TOP PICKS

September 2021

AXIS SECURITIES

Style rotation holds the key!

Axis Top Picks basket delivered a positive return of 1% during the month as the market breadth narrowed and high-quality Large Cap stocks outperformed the broader market. The Small Cap index declined by 3% during the month and a significant divergence between the returns was observed between the Top 50 and the rest of the market. Interestingly, IT and FMCG were the top-performing sectors for the month with monthly returns of 13% and 10% respectively. Apart from IT and FMCG, private banks delivered healthy returns of 5% during the month. On the other hand, the Metals sector, which had been one of the strongest performing sectors over the last several months, cooled off and corrected by 1% during the month. The Automobile sector continued to underperform during the month with marginal negative returns as news of chip shortages impacted the largest manufacturer Maruti.

While the sector performance has been a mixed bag, the overall market trajectory continues to remain positive. Furthermore, volatility continues to remain much below the long-term levels indicating a limited scope of significant market correction from the prevailing levels. We make minor changes to our Top Picks by taking Lupin out of the portfolio and adding Krishna Institute of Medical Sciences to it. We maintain our other Top Pick recommendations unchanged as we continue to foresee significant upside potential, moving forward.

Our Key themes are as follows:

Earnings continue to see upgrades: While Q1FY22 earnings were a mixed bag, NIFTY 50 earnings have seen further upgrades on account of an encouraging performance by Metals, IT, and Cement sectors. Though the majority of the companies managed to meet or beat earnings expectations during the quarter, a significant number of companies such as Maruti, Dr Reddy's, and a few others also missed the estimates by a significant margin. The Pharmaceuticals sector continued to deliver a mixed bag performance with Dr Reddy's missing the estimates on account of margin pressures while the industry bellwether Sun Pharma beat the expectations. The sector continues to see margin pressure in the overseas market but the domestic business has continued to remain strong. The IT midcaps delivered excellent results and the stock price appreciation was also significant during the quarter. Tech Mahindra was one of the top-performing stocks among the larger tech companies during the quarter. Also, during the month, Bharti Airtel and Reliance industries outperformed the benchmark after a long period. Tariff hikes in the sector and chances of a duopoly were the key reasons for the outperformance. Bharti continues to look attractive at the current levels.

Volatility continues to remain range bound, signaling the continuance of strong bull market: Even as the Small and Mid Cap indices underperformed during the month, the volatility index remained range-bound and hovered around the 13 mark during the month, which is significantly lower than the long-term average of 22. We believe the volatility index will continue to remain around these levels which rules out chances of significant market correction in the near term.

Quality back in focus; Opportunities in small and mid-caps continue: Quality theme is clearly back in focus as we had highlighted in our last month's review. Likes of HUL have outperformed the market during the month indicating the market's focus on sustaining returns. We have also noted that even in the Mid and Small Cap space, quality stocks have outperformed the non-quality stocks by a significant margin. Moreover, this divergence is quite significant in the Small Caps as compared to the Large Caps, clearly indicating that the allocation will increasingly shift towards Quality stocks across the board. In conclusion, attractive opportunities continue to remain in the Small and Mid Cap space.

Earnings momentum is the key; Upgrade December NIFTY target to 17,700: As we consider the 'Rolling 4 quarters' earnings momentum', we observe the earnings momentum to have sustained in Q1FY22. It is critical for the earnings momentum to sustain even in Q2FY22 which seems likely in light of gradual reopening of the economy as well as significantly picked up vaccination rates. Based on the earnings upgrade, we upgrade our December NIFTY 50 target to 17700. As we continue to remain optimistic on the market, focus on earnings sustenance will be a key, moving forward.

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, Krishna Institute of Medical Sciences, Tech Mahindra, Bharti Airtel, HCL Technologies, Orient Cement, Ashok Leyland

TOP PICKS

September 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	719	810	13	23.3	3.0	0.3	5.4	8.8	20.6	34.8
State Bank of India	Financials	426	555	30	10.5	1.4	0.9	-1.3	1.3	10.2	56.4
Federal Bank Ltd	Financials	81	100	23	8.1	0.9	0.9	-7.1	-6.1	-2.0	22.8
Equitas Small Finance Bank	Financials	60	76	28	14.5	1.8	NA	-5.5	0.7	27.1	58.0
Varun Beverages Ltd	Consumer Staples	847	960	13	56.4	8.9	0.3	11.5	26.0	22.2	39.1
Mold-Tek Packaging Ltd	Materials	473	585	24	21.5	4.3	1.5	-10.2	-4.4	22.2	67.6
Camlin Fine Sciences Ltd	Materials	173	215	24	23.9	3.2	NA	-8.2	-2.0	28.4	41.2
Amber Enterprises India Ltd	Consumer Discretionary	2,895	3,330	15	59.7	5.5	NA	-3.2	6.1	-10.4	23.0
Minda Corporation Ltd	Consumer Discretionary	120	148	24	17.6	2.3	0.5	-13.7	-4.4	16.4	34.3
Steel Strips Wheels Ltd	Consumer Discretionary	1,898	2,122	12	NA	NA	0.1	39.5	153.3	200.0	275.8
Krishna Institute of Medical Sciences Ltd	Health Care	1,285	1,570	22	37.8	7.7	NA	6.6	NA	NA	NA
Tech Mahindra Ltd	Information Technology	1,448	1,600	11	23.5	4.6	1.4	19.7	45.5	61.7	52.7
Bharti Airtel Ltd	Communication Services	664	740	11	74.9	5.6	NA	18.2	24.1	19.4	30.3
HCL Technologies Ltd	Information Technology	1,182	1,300	10	23.7	4.8	1.7	15.4	25.8	33.1	28.4
Orient Cement Ltd	Materials	152	180	19	12.3	2.1	1.0	-5.0	10.7	67.0	77.3
Ashok Leyland Ltd	Industrials	123	155	26	43.3	4.9	0.5	-7.1	-0.1	-4.3	29.2

Source: Company, Axis Securities, CMP as on 31st Aug 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)

