sale of fixed asset	10.1	-	-	-
Sale/destroyed of fixed assets	10.1	-	-	-
Cash Flow from Investing Activities	**(23.4)**	**(58.8)**	**(69.1)**	**(30.0)**
(Decrease)/Increase in Debt	7.7	(11.1)	9.8	(5.0)
Payment of finance costs	(10.4)	(9.5)	(9.8)	(9.3)
Dividend	0	(8.4)	(10.1)	(12.4)
Cash Flow From Financing Activities	**(34.3)**	**(9.6)**	**(10.1)**	**(26.7)**
Change in Cash	**0.2**	**0.1**	**6.2**	**44.6**
Cash at Start	0.2	0.4	0.4	6.6
Cash at End	**0.4**	**0.4**	**6.6**	**51.2**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21	FY22E	FY23E
Growth (%)				
Total Sales	8.0%	9.3%	31.2%	14.0%
EBITDA	9.2%	23.1%	27.0%	18.2%
APAT	10.2%	40.8%	38.3%	22.2%
Profitability (%)				
EBITDA Margin	17.5%	19.7%	19.1%	19.8%
Net Profit Margin	7.9%	10.2%	10.7%	11.5%
ROCE	18.1%	19.7%	22.2%	23.2%
ROE	17.5%	19.0%	21.5%	21.5%
Per Share Data (Rs.)				
EPS	13.5	17.2	23.9	29.2
BVPS	71.2	91.7	112.2	137.3
Valuations (x)				
PER (x)	36.1	28.4	20.4	16.7
P/BV (x)	6.9	5.3	4.3	3.6
EV/EBITDA (x)	19.0	15.5	12.2	10.0
Turnover days				
Debtor Days	53.8	56.8	57.7	55.3
Payable Days	25.7	33.7	29.2	22.6
Gearing Ratio				
D/E	0.5	0.4	0.3	0.3

Source: Company, Axis Research

CAMLIN FINE SCIENCES – STRONG INTEGRATED PLAYER WITH FOCUS ON GROWTH

Camlin Fine Sciences (CFS) was formed after de-merging the fine chemical business of Kokoyu Camlin in 2006. The company is vertically integrated and engaged in the research, development, manufacturing, commercializing, and marketing of specialty chemicals and blends. Its products find applications in a wide array of sectors such as Food, Feed & Pet Nutrition, Pharma, Petro-chemicals, Polymers, Flavours and Fragrances, Agro chemicals, Dyes and Pigments and Bio-diesel among others.

Industry view

Over Weight

CMP
188

Target Price
215

Upside
14%

Key Rationale

- **Margin Accretive Blends Segment to be a Value Creator:** CFS intends to evolve as a global food blender and has commissioned facilities in Mexico, Brazil, North America, Europe and India to meet its objective. The Blends segment contributes 30% to the top-line while Blends margins stood at 20%. The same is expected to improve further by 500 bps to 25% in the coming years. The top-line is expected to grow by ~22%-25% in the next 3 years in the backdrop of new launches, expansion in new geographies, and growth in existing geographies.
- **Strategically Integrated Player:** CFS is one of the world's leading and integrated manufacturers of the most preferred traditional antioxidants and vanillin and manufacture various other shelf life solutions, aroma ingredients and performance chemicals. CFS has also commercialized a plant to produce di-phenols at Dahej, thus mitigating the single location risk.
- **Improving Balance Sheet:** There has been a significant YoY improvement in the company's debt position with the Debt to EBITDA ratio falling from 4.02x in FY20 to 2.73x in FY21, the ROE rose 7.7% in FY20 to 13.9% in FY21 and ROCE improved to 15.8% from 14.7% as the operational performance improved.

Key Rationale

- **Second Phase of Growth:** CFS plans to scale up its MEHQ capacity utilization to 70% and commence HQEE production, which is high GM generating products. Alongside, the Omega 3 fermentation business is another long term growth driver for the company given the market size and a limited number of players to procure Omega 3 from algae. The management believes the food additive segment will be Rs.1000+ Cr business in the next 4-5 years. Furthermore, the commercialization of the Ethyl Vanillin plant will create an Rs.400-500 Cr addition to the top-line in FY23 while, the the Dahej plant scale-up will lead to cost savings enhancing the EBITDA Margins further. With regards to the Lockheed Martin deal, it has announced the commercialization of the Gridstar battery. The supply is expected to start by H2FY23 for the company will make capex related announcements in H2FY22 for the same
- **Valuation:** We expect the company to register Revenue/EBITDA/PAT CAGR of 21/29/34% respectively over FY21-23E. We recommend a BUY on the stock and value the company at 18x FY23E EPS of Rs.12/share to arrive at a target price of Rs.215/share, implying at an upside potential of 24% from CMP.

Key Financials

Y/E Mar (Rs Cr)	Net Sales	EBIDTA	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	1,049	131	30	2.5	70.7	19.5	6.4	10.9
FY21	1,187	182	65	5.1	33.9	14.5	9.2	12.3
FY22E	1,554	266	108	8.4	20.6	10.0	13.7	16.3
FY23E	1,837	334	156	12.2	14.2	8.0	16.5	19.0

Source: Company, Axis Research

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Net sales	**1,049**	**1,187**	**1,554**	**1,837**
% change	17.6	13.1	30.9	17.0
Raw material expenses	534	583	754	878
Employee expenses	100	120	151	184
Other Operating expenses	285	301	384	441
Total Expenditure	**918**	**1005**	**1,289**	**1,502**
EBITDA	**131**	**182**	**266**	**334**
% change	90.4	39.2	46.1	25.8
EBITDA Margin %	**12.5**	**15.3**	**17.1**	**18.2**
Depreciation	33	44	63	70
EBIT	**98**	**138**	**203**	**264**
% change	146.8	40.6	47.5	30.1
EBIT Margin %	9.3	11.6	13.1	14.4
Interest paid	43	38	44	44
Other Non-Operating Income	3	5	6	9
PBT	**58**	**105**	**166**	**229**
Tax	28	40	58	73
Tax %	**48.7**	**37.8**	**35.0**	**32.0**
Net Profit	**30**	**65**	**108**	**156**
% change	873.4	119.1	64.8	44.7

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Share Capital	**12**	**13**	**13**	**13**
Reserves & Surplus	391	631	704	860
Net Worth	460	713	787	942
Total Loan funds	490	490	544	551
Deferred Tax Liability	2	6	6	6
Long Term Provisions	3	3	5	6
Capital Employed	**964**	**1,221**	**1,351**	**1,514**
Net Fixed Assets	485	607	631	688
Sundry Debtors	253	271	319	377
Cash & Bank Bal	52	138	152	170
Inventory	298	320	392	445
Other Current Assets	46	55	78	92
Total Current Assets	675	795	952	1,095
Current Liabilities & Provisions	270	261	306	345
Net Current Assets	405	534	646	750
Capital Deployed	**964**	**1,221**	**1,351**	**1,514**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
PBT	58	105	166	229
Depreciation & Amortization	34	44	63	70
Chg in Working cap	-41	-66	-99	-86
Direct tax paid	-18	-36	-58	-73
Cash flow from operations	**86**	**117**	**109**	**175**
Chg in Gross Block	-134	-84	-165	-128
Chg in Investments	38	-50	0	0
Proceeds on redemption of Fin. Assets	0	0	0	0
Cash flow from investing	**-90**	**-133**	**-153**	**-120**
Proceeds / (Repayment) of Short Term Borrowings (Net)	34	-61	110	5
Proceeds from issue of Equity Instruments of the company	0	0	0	0
Loans	17	84	-56	3
Finance Cost paid	-39	-48	-44	-44
Dividends paid	-3	-5	0	0
Cash flow from financing	**3**	**39**	**58**	**-36**
Chg in cash	**-1**	**23**	**13**	**18**
Cash at start	**53**	**52**	**76**	**89**
Cash at end	**52**	**76**	**89**	**107**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21	FY22E	FY23E
Growth (%)				
Net Sales	17.6%	13.1%	30.9%	18.2%
EBITDA	90.4%	39.2%	46.1%	25.8%
APAT	873.4%	119.1%	64.8%	44.7%
Per Share Data (Rs.)				
Adj. EPS	2.5	5.1	8.4	12.2
BVPS	37.9	55.9	61.7	73.9
DPS	2.5	0.0	0.0	0.0
Profitability (%)				
EBITDA Margin	12.5%	15.3%	17.1%	18.2%
Adj. PAT Margin	2.8%	5.5%	6.9%	8.5%
ROCE	10.9%	12.3%	16.3%	19.0%
ROE	6.4%	9.2%	13.7%	16.5%
Valuations (X)				
PER	70.7	33.9	20.6	14.2
P/BV	4.6	3.1	2.8	2.4
EV / EBITDA	19.5	14.5	10.1	8.0
EV / Net Sales	2.4	2.2	1.7	1.4
Turnover Days				
Asset Turnover	3.6	2.5	2.4	2.5
Inventory days	199	193	172	174
Debtors days	80	80	69	69
Creditors days	116	104	88	90
Working Capital Days	164	170	153	153
Gearing Ratio				
Total Debt to Equity (x)	1.0	0.6	0.6	0.5

AMBER ENTERPRISES – A KEY BENEFICIARY OF ATMANIRBHAR BHARAT

Amber Enterprises Ltd. (AEL) is a leading solution provider to the Indian Air conditioner OEM/ODM Industry. It caters to 9 out of the top 10 Indian AC brands which cumulatively command 75%+ market share in India. Amber also manufactures AC/NON-AC components and stands as a total solutions provider for the Indian RAC industry. It has expanded its offerings further through the acquisition of Sidwal (mobility solutions) and has also recently forayed into commercial AC's.

Industry view

Equal Weight

CMP
2,992

Target Price
3,330

Upside
11%

Key Rationale

- **Fully backward-integrated player with strategically located plants:** AEL has been able to provide cost-efficient solutions to RAC brands/OEMs owing to its highly backward-integrated and strategically located plants. It caters to the majority of clients' requirements for ACs commanding 49% of outdoor units, 78% of indoor units, and 60% of window ACs.
- **Healthy recovery witnessed in Q4FY21:** Strong RAC demand was seen in Metros and Tier 1 cities while demand uptick was seen in Tier 2/3 cities as well. While the current demand has been impacted due to localized lockdowns in many markets, gradual economic re-opening, as well as delay in the onset of summer in the north region, is expected to significantly revive and release the pent-up demand.
- **Beneficiary of government schemes:** Amber has benefited from the import ban on RAC with refrigerants and an increase in duties on ACs and components. The company has added 6 new clients for Gas Filling and plans to increase the wallet share by providing them with full RAC solutions, moving forward.
- **Participation in the PLI Scheme:** Amber plans to participate in the PLI scheme for components where it is already present (PCBs and Motors). Post-examining the fine print of the scheme (which is awaited), the company will apply for the license for components manufacturing.

Key Rationale

- **Evaluating a partnership option:** On participation in high-value products such as compressors, the company is evaluating a partnership option with an existing manufacturer in high-value components to participate in the scheme. We believe there is a high probability of Amber being granted a license under the scheme and is well-placed to capitalize on this opportunity.
- **Outlook**: Despite prevailing short-term uncertainties led by lockdown-led restrictions, we believe the long-term growth outlook of the company remains intact. Amber is focussing on a) Continuous client addition, b) Capacity expansion for availing PLI benefits, c) Further expansion in the HVAC segment (Central AC's -VRF), d) Focus on exports, and e) Diversification through mobility business (Sidwal Subsidiary), supporting its long-term positive outlook.
- **Valuation**: We expect Amber to register a Revenue CAGR of 37% over FY21-23E. We have adjusted our FY22E/FY23E revenues downward by 10%/6% respectively and value Amber at 40 x FY23 E EPS of Rs 82.5 to arrive at a target price of Rs 3,290/share.
- **Key risks:** a) Slower-than-expected growth led by lockdowns; b) Delayed ramp-up of component manufacturing and its green-field Capex.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	NetSales (Rs cr)	EBIDTA (Rs cr)	Net Profit (Rs cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20	3,963	317	164	52.2	56.1	28.9	15.4	17.3
FY21	3,031	253	83	24.7	116.9	38.7	7.2	10.7
FY22E	4,205	355	162	48.0	60.6	27.8	12.6	15.6
FY23E	5,705	512	278	82.5	35.2	18.9	18.5	21.9

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Net sales	**3,963**	**3,031**	**4,205**	**5,705**
Other operating inc.	8.2	33.1	19.3	22.8
Total income	3,971	3,064	4,225	5,728
Cost of goods sold	3,654	2,810	3,869	5,216
Contribution (%)	7.8%	7.3%	8.0%	8.6%
Operating Profit	**317**	**253**	**355**	**512**
Depreciation	85	92	101	107
Interest & Fin Chg.	42	41	38	35
E/o income / (Expense)	0	0	0	0
Pre-tax profit	191	120	216	370
Tax provision	27	37	54	92
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**163**	**84**	**162**	**278**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Total assets	**1,638**	**1,728**	**1,899**	**2,194**
Net Block	1,106	1,223	1,345	1,351
CWIP	6	20	23	10
Investments	45	45	45	45
Wkg. cap. (excl cash)	361	310	407	541
Cash / Bank balance	120	129	79	247
Misc. Assets	0	0.0	0.0	0.0
Capital employed	**1,638**	**1,728**	**1,899**	**2,194**
Equity capital	31	34	34	34
Reserves	1,097	1,175	1,330	1,600
Pref. Share Capital	0	0	0	0
Minority Interests	35	35	35	35
Borrowings	405	405	410	430
Def tax Liabilities	70	80	90	96

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Sources	**318.9**	**182.3**	**266.9**	**382.1**
Cash profit	290.8	216.5	300.9	419.1
(-) Dividends	12.1	5.5	6.3	7.3
Retained earnings	278.7	211.1	294.6	411.9
Issue of equity	0.0	2.2	0.0	0.0
Change in Oth. Reserves	15.8	0.0	0.0	0.0
Borrowings	(4.5)	0.0	0.0	0.0
Others	28.9	(31.0)	(27.7)	(29.7)
Applications	**318.9**	**182.3**	**266.9**	**382.1**
Capital expenditure	369.2	224.1	225.0	100.0
Investments	(15.2)	0.0	0.0	0.0
Net current assets	(121.4)	(50.6)	91.8	113.9
Change in cash	86.3	8.8	(49.9)	168.2

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Sales growth	**44.0**	**(23.5)**	**38.8**	**35.7**
OPM	8.0	8.3	8.4	8.9
Oper. profit growth	42.5	(20.2)	40.2	44.1
COGS / Net sales	92.2	92.7	92.0	91.4
Overheads/Net sales	0.0	0.0	0.0	0.0
Depreciation / G. block	5.8	5.5	5.3	5.3
Effective interest rate	15.1	12.8	11.8	10.5
Net wkg.cap / Net sales	0.09	0.11	0.08	0.08
Net sales / Gr block (x)	2.7	1.8	2.2	2.8
RoCE	17.3	10.7	15.6	21.9
Debt / equity (x)	0.28	0.27	0.24	0.21
Effective tax rate	13.9	30.7	25.1	25.1
RoE	15.4	7.2	12.6	18.5
Payout ratio (Div/NP)	7.4	6.5	3.9	2.6
EPS (Rs.)	52.2	24.7	48.0	82.3
EPS Growth	73.2	(52.6)	94.4	71.4
CEPS (Rs.)	78.9	52.3	77.9	114.0
DPS (Rs.)	3.2	1.5	1.9	1.9

Source: Company, Axis Research

MINDA CORPORATION – PREMIUMISATION AND ELECTRIFICATION TO DRIVE GROWTH

Minda Corporation (Minda Corp) is the flagship company of the Spark Minda group and is a leading supplier of key auto components to domestic and global OEMs. It has a well-diversified presence across segments 2W, CV, PV, and Aftermarket that contributed 52%, 21%, 11%, and 16% of its sales in FY21, respectively. Geographically, India commands ~85% of sales while the rest ~15% is contributed by overseas. Its customer base comprises all leading Indian OEMs with top clients being Bajaj Auto, Ashok Leyland, TVS Motors, Suzuki Motors, and M&M, among others.

Industry view

Equal Weight

CMP
139

Target Price
155

Upside
12%

Key Rationale

- **Beneficiary of migration to BS6:** Minda Corp will be a key beneficiary of migration to BS6 as its wire harness product (25-30% market share) will likely witness a massive demand both in terms of value and volume. We continue to like the growth story of the company driven by increasing value of kit-per-vehicle, exit from loss-making operations, and the possibility of an opportunistic inorganic acquisition by leveraging its cash-rich position.
- **Robust growth headroom in EV space:** The company has a large portfolio of EV products for e2Ws and e3Ws. The company's 3x3x3 EV strategy will provide complete drive-train solutions to 3 segments (2Ws/3Ws/Entry cars) with 3 products (DC-DCconverter, Battery Charger, Motor Controllers) and products less than 3kW. It has started receiving orders for multiple products in the EV space from leading OEMs such as Bajaj's Chetak and other Indian OEMs as well. The management believes the shift to EVs in India would happen faster due to earlier adoption and cutting out the hybrid phase as the latter is not cost-effective.

Key Rationale

- **Multiple growth drivers in place:** A few other growth drivers for Minda Corp include a) Connected mobility solutions, b) Light-weighting solutions, and c) Vehicle access systems. The demand recovery in CVs (20% of Minda Corp's revenues) will further boost its topline over the next two to three years.
- **Valuation:** We expect Minda Corp's profitability to improve over FY21-23E in the backdrop of a wide product basket, robust market share, new product addition, and operating leverage. We expect an excellent growth in the company's profitability by FY23E owing to the attributes such as improved content-per-vehicle as well as higher indigenous content. Return ratios, too, would improve by FY23 led by improving profit margins and asset turnover crossing 2x (peak of 3x seen between FY13-16). We maintain a BUY and value the company at 16x FY23E EPS to arrive at a target price of Rs 155, implying an upside potential of 11% from CMP.
- **Key risks:** a) Delay in the automobile demand recovery, especially in the 2W segment. b) Slower-than-expected transition to EV.