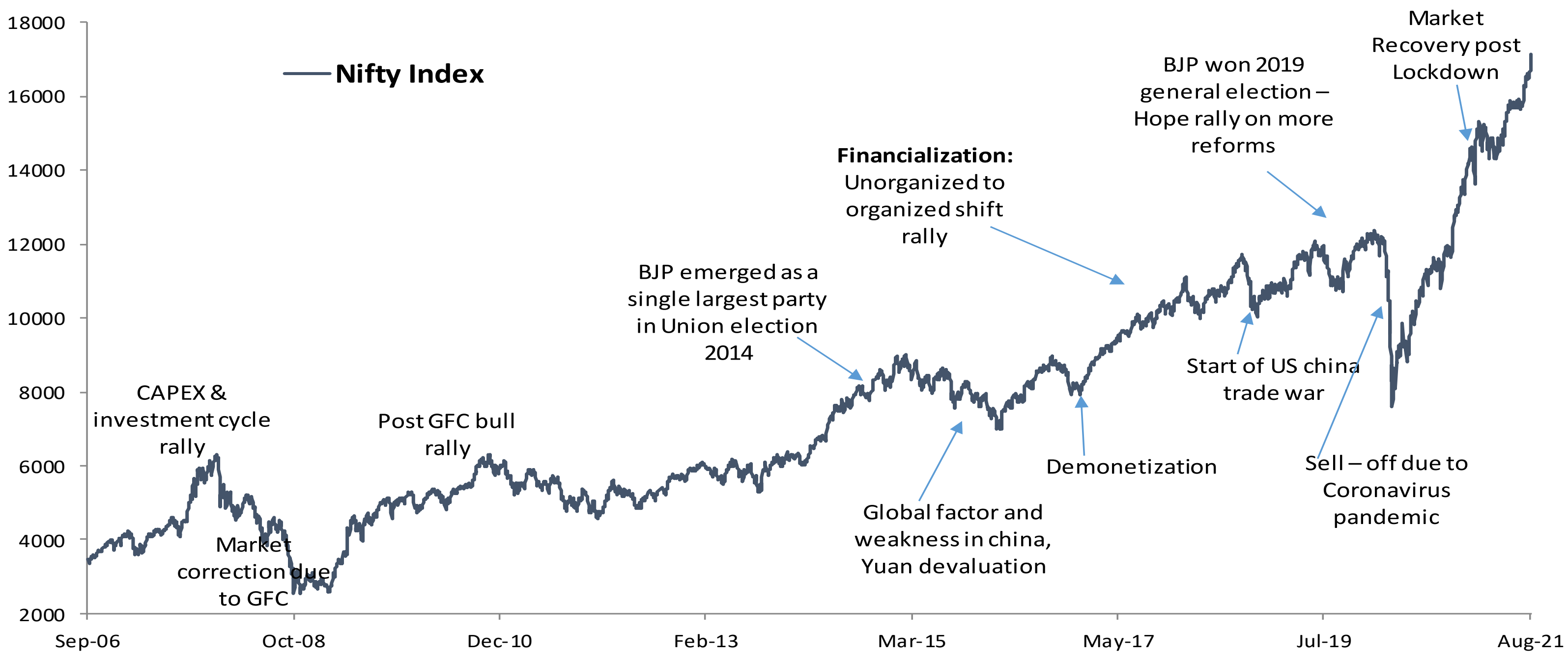
Sector	Current View	Outlook
Consumer staples	Equal Weight	The consumer staples sector witnessed a good demand recovery and posted solid top-line growth in Q4FY21. However, gross margin pressure was clearly visible due to RM headwinds. While the sector has strong earnings visibility and best-in-class 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: Large Caps played a catch-up rally in Aug'21

- The Indian equity market touched an all-time high of 17132 on 31st August, up 12% from the previous high on the 15th Feb. The market is welcoming the sequential recovery of key high-frequency indicators such as Manufacturing PMI, the GST collection, and the Google Mobility Data which are all trending higher on an MoM basis. With this improvement in key macro data, FIIs turned 'buyers' in the equity market vs. the 'net sellers' in the last month.
- Large Caps played a catch-up rally in Aug'21 which drove the benchmark indices to higher levels while the broader market is in a consolidation zone.
- Mid Caps and Small Caps have witnessed a sharp rally in the last few months and now some profit booking is visible in the space, indicating a healthy sign for the overall market.
- Investors are now finding comfort in the Large Cap space which is providing more margin of safety over the broader market at current levels.
- The volatility index continues its downward trajectory. During the month, VIX was trading around 13 level vs. the long-term average of 22, indicating a positive setup for the market with limited downside.



Lifetime high: 17,132 on 31st August

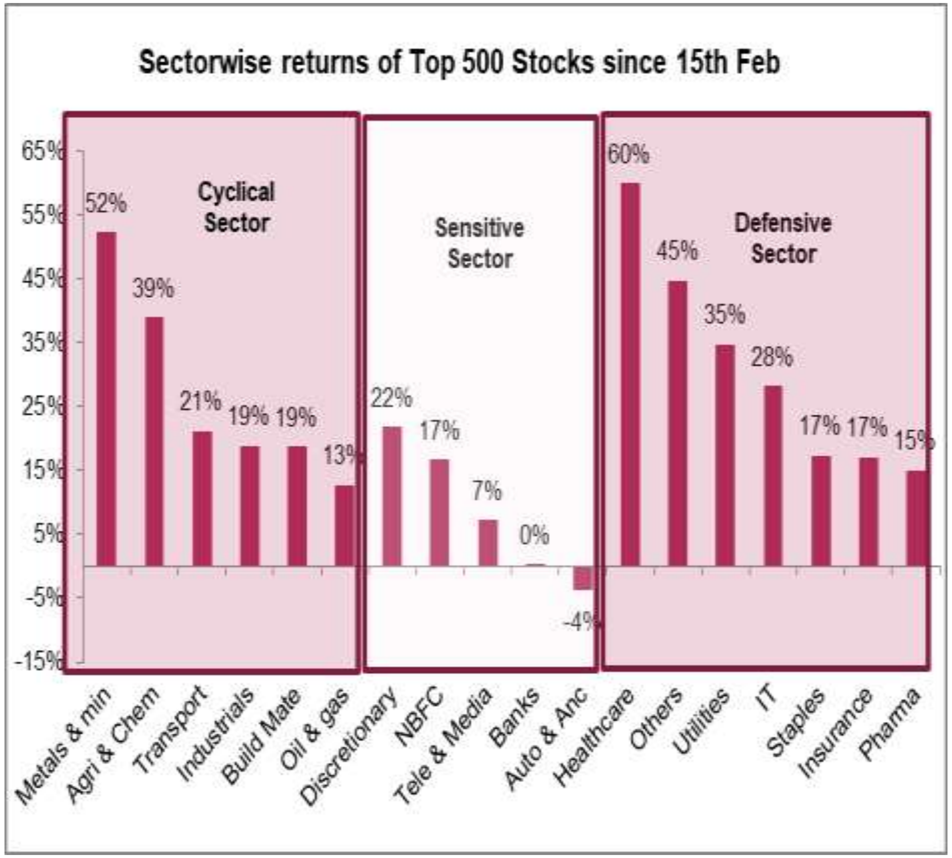
Nifty outperformed the broader market in August:

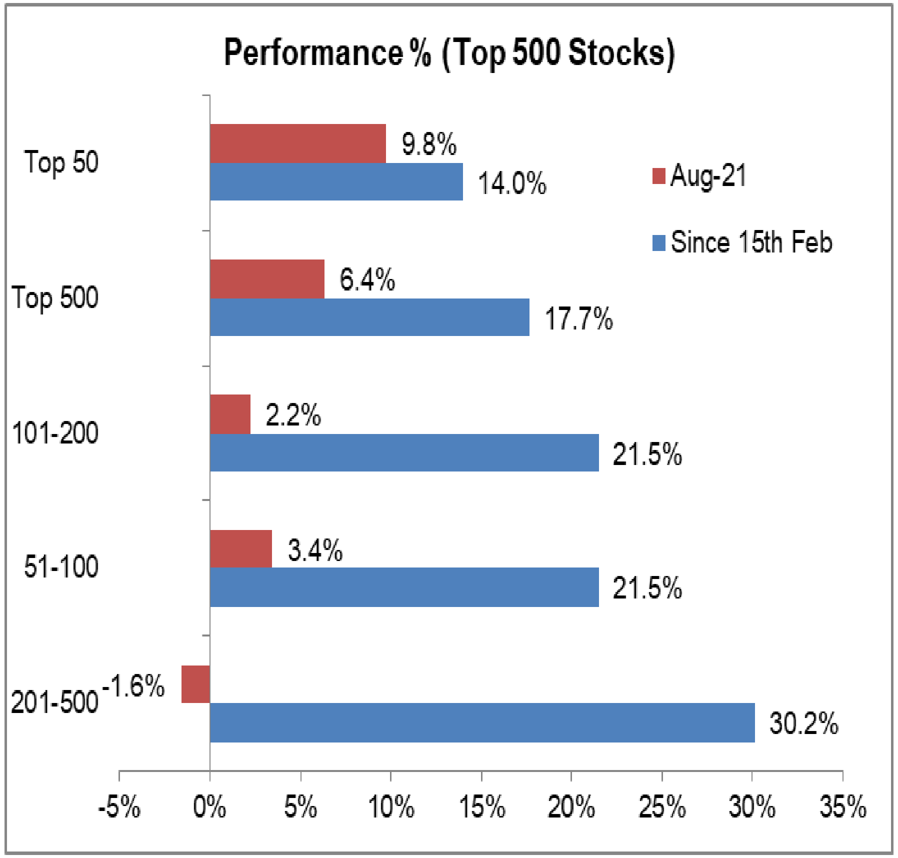
Benchmark up by 9% while Midcaps/Small caps rallied by 2%/-3%

Source: Bloomberg, Axis Securities

What Happened Since 15th Feb – Healthy profit booking in the broader market after a stellar show!

- The equity market scaled to a record high of 17132 on 31st August, up 12% from the previous high of 15314 on 15th Feb. A stellar show for the first seven months was followed by healthy profit booking in the broader market.
- 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 COVID 2.0 induced challenges.
- The discretionary sector is outperforming on account of an improved outlook.

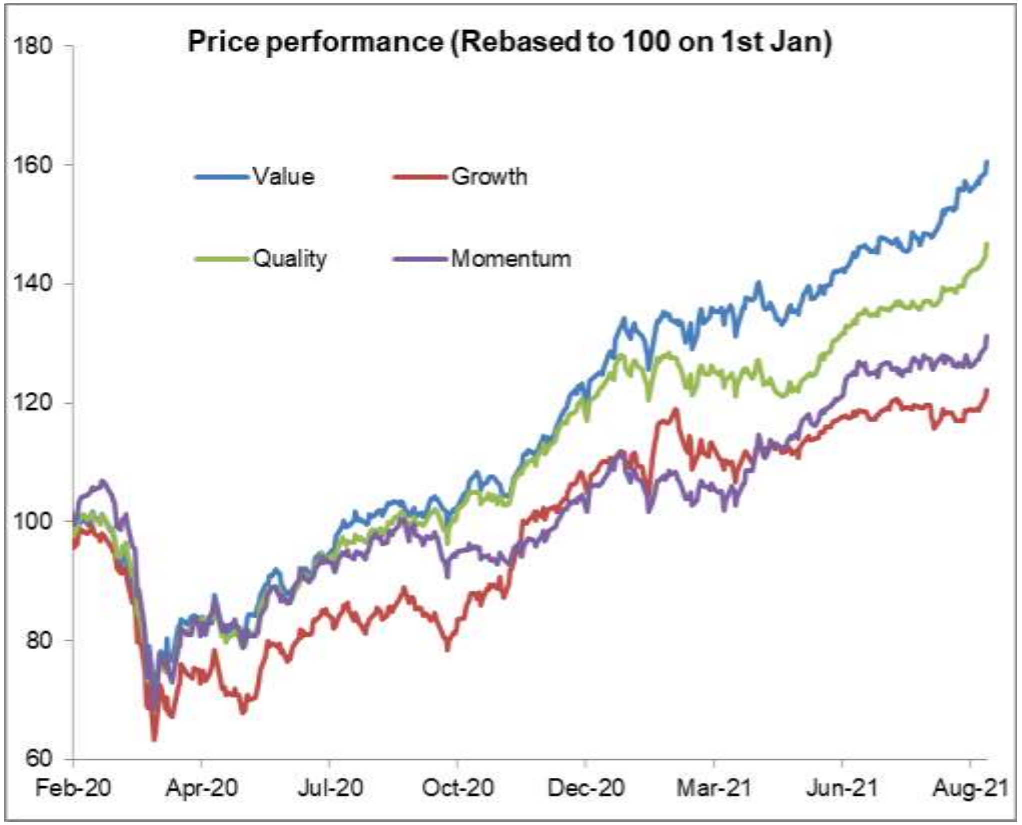




Source: Bloomberg, Axis Securities

Value continues outperformance in the last one month while Quality theme is emerging gradually

- Value and Quality have been the best performing themes in the last six months while the Growth theme has been the laggard. 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, though underperformed for the last couple of months, are expected to outperform going forward. Furthermore, a structural growth play offering long-term earnings visibility will continue to do well even amidst this challenging environment.



Source: Bloomberg, Axis Securities

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	7.7%	4.9%	7.3%	3.4%
3m	12.8%	3.8%	11.4%	8.3%
6m	24.4%	12.1%	21.0%	27.5%

Profit booking is more in the non-Quality stocks in a broader market

Mid Caps (150 Stocks)

Small Caps (250 stocks)

Source: Bloomberg, Axis Securities, Note: Quartile 1 & 2 are high-quality stocks while Quartile 3 & 4 are fewer quality stocks

Quality for Non-Financials is a combination of Low D/E, High ROE, Superior accrual ratios and Low EPS volatility. **For Financials**, it is a combination of ROE, ROA and low EPS volatility