Key Financials (Consol)

Y/E Mar (Rs Cr)	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	D/E (x)
FY20	2,223	-200	-8.79	-12.6	-18.3	15.9	8.9	0.5
FY21P	2,368	53	2.21	50.0	5.0	12.7	10.4	0.4
FY22E	2,832	155	6.49	17.0	12.8	18.2	7.3	0.3
FY23E	3,500	231	9.66	11.4	16.7	23.2	5.3	0.1

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Net sales	**2,223**	**2,368**	**2,832**	**3,500**
Other operating income	0	0	0	0
Total income	2,223	2,368	2,832	3,500
Cost of goods sold	1,338	1,493	1,701	2,086
Contribution (%)	356.6	382.7	470.4	570.4
Advt/Sales/Distrn O/H	282.1	275.7	352.5	437.5
Operating Profit	**245**	**217**	**308**	**406**
Other income	43	33	41	37
PBIDT	**288**	**250**	**350**	**443**
Depreciation	87	94	108	109
Interest & Fin Chg.	39	36	34	25
E/o income / (Expense)	-293	-42	0	0
Pre-tax profit	**-131**	**79**	**208**	**309**
Tax provision	45	31	52	78
(-) Minority Interests	0	0	0	0
Associates	-24	5	0	0
Adjusted PAT	**195**	**78**	**155**	**231**
Reported PAT	**93**	**94**	**155**	**231**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Total assets	**1,524**	**1,623**	**1,664**	**1,735**
Gross block	529.2	574.5	529.2	505.6
Net Block	28.5	17.9	15.0	15.0
CWIP	29.9	29.9	29.9	29.9
Goodwill	176.1	180.5	180.5	180.5
Investments	288	321	479	533
Wkg. cap. (excl cash)	472.4	499.3	430.0	471.4
Cash / Bank balance	0.0	0.0	0.0	0.0
Misc. Assets				
	1,524	**1,623**	**1,664**	**1,735**
Capital employed	45.4	47.8	47.8	47.8
Equity capital	930	1,099	1,221	1,442
Reserves	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	544	473	389	239
Def tax Liabilities	4.8	3.4	5.7	6.2

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	FY20	FY21P	FY22E	FY23E
Sources	**-137**	**156**	**171**	**180**
Cash profit	-51	177	297	365
(-) Dividends	19	10	10	10
Retained earnings	-70	167	287	355
Issue of equity	0.2	2.4	0.0	0.0
Change in Oth. Reserves	0.0	95.2	0.0	0.0
Borrowings	-17	-71	-84	-150
Others	-50	-38	-32	-25
Applications	**-137**	**156**	**171**	**180**
Capital expenditure	(97.4)	76.2	82.1	85.0
Investments	11.2	4.3	0.0	0.0
Net current assets	(158.7)	31.1	158.5	53.6
Change in cash	107.7	44.8	(69.3)	41.3

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21P	FY22E	FY23E
Sales growth	**(28.1)**	**6.5**	**19.6**	**23.6**
OPM	**11.0**	**9.2**	**10.9**	**11.6**
Oper. profit growth	(16.0)	(11.6)	41.9	31.8
COGS / Net sales	28.7	27.8	29.1	28.8
Overheads/Net sales	32.1	32.2	32.1	31.9
Depreciation / G. block	10.1	9.9	10.5	9.8
Effective interest rate	5.4	7.5	7.4	7.5
Net wkg.cap / Net sales	0.15	0.11	0.13	0.13
Net sales / Gr block (x)	2.6	2.5	2.8	3.1
RoCE	**15.9**	**12.7**	**18.2**	**23.2**
Debt / equity (x)	0.53	0.39	0.28	0.14
Effective tax rate	(34.7)	39.4	25.2	25.2
RoE	**(18.3)**	**5.0**	**12.8**	**16.7**
Payout ratio (Div/NP)	(9.6)	19.1	6.5	4.4
EPS (Rs.)	**-8.79**	**2.21**	**6.49**	**9.66**
EPS Growth	(218.8)	(125.1)	194.0	48.8
Adj EPS (Rs.)	**4.1**	**4.0**	**6.5**	**9.7**
Adj EPS growth	(37.9)	(4.0)	64.3	48.8
CEPS (Rs.)	(5.0)	6.1	11.0	14.2
DPS (Rs.)	0.7	0.4	0.4	0.4

Source: Company, Axis Research

STEEL STRIP WHEELS – EXPORTS AND ALLOY WHEELS TO LEAD GROWTH

Steel Strip Wheels Ltd. (SSWL) is a tier 1 Auto ancillary engaged in designing, manufacturing, and supplying automotive steel wheels for 2W, PV, and CV OEMs since 1991. The company has 4 plants: 2W, PV, and tractor wheel plant at Dapper, Chandigarh, CV plant at Jamshedpur, CV and PV plant at Chennai, and Al-alloy wheel plant at Mehsana, Gujarat. SSWL has a technology tie-up with Sumitomo Metals, Japan, and Kalink, Korea who along with Tata Steel are also strategic investors.

Industry view

Equal Weight

CMP
1508

Target Price
1669

Upside
11%

Key Rationale

- **Robust production capacity:** SSWL has built massive capacity across auto segments including 2W, PV, CV, Tractors, OTR, and Al-alloy wheels, all of which are currently underutilized owing to the slowdown in the Auto sector post-IL&FS crisis in 2018. The company has a production capacity of 0.73 Cr steel wheel rims for 2W & PVs and 0.18 Cr for CV, OTR, and tractors at Dapper, Chandigarh. It has a 0.6 Cr steel wheel manufacturing capacity for PVs and 0.15 Cr for CVs at Chennai and 0.21 Cr steel wheel capacity for CVs at Jamshedpur. The company has 0.15 Cr Al-alloy wheels manufacturing facility at Mehsana, Gujarat, which has been expanded to 0.24 Cr. Recovery in automobile demand would help SSWL optimally utilize its capacity, which in turn, would help it improve its profitability over the next two years.
- **Encouraging exports opportunities:** Export opportunities are opening up as the USA and EU have levied huge Anti Dumping Duties (ADD) on imports from China. The estimated imports value of steel wheels from China was around $1,300 Mn (US: $400 Mn, EU: $900 Mn) before the imposition of import tariffs. SSWL is well-positioned to capitalize on the exports opportunity as its Chennai plant (having both CV and PV steel making facility) is located close to the port. The company intends to take exports to over Rs 300 Cr by FY22E.

Key Rationale

- **Al-alloy wheel to boost margins and PAT growth:** The increasing contribution of high margin Al-alloy wheel rims in overall revenues is expected to support margin expansion. Al-alloy wheels contributed ~20% to SSWL's revenues in FY21, a huge jump from ~7% in FY20. The contribution is expected to increase further to 25% plus over the next couple of years and has order visibility for the next 5 years. SSWL is expanding Al-alloy wheel capacity to 0.24 Cr wheels and being a high-margin product (margin differential of ~500-600 bps over steel wheels), PAT is expected to grow at a faster pace as the contribution of the Al-alloy wheel increases in the overall sales.
- **Leading market share:** Being in an oligopoly market, SSWL commands leadership with a ~55% market share in the steel wheel rims and ~20% in alloy wheels. We expect SSWL to outperform the industry growth given its sticky relations with OEMs across all the auto segments viz., 2/3W, PV, CV, and Tractors. We have penciled in Revenue/EBIDTA/PAT CAGR of 34%/43%/139% over FY20-23E respectively vis-à-vis 7%/9%/(1)% CAGR for FY13-20. The higher growth estimates are supported by operating leverage kicking in through better capacity utilization owing to the domestic auto-recovery and improving exports.
- **Key risks:** a) Delay in automobile demand recovery, especially PV and CV, and b) Sharp INR appreciation hampering the company's rising exports opportunities.

Key Financials (Consol)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs.)	PER (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	D/E (x)
FY20	1,563	23	15	100.3	3.4	8.9	16.3	1.40
FY21P	1,749	49	32	47.7	6.8	10.7	13.5	1.13
FY22E	2,799	197	127	11.9	23.3	22.0	7.0	0.74
FY23E	3,835	340	218	6.9	30.6	32.1	4.2	0.41

Source: Company, Axis Securities, CMP as on 2nd Aug 2021.

Income Statement (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Net sales	**1,563**	**1,749**	**2,799**	**3,835**
Other operating income	0	0	0	0
Total income	1,563	1,749	2,799	3,835
Cost of goods sold	1,311	1,458	2,287	3,093
Contribution (%)	*16.1%*	*16.7%*	*18.3%*	*19.4%*
Advt/Sales/Distrn O/H	80.9	88.1	140.2	189.8
Operating Profit	**171**	**204**	**372**	**552**
Other income	22	16	17	23
PBIDT	**193**	**220**	**389**	**575**
Depreciation	72	72	77	83
Interest & Fin Chg.	89	84	63	50
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**33**	**64**	**249**	**441**
Tax provision	9	15	51	101
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**23**	**49**	**197**	**340**
Reported PAT	**23**	**49**	**197**	**340**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Total assets	**1,734**	**1,845**	**1,907**	**2,073**
Net Block	1,329.2	1,306.5	1,411.7	1,348.2
CWIP	52.8	85.5	10.0	10.0
Investments	0.2	0.2	0.2	110.0
Wkg. cap. (excl cash)	231	361	391	406
Cash / Bank balance	121.0	91.7	94.9	198.5
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**1,734**	**1,845**	**1,907**	**2,073**
Equity capital	15.6	15.6	15.6	15.6
Reserves	666	682	1,036	1,370
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	927	994	705	535
Def tax Liabilities	125.7	153.5	150.8	152.2

Source: Company, Axis Research

Cash Flow (Rs Cr)

Cash Flow	FY20	FY21P	FY22E	FY23E
Sources	**169**	**179**	**101**	**249**
Cash profit	237	184	338	473
(-) Dividends	8	8	6	6
Retained earnings	229	177	332	468
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	22.8	1.3	0.0	0.0
Borrowings	-11	67	-155	-170
Others	-72	-65	-76	-49
Applications	**169**	**179**	**101**	**249**
Capital expenditure	93.4	80.2	20.0	20.0
Investments	0.0	0.0	0.0	109.8
Net current assets	85.2	128.6	39.2	15.6
Change in cash	(9.6)	(29.3)	41.7	103.6

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21P	FY22E	FY23E
Sales growth	**(23.4)**	**11.9**	**60.0**	**37.0**
OPM	**11.0**	**11.6**	**13.3**	**14.4**
Oper. profit growth	(30.4)	19.0	82.7	48.3
COGS / Net sales	83.9	83.3	81.7	80.7
Overheads/Net sales	5.2	5.0	5.0	5.0
Depreciation / G. block	3.8	3.6	3.6	3.8
Effective interest rate	9.4	9.2	8.2	8.3
	1.5	2.8	7.1	8.9
Net wkg.cap / Net sales	0.18	0.18	0.11	0.09
Net sales / Gr block (x)	0.8	0.9	1.3	1.8
RoCE	**8.9**	**10.7**	**22.0**	**32.1**
Debt / equity (x)	1.40	1.13	0.74	0.41
Effective tax rate	28.3	22.8	20.6	23.0
RoE	**3.4**	**6.8**	**23.3**	**30.6**
Payout ratio (Div/NP)	32.1	11.5	2.9	1.7
EPS (Rs.)	**15.0**	**31.6**	**126.7**	**217.9**
EPS Growth	(71.5)	110.0	301.0	72.0
CEPS (Rs.)	61.2	78.0	176.3	271.5
DPS (Rs.)	4.0	3.0	3.0	3.0

Source: Company, Axis Research

Lupin Ltd – Complex molecules led to Sequential growth

Lupin’s specialty product portfolio includes (Albuterol, Solosec& Levothyroxine) in the US, a strong chronic portfolio in India and biosimilars& geographical expansion in emerging and growth markets could drive topline.

Industry view

Equal Weight

CMP
1107

Target Price
1400

Upside
26%

Key Rationale

- Lupin's specialty product portfolio includes (Albuterol, Solosec& Levothyroxine) in the US, a strong chronic portfolio in India and biosimilars& geographical expansion in emerging and growth markets could drive topline. Gross margins expansion with the launch of value-added products, digital promotion in the marketing of Solosec, cost rationalization in R&D and employee segment could improve EBITDA margins by 590 basis points while better capital allocation could result in the improvement of RoCE by 560 bps over the period FY20-FY23E.
- Lupin' specialty business (USD$ 200 mn) includes Levothroxine, Solosec and ProAir could add strong incremental growth in the US. In Developed and Emerging markets the launch of biosimilar etanercept and NaMuscla& extension of products in CVS, OTC and Ophthalmology therapeutics could drive topline. Further, Lupin has a strong presence in API categories like Tuberculosis (TB), HIV, Malaria, and CRVs in the product basket is well placed to grab upcoming opportunities in the API sector.

Key Rationale

- The domestic formulations market in India has recorded ~9.5% CAGR in 2014-19 to reach US$ 22 bn is expected to grow at 8%-11% CAGR to US$ 31-35 bn by 2040. Within the pharma market, the chronic segments (Cardiac, Anti-Diabetic & Respiratory) has outpaced the industry growth by 300-400 bps. Lupin has a 65% contribution from the chronic segment in the overall portfolio in the domestic market and expected to deliver revenue CAGR 7.6% over the period FY20-23E.
- Lupin has taken several steps to improve overall EBITDA margins 1.) launch of value-added products including biosimilars could improve gross margins 2.) alternate vendor strategies to bring down the overall procurement costs, 3.) bring down manpower costs to rationalize expenses for launch of new products 4.) rationalization of R&D costs to have more focus on complex products (8% R&D costs over the long term) 5.) lower cost in Solosec promotions could improve EBITDA margins by 590 basis points over the period FY20-FY23E.
- Key risks: Increase in API prices, Further, Price erosion in US market, an extension of lockdown

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales(Rs)	EBIDTA (Rs)	Net Profit(Rs)	FDEPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	RoE (%)
2020	15,375	2,357	-271	(6.0)	NA	20.6	3.7	NA
2021E	14,945	2,391	1,021	22.5	45.7	20.0	3.5	7.6
2022E	16,218	3,098	1,539	34.0	30.3	15.0	3.1	10.3
2023E	17,661	3,744	2,012	44.4	23.2	12.1	2.8	12.1

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**15,375**	**14,945**	**16,218**	**17,661**
Other operating income	0	0	0	0
Net Revenue	15,375	14,945	16,218	17,661
Cost of goods sold	5,430	5,380	5,514	5,810
Contribution (%)	*35.3%*	*36.0%*	*34.0%*	*32.9%*
Other operating costs	7,589	7,173	7,606	8,106
EBITDA	**2,357**	**2,391**	**3,098**	**3,744**
Other income	484	306	322	338
PBIDT	**2,840**	**2,697**	**3,419**	**4,082**
Depreciation	970	1,005	1,075	1,145
Interest & Fin Chg.	363	322	279	237
E/o income / (Expense)	-752	0	0	0
Pre-tax profit	**756**	**1,371**	**2,065**	**2,700**
Tax provision	1,157	350	527	689
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**-402**	**1,021**	**1,539**	**2,012**
Other Comprehensive Income	0	0	0	0
Reported PAT	**-271**	**1,021**	**1,539**	**2,012**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	**24,983**	**25,065**	**26,613**	**28,191**
Net Block	4,366	3,861	3,286	2,642
CWIP	758	758	758	758
Investments	2,344	2,644	2,944	3,444
Wkg. cap. (excl cash)	3,733	4,818	6,015	7,902
Cash / Bank balance	2,454	2,638	3,505	4,192
Misc. Assets	0	0	0	0
Capital employed	**24,983**	**25,065**	**26,613**	**28,191**
Equity capital	91	91	91	91
Reserves	12,490	13,409	14,794	16,605
Pref. Share Capital	0	0	0	0
Minority Interests	0	0	0	0
Borrowings	4,286	3,786	3,286	2,786
Def tax Liabilities	0	0	0	0

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
PBT	756	1,371	2,065	2,700
Add: depreciation	970	1,005	1,075	1,145
Add: Interest	363	322	279	237
Cash flow from operations	2,088	2,697	3,419	4,082
Change in working capital	-2,282	440	292	769
Taxes	1,157	350	527	689
Miscellaneous expenses	-130	0	0	0
Net cash from operations	3,343	1,907	2,600	2,625
Capital expenditure	2,873	-500	-500	-500
Change in Investments	-74	-300	-300	-500
Net cash from investing	2,800	-800	-800	-1,000
Increase/Decrease in debt	-3,936	-500	-500	-500
Dividends	-273	-102	-154	-201
Proceedings from equity	0	0	0	0
Interest	-363	-322	-279	-237
Others	-104	0	0	0
Net cash from financing	-4,675	-924	-933	-938
Net Inc./(Dec.) in Cash	1,467	184	867	687
Opening cash balance	987	2,454	2,638	3,505
Closing cash balance	2,454	2,638	3,505	4,192

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	**4.8**	**(2.8)**	**8.5**	**8.9**
OPM	**15.3**	**16.0**	**19.1**	**21.2**
Oper. profit growth	(8.0)	1.5	29.5	20.9
COGS / Net sales	35.3	36.0	34.0	32.9
Overheads/Net sales	49.4	48.0	46.9	45.9
Depreciation / G. block	14.5	14.0	14.0	14.0
Effective interest rate	153.2	25.5	25.5	25.5
Net wkg.cap / Net sales	19.4	22.9	22.9	25.4
Net sales / Gr block (x)	2.3	2.1	2.1	2.2
RoCE	**8.2**	**8.0**	**11.1**	**13.3**
Debt / equity (x)	0.3	0.3	0.2	0.2
Effective tax rate	153.2	25.5	25.5	25.5
RoE	**(2.2)**	**7.6**	**10.3**	**12.1**
Payout ratio (Div/NP)	249.9	112.7	169.8	222.1
EPS (Rs.)	**(6.0)**	**22.5**	**34.0**	**44.4**
EPS Growth	(144.9)	(476.2)	50.6	30.8
CEPS (Rs.)	15.4	44.7	57.7	69.7
DPS (Rs.)	5.0	2.3	3.4	4.4

Source: Company, Axis Research

TECH MAHINDRA – ROBUST BROAD-BASED GROWTH

Tech Mahindra is India's leading IT services provider to many business conglomerates. Tech Mahindra is headquartered in Mumbai (India) and has a strong presence across geographies such as North America, Europe, Middle East, and Australia, etc. The company provides specialized IT services to its clients across verticals like Communications, Healthcare, and BFSI, among others.

Industry view

Overweight

CMP
1,210

Target Price
1,350

Upside
12%

Key Rationale

- **Strong Q1FY21 performance**: Tech Mahindra Ltd (Tech M) reported better-than-expected results in Q1FY22 in terms of revenue growth. Q1FY22 revenue stood at Rs 10,198 Cr, growing by 4.8% QoQ and 4.1% QoQ in CC terms. Operating Margins declined by 130 bps and stood at 15.2% owing to higher operating costs and employee wage hikes. Net income improved by 25% QoQ and stood at Rs 1,353 Cr. Ramp-up of new deal wins helped the company to generate strong volume growth. The Communication vertical improved by 3.2% QoQ while the Enterprise vertical grew by 1.8% QoQ in CC terms.
- **Strong deal wins and pipeline reflects demand acceleration:** Net new deal wins remained high at $815 Mn out of which $352 Mn are from Communication Media & Entertainment and $493 Mn is from Enterprise. The management is expecting a strong recovery from supply-side constraints and expects growth with a ramp-up in new deal wins. Moreover, the deal pipeline is trending at an all-time high led by (a) Advanced stage discussions within the network and core transformation within Communications and (b) Data and Digital within Enterprise. This reflects demand acceleration.
- Posted robust broad-based growth. Banking, Financial Services, and Insurance (BFSI) grew by 3.2% QoQ, Manufacturing grew by 4.5% QoQ, Technology grew by 8.1% QoQ. However, Retail Transport & Logistics de-grew by 3.2% QoQ while Others grew by 4.8% QoQ.