Top 500 stock performance

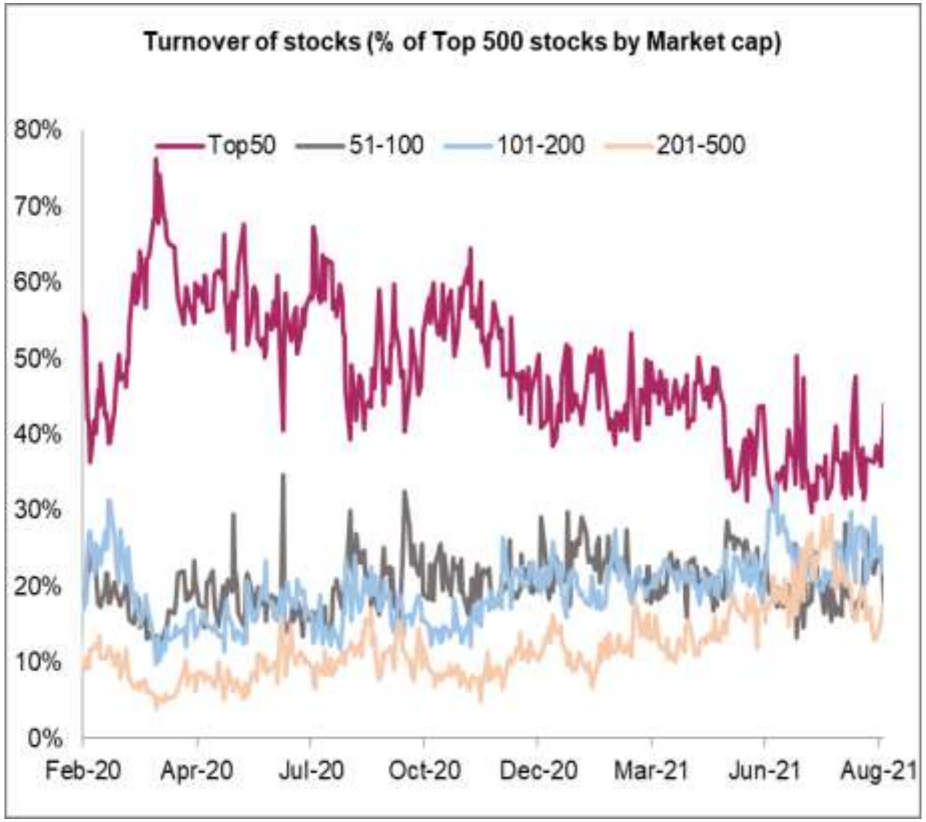
- The market cap of top 500 stocks has increased 55% YoY to an all-time high level of Rs 225 Tn for the first time in Aug'21 vs. 97.4 Tn on 23rd Mar'20.
- Metal stocks' Mcap is up ~100% since the last one year.
- Defensive sectors (IT and Staples) witnessed a significant MoM improvement in Mcap in Aug'21.
- IT sector Mcap has overtaken Banks' Mcap and holds 33.7 Tn in the Top 500.

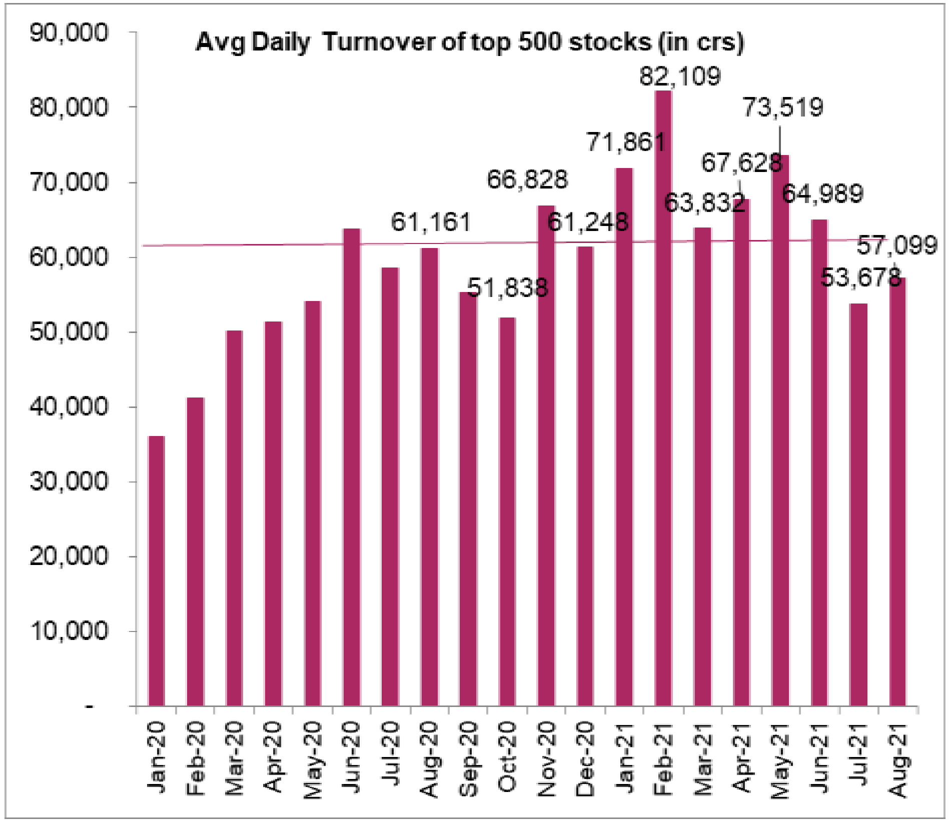
	No of	Sectoral market cap of Top 500 stocks in Trillion as of										Yoy
	companies	20th Feb 20	Mar-20	Aug-20	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Chg (%)
Banks	35	23.7	13.8	19.2	27.7	26.6	26.1	28.4	28.3	27.9	29.1	51%
IT	23	17.2	12.1	18.4	24.4	26.5	26.0	27.3	29.3	29.6	33.7	83%
Oil & gas	15	15.3	9.4	18.6	19.5	18.8	18.7	20.4	20.2	19.5	21.2	14%
NBFC	49	15.2	8.2	11.4	16.0	15.8	15.9	16.9	17.4	18.1	19.9	75%
Staples	27	14.4	11.1	13.7	14.3	15.5	15.1	15.7	16.1	16.0	17.6	28%
Discretionary	49	11.0	7.3	9.7	12.4	12.9	12.7	13.9	14.5	14.9	15.6	62%
Auto &Anc	36	9.0	5.5	9.0	11.8	11.6	11.3	12.3	12.5	12.1	12.0	33%
Pharma	35	7.2	5.6	9.1	9.6	9.7	10.6	11.0	11.4	11.7	11.6	29%
Industrials	47	6.1	3.8	5.3	8.1	8.1	8.0	8.7	8.8	9.0	9.6	81%
Build Mate	33	6.0	3.8	5.1	7.7	8.3	7.9	8.4	8.5	9.5	9.4	84%
Metals & min	20	5.2	3.1	4.9	7.3	7.4	9.1	9.7	9.7	10.5	10.2	107%
Tele & Media	18	4.6	3.1	4.6	4.6	4.3	4.4	4.5	4.6	4.8	5.1	13%
Insurance	6	4.0	2.2	3.6	4.2	4.2	4.3	4.4	4.6	4.6	4.8	34%
Utilities	12	3.9	2.7	3.9	6.1	6.4	6.4	7.5	7.2	6.7	7.8	100%
Others	45	3.6	2.1	3.4	5.3	5.5	5.8	6.3	6.8	7.2	7.5	120%
Agri&Chem	30	3.5	2.3	3.5	4.2	4.5	4.7	5.1	5.4	5.7	5.7	64%
Transport	12	1.2	0.7	1.0	1.4	1.4	1.4	1.6	1.6	1.5	1.7	69%
Healthcare	8	0.8	0.6	0.9	1.2	1.3	1.4	1.5	1.7	1.8	2.1	139%
Total	**500**	151.9	97.4	145.2	185.7	188.7	189.8	203.6	208.8	211.2	224.6	55%

Source: Bloomberg, Axis Securities

Market Turnover (% of top 500 Names)

- Turnover for Aug'21 was maintained above 57,000 Cr, higher than the last month.
- Market turnover has shifted towards Large Caps in the last month.