Key Rationale

- **Initial traction in 5G; may pick up in FY22**: The management sees initial traction in 5G both on (a) Communications side where traction is visible in modernization IT, network, process and systems, and (b) Enterprise side where it signed 3 Manufacturing 5G solutions in Europe and 1 in the US. While the timing of pickup is difficult to predict, the management expects 5G growth to pick up in FY22 or at most in FY23. We expect initial traction and pipeline build-up to aid network and core modernization for 5G within Communications in FY22. We see 5G for Enterprise as a long-term opportunity and expect it to pick up in FY23 and beyond.
- **Strengthening capabilities:** Tech Mahindra has acquired BrainscaleInc for a consideration of $28.8 Mn including earnouts. Brainscale is a Cloud-focused asset having expertise in Cloud Consulting, Enablement, Application Development, and Data Analytics. The acquisition will bolster Tech M's consulting capabilities in the Cloud transformation space and will enable Tech Mahindra to drive the growth of Cloud-related IT services in the North American market
- **Valuations** We believe Tech Mahindra has a resilient business structure and better revenue growth visibility from a long-term perspective but trading at discount as compared to its Indian peers. We recommend a **BUY** and assign 19x P/E multiple to its FY23E earnings of Rs 70.0/share, which gives a **TP of Rs. 1,130/share.**

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales(Rs)	EBIDTA (Rs)	Net Profit(Rs)	EPS (Rs)	PER (x)	RoE (%)	RoCE (%)
FY20	36,354	5,832	4,130	48.0	8	34.0	20%
FY21	37,548	3,849	4,230	50.9	6%	26.0	21%
FY22E	43,556	7,498	4,991	59.3	17%	12.3	23%
FY23E	50,089	10,495	5,940	70.0	18%	10.3	25%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**36,354**	**37,548**	**43,556**	**50,089**
Growth, %	5%	3%	16%	15%
Other income	1,090	1,232	1,380	1,561
Total income	3,744	3,878	4,494	5,165
Employee expenses	18,718	20,767	22,858	23,099
Other Operating expenses	6,561	7,611	8,307	9,194
EBITDA (Core)	5,832	3,849	7,498	10,495
Growth, %	-8%	-34%	95%	40%
Margin, %	16%	10%	17%	21%
Depreciation	1,379	1,434	1,267	1,578
EBIT	4,453	2,414	6,834	8,918
Growth, %	-14%	-46%	183%	30%
Margin, %	12%	6%	16%	18%
Interest paid	185	133	104	95
Pre-tax profit	**5,358**	**3,513**	**7,507**	**10,384**
Tax provided	1,268	1,667	2,009	3,228
Profit after tax	4,089	1,847	5,498	7,155
Net Profit	**4,130**	**4,230**	**4,991**	**5,940**
Growth, %	**-4%**	**2%**	**18%**	**19%**
Net Profit (adjusted)	4,130	4,230	4,991	5,940

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	1,722	1,043	2,848	7,789
Debtors	7,370	7,778	9,225	10,209
Other current assets	6,590	6,590	6,590	6,590
Total current assets	**22,065**	**22,134**	**25,689**	**31,337**
Net fixed assets	1,971	1,243	431	431
CWIP	276	276	276	276
Other Non-current assets	752	752	752	752
Differed tax assets	609	609	609	609
Total Non-Current Assets	**361**	**288**	**207**	**207**
	0	0	0	0
Total assets	**33,543**	**33,252**	**36,613**	**41,639**
	0	0	0	0
Creditors	2,592	2,795	2,971	3,114
Provisions	395	395	395	395
Total current liabilities	**9,800**	**9,763**	**9,939**	**10,082**
Other liabilities	42	42	42	42
Paid-up capital	433	433	433	433
Reserves & surplus	20,125	22,492	25,718	30,602
Shareholders' equity	2,056	2,293	2,615	3,104
Total equity & liabilities	**33,543**	**33,252**	**36,613**	**41,639**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	5,358	3,513	7,507	10,384
Depreciation	1,379	1,434	1,267	1,578
Chg in working capital	-820	-748	-1,750	-706
Total tax paid	1,268	1,667	2,009	3,228
Cash flow from operating activities	**5,812**	**4,043**	**6,853**	**11,238**
Capital expenditure	727	662	673	745
Cash flow from investing activities	**-727**	**-662**	**-673**	**-745**
Free cash flow	5,812	4,043	6,853	11,238
Dividend (incl. tax)	3,846	2,112	2,323	2,323
Cash flow from financing activities	**-291**	**-281**	**-42**	**24**
Net chg in cash	-321	-679	1,805	4,941

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	48.0	50.9	59.3	70.0
Growth, %	-2%	6%	17%	18%
Book NAV/share (INR)	233.6	260.5	297.2	352.7
FDEPS (INR)	39	42	46	46
CEPS (INR)	62.6	67.2	77.5	99.8
CFPS (INR)	36.5	43.8	42.8	42.8
DPS (INR)	24	21	24	24
Return ratios				
Return on assets (%)	12%	13%	15%	17%
Return on equity (%)	20%	21%	23%	25%
Return on capital emp. (%)	19%	9%	21%	23%
Turnover ratios				
Asset turnover (x)	18.4	31.6	74.2	65.0
Sales/Total assets (x)	18.4	31.6	74.2	65.0
Receivables Days	102.4	102.4	102.4	102.4
Cash conversion cycle	25.5	34.5	5.0	2.4
Liquidity ratios				
Current ratio (x)	2.2	2.2	2.5	3.0
Quick Ratio	1.4	1.4	1.6	2.0
Net debt/Equity (%)	0	0	0	0
Leverage Ratio	2	1	1	1
Valuation				
PER (x)	34.0	26.0	20.0	18.0
Price/Book (x)	3.3	3.0	2.6	2.2
EV/Net sales (x)	3.1	2.9	2.8	2.8
EV/EBITDA (x)	7.3	7.3	6.4	6.4
Dividend Yeild	4.4	2.9	4.4	4.4

Source: Company, Axis Research

BHARTI AIRTEL – MARKET LEADING OPERATING PERFORMANCE

Bharti Airtel is one of the largest telecom companies in the world with operations spanning 18 countries and a subscriber base of more than 420 Mn. It is the second-largest wireless telecom operator in terms of revenue after Reliance Jio. Bharti Airtel is a well-capitalized telecom operator with offerings across the telecom spectrum of enterprise and fixed-line broadband services.

Key Rationale

- Bharti Airtel Bharti Airtel Ltd (Airtel) reported muted growth in Q4FY21 but reported better numbers than our expectations. Revenues at Rs 25,747 Cr declined 2.9% QoQ and grew 11.9% YoY . EBIDTA grew by 2.3% QoQ at Rs 12,331 Cr and the margin expanded by 380 bps QoQ to 47.5%, aided by strong execution and better customer mix.
- The Africa business continues to perform well and it has been adding significant value in terms of consistent growth in operating profits and cash flows.
- Capex for the quarter at Rs 6,846 Cr was in line with expectations has guided by the management it has declined from the peak levels.
- The Indian Bharti Airtel is to maintain an industry-leading ARPU with leading per-user data consumption (16.4 GB/month). We expect it to benefit from the operating leverage as ARPU improves and 60-70% of the revenue is pass-through to EBIT. Enterprise revenue was up by 2.2% QoQ and margin expanded by 145 bps QoQ. Enterprise and Africa margins are also likely to see operating leverage benefits as revenue increases with the addition of more subscribers.
- Net debt increased by Rs 5,300 Cr in Q4FY21 (excluding lease obligations at Rs 1, 15, 500 Cr at end of Q4FY21). Bharti Airtel's Operating Free Cash Flow (EBITDA - Capex) improved in FY21 to Rs 21,970 Cr from Rs 10,280 Cr in FY20. However, net debt (including lease liability) has increased from Rs 1, 24,500 Cr to Rs 1, 48,500 Cr, with a Capex of Rs 24,160 Cr in FY21.

Key Rationale

- The company has further acquired Rs 18,700Cr worth of spectrum in an auction (made upfront cash payment of Rs 6,300 Cr). This will further increase the debt level offset partially by Rs 1,500 Cr expected from RJio for spectrum trading. Rising debt is likely to bring free cash flow to focus.
- The management's strategic bets in digital continue to gain traction through rate of customer addition has moderated: (i) Over 1.2 Mn (flat QoQ; 1.2 Mn/1.1 Mn in Q3/Q2) retailers transacting and making payments every day on Mitra App; (ii) 200 Mn (vs. 190 Mn/ 160 Mn/ 155 Mn in Q3/ Q2/ Q1) Monthly Active Users (MAU) across Airtel Thanks, Wynk, Xstream with 10 Mn QoQ addition (moderation from 30 Mn added in Q3); (iii) Wynk MAUs increased by 5.5 Mn (+7.3 Mn/ +9 Mn during Q3/Q2) to 72.5 Mn in Q4FY21; (iv) Airtel Xstream crossed 37.5 Mn MAUs vs. 40 Mn at end of Q4; and (v) Online recharges continue to contribute ~50% to overall revenue.
- Market share for the connectivity part of the business has increased from 23-31% in 2 years with 80% of revenue coming from 20% of the customers. Airtel sees headroom to gain market share with opportunities in (i) Cloud communication by offering voice, video, chat through API; and (ii) Cyber security integrated with connectivity for SME; (iii) IOT which was launched recently. The company is to focus on partnerships for cloud and cyber security.
- **Valuation:** We value and recommend a BUY with SOTP based valuation at Rs 700/share aided by better margins, stronger subscriber growth, and higher 4G conversions. TP indicates an upside of 31% from CMP.