Source: Bloomberg, Axis Securities

IPOs are blocking some of the liquidity for the secondary market

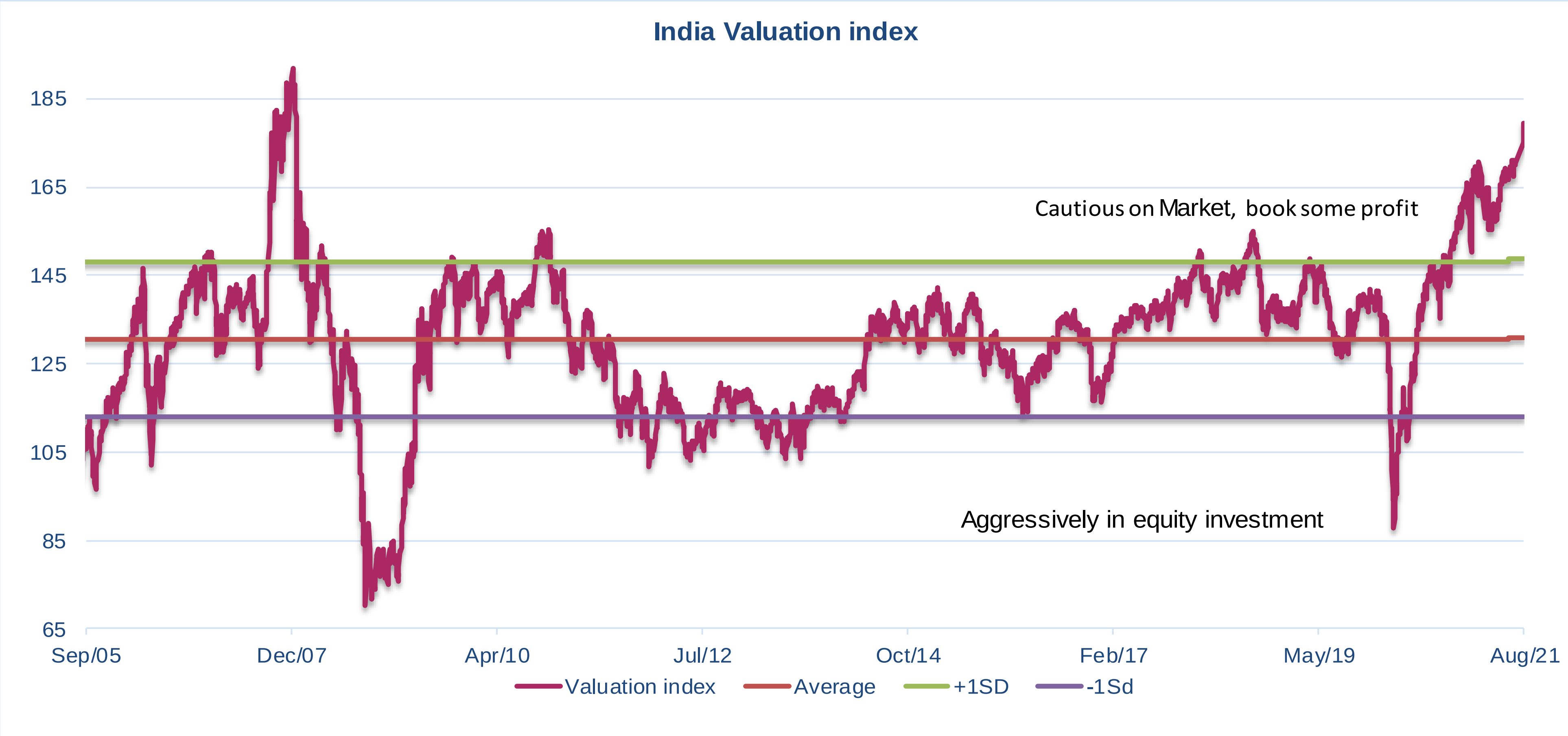
- 19 IPOs since Apr'21, in which 14 got listed with a positive listing gain
- IPO success indicated a strong risk appetite for new business models

Company	Open Date	Close Date	Issue Price	Listing Price	Listing Gain	CMP	Gain post listing
CarTrade Tech Limited	09-Aug-21	11-Aug-21	₹ 1,618	₹ 1,600	-1.1%	₹ 1,550	-3.1%
Nuvoco Vistas Corporation Ltd	09-Aug-21	11-Aug-21	₹ 570	₹ 485	-14.9%	₹ 539	11.0%
Windlas Biotech Limited	04-Aug-21	06-Aug-21	₹ 460	₹ 460	0.0%	₹ 355	-22.8%
Exxaro Tiles Limited	04-Aug-21	06-Aug-21	₹ 120	₹ 126	5.0%	₹ 122	-2.9%
Krsnaa Diagnostics Limited IPO	04-Aug-21	06-Aug-21	₹ 954	NA	NA	₹ 892	NA
Devyani International Limited	04-Aug-21	06-Aug-21	₹ 90	₹ 120	33.3%	₹ 113	-5.8%
Rolex Rings IPO	28-Jul-21	30-Jul-21	₹ 970	₹ 1,250	28.9%	₹ 1,082	-13.5%
Glenmark Life Sciences Limited IPO	27-Jul-21	29-Jul-21	₹ 720	₹ 750	4.2%	₹ 667	-11.0%
TatvaChintanPharma IPO	16-Jul-21	20-Jul-21	₹ 1,083	₹ 2,111	94.9%	₹ 2,170	2.8%
Zomato IPO	14-Jul-21	16-Jul-21	₹ 76	₹ 115	51.3%	₹ 124	7.7%
G R Infraprojects Limited IPO	07-Jul-21	09-Jul-21	₹ 837	₹ 1,700	103.1%	₹ 1,593	-6.3%
Clean Science and Technology Ltd IPO	07-Jul-21	09-Jul-21	₹ 900	₹ 1,755	95.0%	₹ 1,464	-16.6%
India Pesticides IPO	23-Jun-21	25-Jun-21	₹ 296	₹ 350	18.2%	₹ 307	-12.2%
Dodla Dairy IPO	16-Jun-21	18-Jun-21	₹ 421	₹ 550	30.6%	₹ 547	-0.6%
Krishna Institute of Medical Sciences Ltd IPO	16-Jun-21	18-Jun-21	₹ 815	₹ 1,009	23.8%	₹ 1,265	25.4%
ShyamMetalics and Energy IPO	14-Jun-21	16-Jun-21	₹ 306	₹ 380	24.2%	₹ 381	0.2%
Sona BLW Precision Forgings Limited IPO	14-Jun-21	16-Jun-21	₹ 291	₹ 301	3.4%	₹ 445	47.9%
PowerGridInvIT IPO	29-Apr-21	03-May-21	₹ 100	₹ 104	4.0%	₹ 122	17.3%
Lodha Developers Limited IPO	07-Apr-21	09-Apr-21	₹ 486	₹ 439	-9.7%	₹ 828	88.6%

Source: Bloomberg, Axis Securities

India Valuation Index: Retraces Back To Cautious Zone after a 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 witnessed 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).



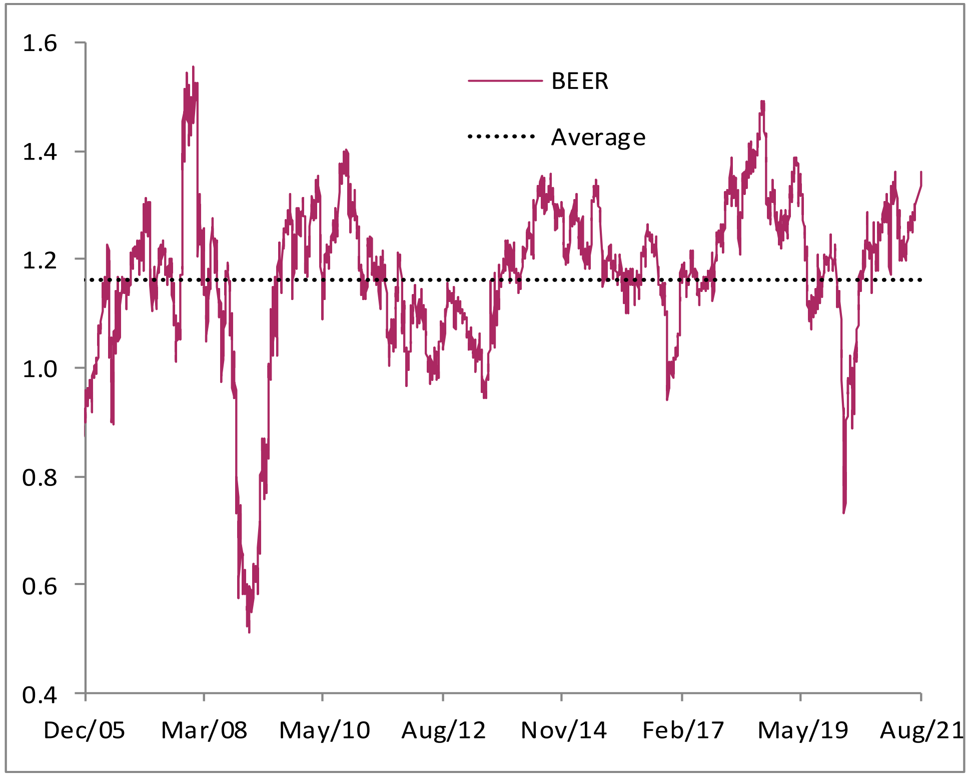
Source: Bloomberg, Axis Securities

Two Fundamental Ratios Trades above Their LTA after A Recent Run Up!

BEER: With the recent run-up in the Large Cap universe, the BEER ratio is trading slightly above its LTA which indicates the stock market is slightly expensive at the current levels as against the bond market.

India's Total Market Cap to GDP is trading at 126%, above its long-term average. The current Mcap is 19%/30% above the 15th Feb/1st Jan levels, indicating a broader market rally.

Historically, similar upward earning momentum was witnessed in FY10 earnings immediately after the GFC crisis, leading to Market Cap to GDP ratio in 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.

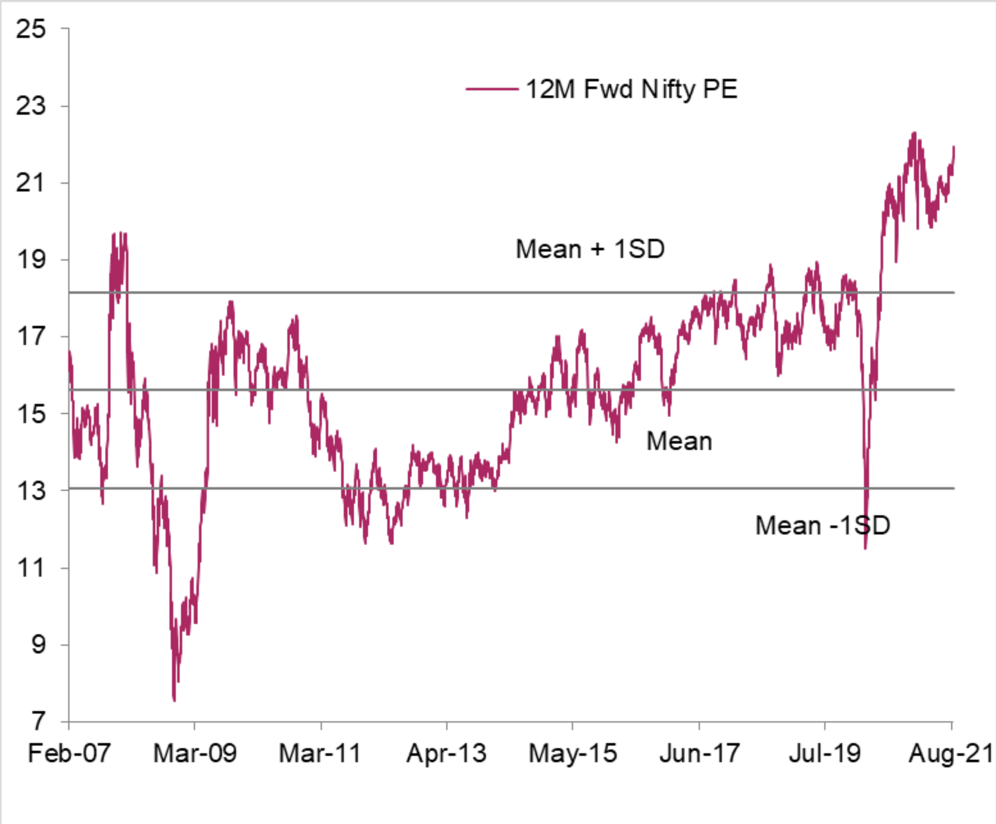


Source: Bloomberg, Axis Securities

Market Valuations: 12m Fwd PE Is Now Trading At 22x

- Nifty is currently trading at 22 on 12m fwd PE, 2.5 std above its long-term average while it is trading slightly above 1.0 std on 12m Fwd PB.
- The top 10 are trading at 26x while the remaining 40 are trading at 18.5x on a 12m forward PE.