Industry view

Overweight

CMP
562

Target Price
700

Upside
25%

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	RoE (%)
2020	81,068	25,819	(2,330)	(5.8)	-	11.1	3.0	(3.3)
2021	86,835	36,034	(32,349)	(63.0)	-	10.0	3.2	(37.7)
2022E	1,00,616	45,372	(7,506)	(14.6)	(36.7)	8.7	3.5	(9.6)
2023E	1,06,947	51,227	6,068	11.8	45.4	7.5	3.3	7.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**86,835**	**1,00,616**	**1,06,947**	**1,21,259**
Growth, %	7	16	6	13
Total income	**86,835**	**1,00,616**	**1,06,947**	**1,21,259**
Raw material expenses	-10,740	-10,352	-9,210	-10,018
Employee expenses	-3,728	-4,115	-4,361	-4,726
Other Operating expenses	-49,355	-53,797	-54,363	-61,787
EBITDA (Core)	**36,034**	**45,372**	**51,227**	**57,998**
Growth, %	39.6	25.9	12.9	13.2
Margin, %	41.5	45.1	47.9	47.8
Depreciation	-27,496	-29,404	-28,870	-26,851
EBIT	**8,537**	**15,967**	**22,358**	**31,147**
Growth, %	90.9	87.0	40.0	39.3
Margin, %	9.8	15.9	20.9	25.7
Interest paid	-13,222	-15,091	-14,166	-12,677
Other Non-Operating Income	1,037	643	286	289
Non-recurring Items	-40,180	0	0	0
Pre-tax profit	**-43,390**	**1,426**	**9,335**	**19,462**
Tax provided	12,301	-8,933	-3,267	-6,812
Profit after tax	**-31,090**	**-7,506**	**6,068**	**12,650**
Others (Minorities, Associates)	-1,259	0	0	0
Net Profit	**-32,349**	**-7,506**	**6,068**	**12,650**
Growth, %	1,288.4	(76.8)	(180.8)	108.5
Net Profit (adjusted)	**(32,349)**	**(7,506)**	**6,068**	**12,650**
Unadj. shares (bn)	513.4	513.4	513.4	513.4
Wtdavg shares (bn)	513.4	513.4	513.4	513.4

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	31,688	17,582	17,858	18,465
Marketable securities at cost	0	0	0	0
Debtors	0	0	0	0
Inventory	0	0	0	0
Loans & advances	0	0	0	0
Other current assets	46,983	37,209	37,192	37,360
Total current assets	78,671	54,791	55,050	55,825
Investments	0	0	0	0
Gross fixed assets	2,43,219	2,52,641	2,50,714	2,48,943
Less: Depreciation	0	0	0	0
Add: Capital WIP	0	0	0	0
Net fixed assets	2,43,219	2,52,641	2,50,714	2,48,943
Non-current assets	38,889	38,597	39,175	39,763
Total assets	**3,69,336**	**3,65,271**	**3,64,262**	**3,71,054**
Current liabilities	1,31,488	1,11,636	1,10,377	1,09,541
Provisions	0	0	0	0
Total current liabilities	1,31,488	1,11,636	1,10,377	1,09,541
Non-current liabilities	1,27,162	1,53,165	1,47,348	1,42,326
Total liabilities	2,58,650	2,64,801	2,57,725	2,51,866
Paid-up capital	2,567	2,567	2,567	2,567
Reserves & surplus	83,135	75,629	81,696	94,347
Shareholders' equity	1,10,687	1,00,470	1,06,537	1,19,188
Total equity & liabilities	**3,69,336**	**3,65,271**	**3,64,262**	**3,71,054**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	-43,390	1,426	9,335	19,462
Depreciation	27,496	29,404	28,870	26,851
Chg in working capital	-41,068	14,948	1,231	1,308
Total tax paid	12,859	-9,010	-2,920	-6,390
Other operating activities	0	0	0	0
Cash flow from operating activities	**-46,784**	**37,747**	**36,517**	**41,216**
Capital expenditure	-30,008	-38,827	-26,943	-25,080
Chg in investments	0	0	0	0
Chg in marketable securities	-26,806	9,774	17	-168
Other investing activities	28,523	-2,603	-6,560	-12,647
Cash flow from investing activities	**-1,048**	**-41,522**	**-32,646**	**-37,024**
Free cash flow	-47,833	-3,775	3,871	4,191
Equity raised/(repaid)	46,628	0	0	0
Debt raised/(repaid)	28,202	20,222	-7,959	-7,492
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
Cash flow from financing activities	**85,030**	**17,511**	**-7,959**	**-7,492**
Net chg in cash	37,197	13,736	-4,087	-3,301
Opening cash balance	14,923	31,688	17,582	17,858
Closing cash balance	31,688	17,582	17,858	18,465

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	(63.0)	(14.6)	11.8	24.6
Growth, %	981.1	(76.8)	(180.8)	108.5
Book NAV/share (INR)	166.9	152.3	164.1	188.8
FDEPS (INR)	(63.0)	(14.6)	11.8	24.6
CEPS (INR)	(9.5)	42.7	68.1	76.9
CFPS (INR)	94.5	33.2	67.6	77.9
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	(7.3)	0.4	4.1	5.8
Return on equity (%)	(37.7)	(9.6)	7.2	13.1
Return on capital employed (%)	(11.0)	0.6	5.6	7.7
Turnover ratios				
Asset turnover (x)	0.6	0.6	0.7	0.8
Sales/Total assets (x)	0.3	0.3	0.3	0.4
Sales/Net FA (x)	0.4	0.4	0.4	0.5
Working capital/Sales (x)	(1.0)	(0.7)	(0.7)	(0.6)
Fixed capital/Sales (x)	2.7	2.3	2.1	1.9
Working capital days	(355.2)	(270.0)	(249.8)	(217.3)
Liquidity ratios				
Current ratio (x)	0.6	0.5	0.5	0.5
Quick ratio (x)	0.6	0.5	0.5	0.5
Interest cover (x)	0.6	1.1	1.6	2.5
Total debt/Equity (%)	134.7	173.5	151.6	124.0
Net debt/Equity (%)	97.7	151.0	130.4	105.0
Valuation				
PER (x)	(8.5)	(36.7)	45.4	21.8
Price/Book (x)	3.2	3.5	3.3	2.8
EV/Net sales (x)	4.1	3.9	3.6	3.1
EV/EBITDA (x)	10.0	8.7	7.5	6.5
EV/EBIT (x)	42.0	24.6	17.2	12.1

Source: Company, Axis Research

HCL TECHNOLOGIES – BETTER SERVICE MIX, STRONG EXECUTION

HCL Technologies Limited, an Indian Information technology (IT) service and consulting company headquartered in Noida, UP is a next-generation global technology company that helps enterprises re-imagine their businesses for the digital age. HCL technologies products, services, and engineering are built on strong innovation making a more sustainable business model even in uncertainties.

Industry view

Overweight

CMP
1,025

Target Price
1,150

Upside
12%

Key Rationale

- **Robust deal wins and better outlook:** HCL Technologies Ltd (HCL Tech) management expects traction within services (ITS and ERS), but P&P to be soft and grow in low single digit in FY22. Management has moved away from quantitative revenue guidance and guided for double digit growth in cc terms in FY22. Reduced disclosure blurs visibility for FY22 revenue. Nevertheless, given the strong demand environment and strength of bookings. HCL Tech won 8 transformational deals and 4 significant product deals in Q1 FY22 and the deal wins for the quarter remained strong, showcasing a growth of 13% QoQ. FY22 revenue growth guidance retained at double-digit revenue growth and EBIT margins will be in the range of 19%-21%.

- **Digital transformation business is a great opportunity for HCL tech even in the global pandemic:** IT service provider's engagement with its partner network has expanded beyond certifications into the setup of co-innovation centres, building industry solutions, ISV partnerships, and joint sourcing of deals. These partnerships play a significant role in implementation, rollouts & upgrades, validation, and support services.

Key Rationale

- The recent deal trend continues to be healthy for HCL tech and is reflective of traction in Retail & CPG, Manufacturing, and BFSI verticals. HCL Tech has received 8 digital transformational deals in Q1FY22. We believe the COVID-19 outbreak will create huge opportunities across geographies and services for HCL Tech to post strong organic growth over different verticals.
- **Healthy broad based growth:** The BFSI and Technology & Services verticals grew by 2.9% and 1.6% QoQ respectively, the Retail and CPG vertical de-grew marginally by 0.1% QoQ. Life Sciences & Healthcare verticals grew by 5.4% QoQ while Manufacturing vertical declined by 2.2% QoQ. The majority of the verticals are expected to undergo strong recovery and are likely to report an encouraging growth backed by a strong deal pipeline in forthcoming quarters. Mode 1 business grew by 0.8% QoQ while Mode 2 business showed strong growth of 2.3% QoQ. Mode 3 business, however, de-grew by 2% QoQ..
- **Valuations** We believe HCLT has a resilient business structure from a long-term perspective. We recommend a **BUY** and assign 19x P/E multiple to its FY23E earnings of Rs. 59.2/share which gives a TP of Rs 1,090/share, an upside of 15%.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
2020	70,678	16,694	11,062	41	17.9	7.7	3.4	24
2021	78,050	17,590	11,845	46.1	18.1	9.5	3.1	18
2022E	85,509	20,424	14,088	52.5	15.7	8.1	3.2	19
2023E	94,009	24,549	17,073	59.3	14	7	2.7	23