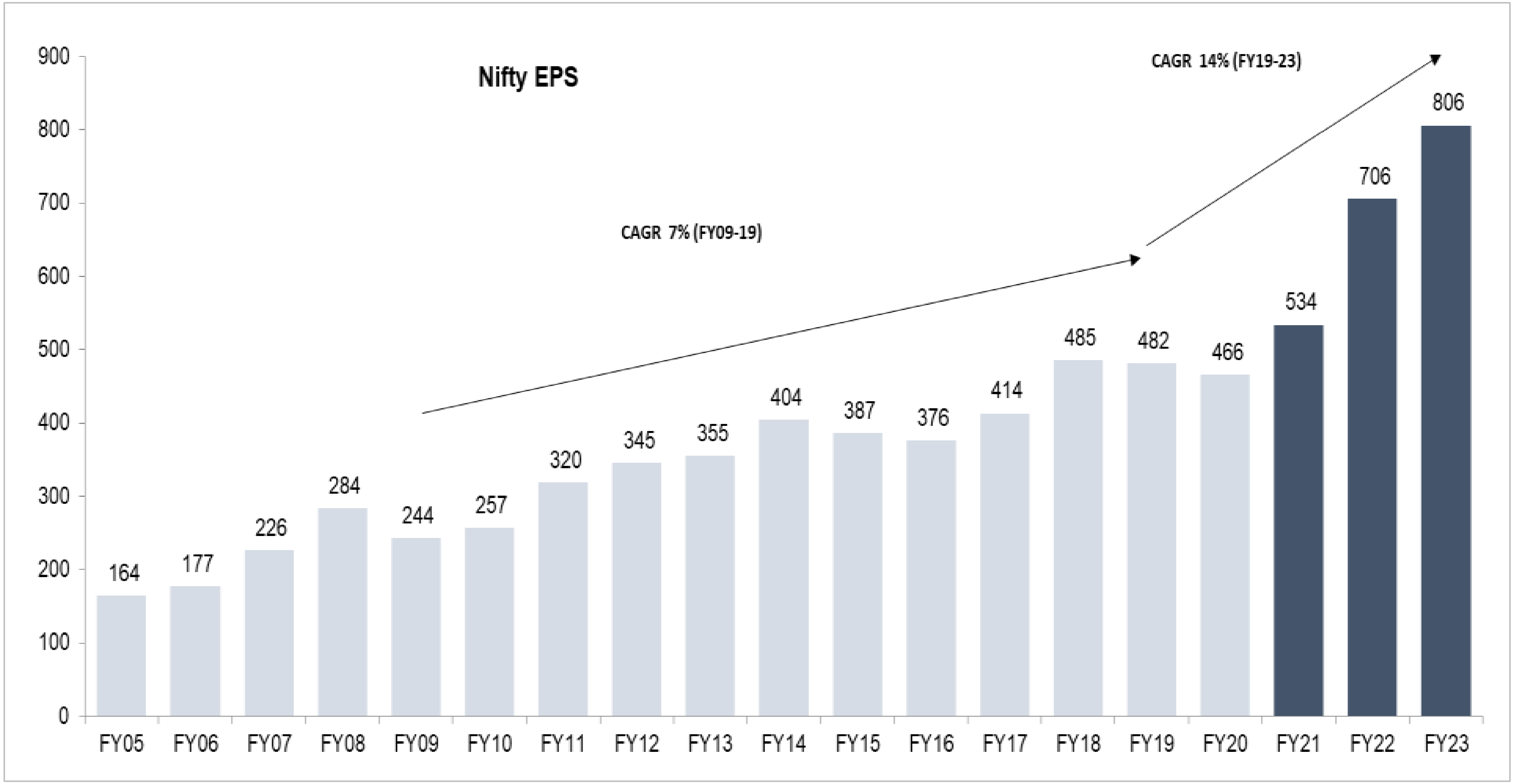
Nifty 12m Fwd PE



Nifty 12m Fwd PB

Source: Bloomberg, Axis Securities

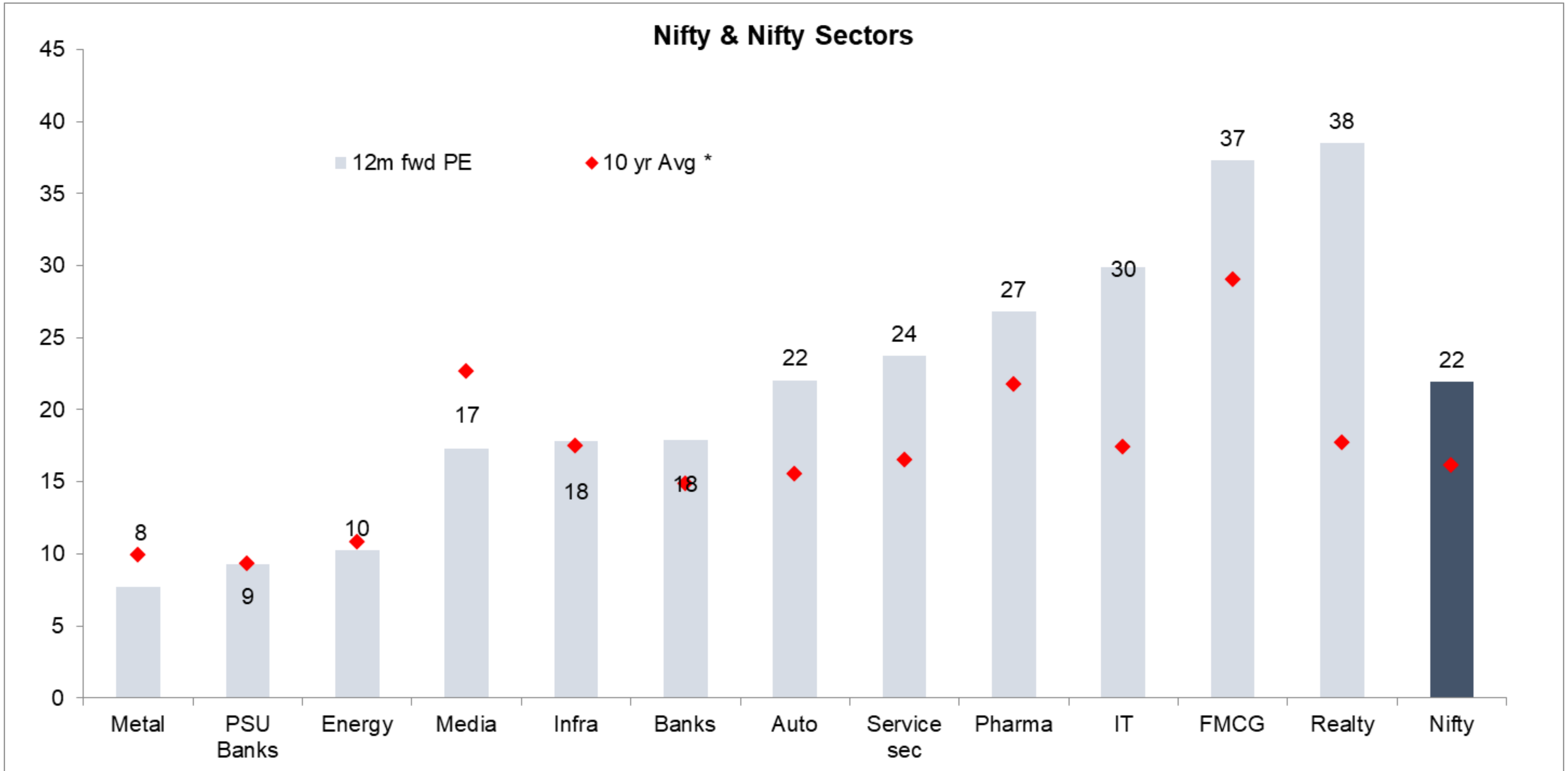
Nifty EPS growth: 14% CAGR growth over FY19-23