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**70,678**	**75,379**	**87,393**	**98,658**
Growth, %	17%	7%	16%	13%
Other income	193	814	1,116	1,031
Total income	7,087	7,619	8,851	9,969
Employee expenses	44,018	50,313	55,091	60,166
Other Operating expenses	9,966	9,799	11,361	12,826
EBITDA	**16,694**	**15,267**	**20,941**	**25,667**
Growth, %	20%	-9%	37%	23%
Margin, %	24%	20%	24%	26%
Depreciation	2,841	2,404	2,602	3,032
EBIT	13,853	12,862	18,339	22,634
Growth, %	9%	-7%	43%	23%
Margin, %	20%	17%	21%	23%
Interest paid	-15	262	148	134
Pre-tax profit	14,061	13,415	19,307	23,532
Tax provided	**2,938**	**3,287**	**4,827**	**5,883**
Profit after tax	11,123	10,129	14,480	17,649
Net Profit	**11,062**	**10,098**	**14,449**	**17,618**
Growth, %	**9%**	**-9%**	**43%**	**22%**
Net Profit (adjusted)	11,062	10,098	14,449	17,618

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	8,385	9,912	12,004	20,787
Debtors	14,134	15,447	18,386	20,756
Other current assets	5,188	5,188	5,188	5,188
Total current assets	**38,333**	**42,065**	**48,536**	**60,457**
Goodwill & Intangible Assets	0	0	0	0
Net fixed assets	5,713	1,909	1,492	926
CWIP	531	531	531	531
Other Noncurrent assets	0	0	0	0
Total Non-Current Assets	**2,946**	**2,998**	**3,080**	**3,080**
	0	0	0	0
Total assets	**83,216**	**92,562**	**1,10,420**	**1,10,420**
	0	0	0	0
Creditors	1,917	1,971	1,997	2,194
Provisions	8,000	7,500	7,500	7,500
Total current liabilities	**20,889**	**18,929**	**19,289**	**20,445**
Other liabilities	2,548	2,548	2,548	2,548
Paid-up capital	543	543	543	543
Reserves & surplus	51,143	58,701	70,610	85,688
Total equity & liabilities	**83,216**	**92,562**	**1,10,420**	**1,10,420**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	14,062	13,417	19,308	23,533
Depreciation	2,841	2,404	2,602	3,032
Chg in working capital	338	-4,165	-4,017	-1,984
Total tax paid	294	329	483	588
Cash flow from operating activities	**14,345**	**12,433**	**18,671**	**25,359**
Capital expenditure	0	1,884	2,185	2,466
Cash flow from investing activities	**-11,374**	**-7,572**	**-7,872**	**-8,154**
Free cash flow	297	298	861	1,474
Dividend (incl. tax)	2,540	2,540	2,540	2,540
Cash flow from financing activities	**5,551**	**-1,339**	**-1,339**	**0**
Net chg in cash	3,045	1,578	2,093	8,782

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	40.76	46.06	52.51	59.34
Growth, %	10%	13%	14%	13%
Book NAV/share (INR)	375.7	430.6	517.2	626.7
FDEPS (INR)	39	42	46	46
CEPS (INR)	100.5	90.3	123.3	149.5
CFPS (INR)	36.5	43.8	42.8	47.936
DPS (INR)	23	25	27	30.24
Return ratios				
Return on assets (%)	24%	18%	22%	22%
Return on equity (%)	24%	15%	19%	21%
Return on capital employed (%)	14%	12%	15%	15%
Turnover ratios				
Asset turnover (x)	0.9	0.9	0.9	0.9
Sales/Total assets (x)	1.2	1.2	1.3	1.456
Receivables Days	70.4	70.4	70.4	70.4
Cash conversion cycle	36	35	35	39.2
Liquidity ratios				
Current ratio (x)	2.4	2.6	2.8	3.136
Interest cover (x)	0	112	132	147.84
Net debt/Equity (%)				
Valuation				
PER (x)	17.9	18.1	15.7	14.4
Price/Book (x)	3.1	3.7	3.2	2.7
EV/Net sales (x)	2.6	2.4	2.1	1.8
EV/EBITDA (x)	7.7	9.5	8.1	7.0
Dividend Yield	1.0	1.5	1.9	2.2

Source: Company, Axis Research

ORIENT CEMENT LTD – CAPACITY EXPANSION AND STRUCTURAL COST ADVANTAGE TO DRIVE GROWTH

OCL - established in 1979, was formely a part of Orient Paper and Industries Limited. It commenced cement production in the year 1982 at Devapur, Adilabad district,Telangana. The company demerged in 2012 and has since made a considerable progress to emerge as India's one of the most efficient cement producers. Presently, it has cement manufacturing capacity of 8 mntpa and has plants located in Telengana, Karnataka, and Maharashtra. It's a CK Birla group company.

Industry view

Equal weight

CMP
160

Target Price
180

Upside
13%

Key Rationale

- **Capacity expansion to sustain growth:** OCL is expanding its cement grinding capacity by 44% from the present 8.0 million tonnes per annum (mtpa) to 11.5 mtpa. The company is expanding its Devapur plant capacity by 0.5 mntpa through a de-bottlenecking process and it is expected to be commissioned in Q2FY22. Additionally, it is also undetaking further expansion by setting up 3 mntpa clinker and 3 mntpa grinding unit in and near by Devapur expected to get opeartional by FY24E. We expect the company to deliver revenue CAGR of 14% over FY21-FY23E, driven by a volume CAGR of 13% over the same period.
- **Structural cost advantages to boost EBITDA margins:** Despite being a mid-sized cement company, OCL is one of the lowest cost producer of cement in India owing to its proximity to raw material resources, captive power plants (95 MW), and other operational cost advantages. Furthermore, the company plans to increase its share of green energy in the overall power mix going forward which will further reduce power & fuel costs. Backed by cost optimization measures and price realization, we expect OCL's EBITDA margin to improve to 23% in FY23E from 16% in FY20A and EBITDA per tonne to Rs1,082 over the same period.
- **Focus on premium cement and improving financials to support future growth:** Over the last two years, OCL's focus on premiumization strategies has resulted in higher sale of Birla A1. StrongCrete. Furthermore, its financials have improved significantly owing to robust cement demand and healthy price realization, helping the company to repay its long-term debt. This has strengthened its Balance sheet, improving its future growth prospect. We expect OCL's capital structure to remain healthy from medium to long- term perspective..

Key Rationale

- **Outlook**: The company reported stellar Q4FY21 results as Revenue/EBITDA/APAT grew by 27%/62%/127% on a YoY basis respectively. We believe the company is well-positioned to grow its revenue and profitability moving forward. The growth will be supported by a revival of cement demand in its key markets in both trade and non-trade segment, cost optimization measures as well as increasing premium cement sales aided by capacity expansions.
- **Valuation**: The stock is currently trading at 5.8x FY22E and 4.6x FY23E EV/EBITDA respectively. We recommend a BUY rating on the company and value the stock at 5.5x FY23E EV/EBITDA to arrive at a target price of Rs 180/share, implying an upside potential of %.
- **Key risks:** a) Extension of lockdown restrictions impacting expected volume growth b) Rise in input prices hampering margin profile.

Key Financials

Y/E Dec (Rs Cr)	NetSales (Rs cr)	EBIDTA (Rs cr)	Net Profit (Rs cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	ROE (%)
FY20	2422	383	87	4	11	5.4	0.8	7.7
FY21	2324	551	214	10	13	6.4	2.1	16.4
FY22E	2744	616	266	13	10	5.2	1.8	17.2
FY23E	3004	693	327	16	9	4.1	1.5	17.6

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	CY20	CY21E	CY22E	CY23E
Net sales	2422	2324	2744	3004
Other operating income	0	0	0	0
Total income	2422	2324	2744	3004
Raw Material	203	325	369	403
Power & Fuel	591	451	568	619
Freight & Forwarding	693	609	747	815
Employee benefit expenses	155	153	167	177
Other Expenses	396	237	276	298
EBITDA	383	551	616	693
Other income	18	18	22	24
PBIDT	401	569	638	716
Depreciation	141	142	146	150
Interest & Fin Chg.	122	94	78	58
E/o income / (Expense)	0	0	0	0
Pre-tax profit	137	334	415	509
Tax provision	51	119	148	182
RPAT	87	214	266	327
Minority Interests	0	0	0	0
Associates	0	0	0	0
APAT after EO item	87	214	266	327

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	CY20	CY21E	CY22E	CY23E
Total assets	2900	2812	2949	3076
Net Block	2210	2146	2078	2013
CWIP	67	41	50	50
Investments	0	115	225	375
Working Capital (excl cash)	222	96	114	125
Cash / Bank balance	35	35	63	74
Misc. Assets	366	378	419	439
Capital employed	2900	2812	2949	3076
Equity capital	20	20	20	20
Reserves	1098	1285	1531	1837
Minority Interests	0	0	0	0
Borrowings	1135	784	634	434
Def tax Liabilities	122	181	181	181
Other Liabilities and Provision	524	541	583	603

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	CY20	CY21E	CY22E	CY23E
Profit before tax	137	334	415	509
Depriciation	141	142	146	150
Interest Expenses	122	94	78	58
Non operating/ EO item	-13	-12	-22	-24
Change in W/C	-63	216	-18	-11
Income Tax	31	59	148	182
Operating Cash Flow	293	714	450	500
Capital Expenditure	-77	-51	-86	-84
Investments	-191	-444	-110	-150
Others	195	333	22	24
Investing Cash Flow	-73	-162	-174	-210
Borrowings	-60	-431	-150	-200
Interest Expenses	-121	-93	-78	-58
Dividend paid	-19	-26	-20	-20
Others	-7	-3	0	0
Financing Cash Flow	-206	-552	-248	-278
Change in Cash	13.9	0.4	28	11
Opening Cash	22	35	35	63
Closing Cash	15	35	63	74

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY20	CY21E	CY22E	CY23E
Operational Ratios				
Gross profit margin	39%	40%	39%	39%
EBITDA margin	16%	24%	22%	23%
PAT margin	4%	9%	10%	11%
COGS / Net sales	61%	60%	61%	61%
Overheads/Net sales	23%	17%	16%	16%
Depreciation / G. block	5.1%	5.0%	5.0%	5.0%
Growth Indicators				
Sales growth	-4%	-4%	18%	9%
EBITDA growth	23%	44%	12%	12%
PAT growth	82%	147%	24%	23%
Efficiency Ratios				
Total Asset turnover (x)	0.9	0.8	0.9	1.0
Sales/Gross block (x)	0.9	0.8	0.9	1.0
Sales/Net block(x)	1.0	1.0	1.2	1.4
Working capital/Sales (%)	0.24	0.20	0.21	0.21
Valuation Ratios				
PE (x)	11	13	10	9
P/BV (x)	0.8	2.1	1.8	1.5
EV/Ebitda (x)	5.4	6.4	5.2	4.1
EV/Sales (x)	0.9	1.5	1.2	1.0
MCap/ Sales (x)	0.4	1.2	1.0	0.9

Source: Company, Axis Research

ASHOK LEYLAND – IN A SWEET SPOT TO RIDE THE ECONOMIC RECOVERY

Ashok Leyland (AL) is the flagship company of Hinduja Group and is the third largest commercial vehicle manufacturer in India. AL's key products include buses, trucks, engines, defense, and special vehicles. The company has 6 manufacturing plants across 4 locations in India — Ennore (Tamil Nadu), Hosur (Tamil Nadu), Alwar (Rajasthan), Bhandara (Maharashtra,) and Pantnagar (Uttaranchal) with a capacity of 1,64,000 units for Medium & Heavy Commercial Vehicles (M&HCV) and 72,000 units for Light Commercial Vehicles (LCVs). It focuses on the M&HCV segment and has a significant presence in the bus segment.

Industry view

Equal Weight

CMP
133

Target Price
150

Upside
13%

Key Rationale

- **Best play on the MHCV up-cycle:** We believe the MHCV industry is at the cusp of the next up-cycle and with >60% revenue coming from MHCVs, Ashok Leyland is best-placed to capture the surge in demand. The pick-up in economic activities, especially in the infrastructure development, road construction, and mining, would likely spur demand for new trucks.
- **Well-poised to grow in the LCV segment:** Despite the pandemic's impact, LCVs have witnessed a robust demand largely driven by a surge in e-commerce and transport of dairy and fresh produce. AL launched 'Bada Dost', built on its in-house platform PHOENIX. The Bada Dost range has gained extremely strong traction among customers due to better mileage vs. peers and cheaper service costs. AL is improving its LCV business and is targeting market share gains with the launch of new products.
- **Diversification to add long-term stability:** AL is focusing on reducing its dependence on the cyclical truck business, which currently constitutes about 65% of revenues. AL is improving its LCV business and is targeting market share gains with the launch of new products. The company has also identified CV exports, power solutions, defense and spares and services as other key focus areas.
- **Ramping up Exports Business:** AL currently operates in the markets such as Middle East, SAARC, Bangladesh, and Sri Lanka. AL is also planning to venture into the new markets and focusing on the highly under--penetrated African market. In FY21, AL has added 6-7 strategic and large distributors in Africa and the Middle East. Though export markets have not yet opened fully, AL is ready with a comprehensive range of products to cater to the pent-up demand once they resume normal functioning.
- **Focus on Electrification**: AL is focusing on electric vehicles (EVs). In light of enhancing green mobility, the company has created a dedicated EV-only entity called SWITCH Mobility, headquartered in the UK. It expects EVs to form a large part of the business in the coming years and to tap this potential; it has been proactively investing in the EV technology. AL is giving a lot of weight to the total cost of ownership of an electric vehicle as this is a critical component for the wider adoption of EVs.
- **Valuation & Outlook**: AL is focusing on reducing its dependence on the cyclical truck business by increasing the revenue share of Exports, Defence, Power Solutions, LCV, and after sales spare parts business. It remains well-positioned to benefit from a strong recovery in the CV cycle on the back of new product launches and a well-diversified product portfolio. **We maintain our BUY rating on the stock and value it at 18x FY23E EPS to arrive at a TP to Rs 150, implying an upside of 13%**.
- **Key risks:** a) Gradual pick-up in demand, b) Commodity pressures, and c) Higher discounting.

Key Financials (Standalone)

Y/E March (Rs Cr)	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY20A	17,467	1,174	311	1.1	40.6	12.3	3.7	3.6
FY21P	15,301	535	(305)	(1.0)	(127.7)	78.3	(4.3)	(0.6)
FY22E	25,477	2,262	1,050	3.6	37.1	18.3	14.0	10.9
FY23E	34,805	4,061	2,450	8.3	15.9	10.0	28.7	21.8

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20A	FY21P	FY22E	FY23E
Net revenues	17,467	15,301	25,477	34,805
Operating expenses	16,294	14,766	23,215	30,744
EBIDTA	**1,174**	**535**	**2,262**	**4,061**
EBIDTA margin (%)	**6.7**	**3.5**	**8.9**	**11.7**
Other income	76	120	158	199
Interest	109	307	257	217
Depreciation	670	748	759	768
Profit Before Tax	362	(412)	1,404	3,274
Tax	122	(98)	353	824
Reported Net Profit	**240**	**(314)**	**1,050**	**2,450**
Net Margin (%)	1.4	(2.1)	4.1	7.0
Adjusted Net Profit	**311**	**(305)**	**1,050**	**2,450**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20A	FY21P	FY22E	FY23E
Equity capital	294	294	294	294
Reserves & surplus	6,970	6,684	7,028	8,773
Shareholders funds	7,264	6,977	7,322	9,066
Total Loans	3,065	3,716	3,216	2,716
Deferred tax liability	265	171	171	171
Total Liabilities and Equity	**10,594**	**10,864**	**10,709**	**11,954**
Gross block	10,019	10,684	11,431	12,181
Depreciation	2,400	3,147	3,907	4,675
Net block	7,619	7,537	7,524	7,506
Capital WIP	594	372	375	375
Investments	2,720	3,069	3,269	3,369
Inventory	1,238	2,142	2,792	3,624
Debtors	1,180	2,816	2,443	3,147
Cash & Bank Bal	1,322	823	727	1,027
Loans & Advances	1,716	1,691	1,374	1,872
Current Assets	5,456	7,472	7,336	9,670
Sundry Creditors	2,624	5,165	4,770	5,475
Other Current Liability	3,172	2,421	3,025	3,491
Current Liability& Provisions	5,796	7,586	7,795	8,966
Net current assets	(339)	(113)	(459)	704
Total Assets	**10,594**	**10,864**	**10,709**	**11,954**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20A	FY21P	FY22E	FY23E
EBIT	504	(213)	1,503	3,293
Other Income	76	120	158	199
Depreciation & Amortisation	670	748	759	768
Interest paid(-)	(109)	(307)	(257)	(217)
Tax paid(-)	(122)	98	(353)	(824)
Extra Ord Income	(108)	(12)	-	-
Operating Cash Flow	909	434	1,810	3,219
Change in Working Capital	(737)	(726)	250	(862)
Cash flow from Operations	**172**	**(292)**	**2,059**	**2,356**
Capex	(1,514)	(443)	(750)	(750)
Investment	(83)	(349)	(200)	(100)
Cash flow from Investing	**(1,597)**	**(792)**	**(950)**	**(850)**
Change in borrowing	2,666	651	(500)	(500)
Others	(23)	21	-	-
Dividends paid(-)	(1,270)	(88)	(706)	(706)
Cashflow from Financial Activities	**1,374**	**584**	**(1,206)**	**(1,206)**
Change in Cash	(51)	(500)	(96)	301
Opening cash	1,374	1,322	823	727
Closing cash	1,322	823	727	1,027

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20A	FY21P	FY22E	FY23E
Revenue Growth	(39.9)	(12.4)	66.5	36.6
EBITDA Margin	6.7	3.5	8.9	11.7
Net Profit Margin	1.8	(2.0)	4.1	7.0
ROCE (%)	3.6	(0.6)	10.9	21.8
ROE (%)	3.7	(4.3)	14.0	28.7
EPS	1.1	(1.0)	3.6	8.3
P/E (x)	40.6	(127.7)	37.1	15.9
P/ BV (x)	1.7	5.6	5.3	4.3
EV/ EBITDA (x)	12.3	78.3	18.3	10.0
Fixed Assets Turnover Ratio (x)	2.9	2.6	4.3	5.9
Debt / Equity (x)	0.4	0.5	0.4	0.3
EV/ Sales (x)	0.8	2.7	1.6	1.2

Source: Company, Axis Research

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Sr. No	Name	Designation	E-mail
1	Naveen Kulkarni	Chief Investment Officer	naveen.kulkarni@axissecurities.in
3	Neeraj Chadawar	Quantitative Head	neeraj.chadawar@axissecurities.in
4	Suvarna Joshi	Research Analyst	suvarna.joshi@axissecurities.in
5	Siji Philip	Research Analyst	siji.philip@axissecurities.in
6	Omkar Tanksale	Research Analyst	omkar.tanksale@axissecurities.in
7	Uttamkumar Srimal	Research Analyst	uttamkumar.srimal@axissecurities.in
8	Gaurav Uttrani	Research Analyst	gaurav.uttrani@axissecurities.in
9	Dnyanada Vaidya	Research Analyst	dnyanada.vaidya@axissecurities.in
10	Sneha Prashant	Research Analyst	sneha.prashant@axissecurities.in
11	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
12	Darshan Gangar	Research Associate	darshan.gangar@axissecurities.in
13	Darshita Shah	Research Associate	darshita.shah@axissecurities.in

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Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 022-40508080/ 022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.SEBI-Portfolio Manager Reg. No. INP000000654