Source: Bloomberg, Axis Securities

Nifty and Sectors

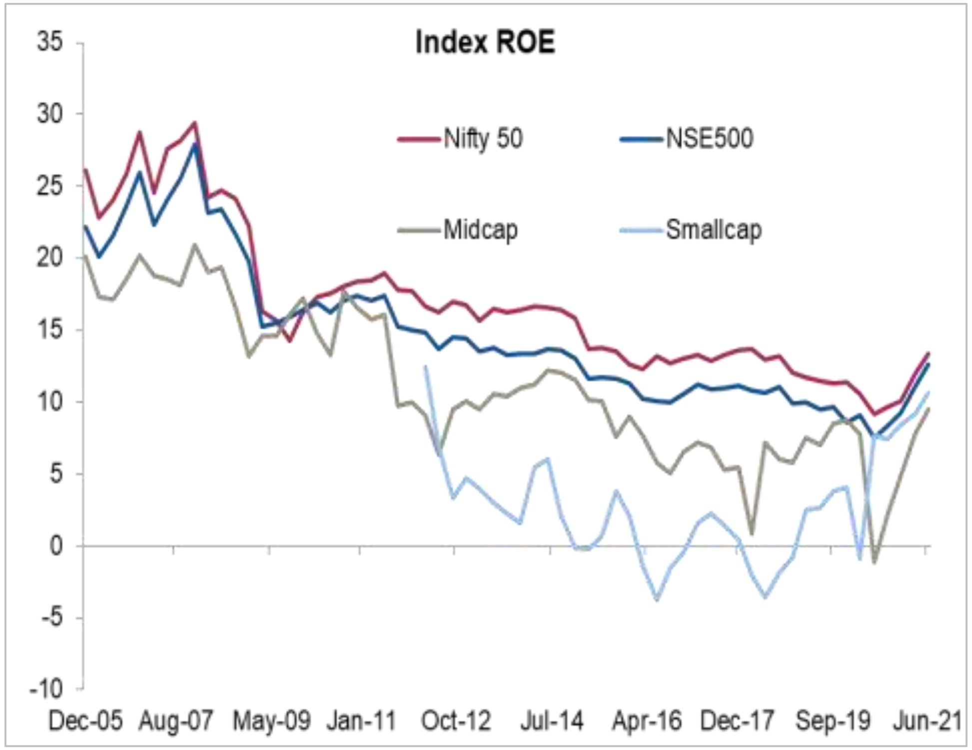
At the current levels, PSU banks, Energy, and Metal Index provide valuation comfort. On the other hand, valuations for the IT, Pharma, and Auto sectors are expensive. IT sector valuations are likely to persist on account of a strong structural theme emerging in the sector.

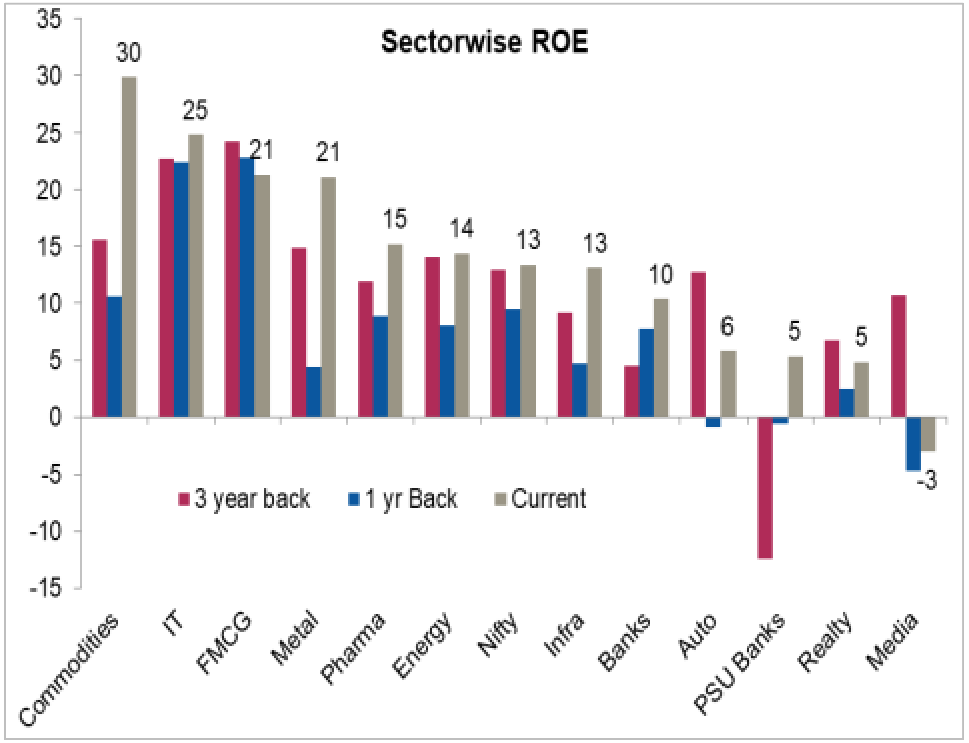


Source: Bloomberg, Axis Securities

Return Ratios are improving

- ROE is improving across the market caps while smaller stocks have been showcasing 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

NSE 500 EPS Momentum

- Acceleration in EPS momentum holds in Q1FY22, with more broader market companies now showing above-average EPS Momentum (Score>50%)
- Sequential Improvement was seen in the Auto, Discretionary, Metals, and Utilities
- Sequential Deterioration seen in the Healthcare and Staples

Sector	No of Stocks	% of companies showing improvement in EPS Momentum: In the Latest Quarter	In the Last 2 Quarters	NSE 500 companies showing Above average EPS Momentum Score (>50%): Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Agri & Chem	36	61%	67%	21	21	23	22	21	27	27
Auto &Anc	34	97%	94%	14	9	6	5	5	16	23
Banks	28	61%	79%	12	9	6	3	5	9	12
Build Mate	34	76%	76%	25	16	14	15	16	20	24
Discretionary	44	91%	82%	28	27	14	7	16	20	28
Healthcare	53	49%	60%	28	29	28	27	29	32	35
Industrials	43	88%	84%	20	20	9	9	11	20	29
IT	27	67%	81%	12	8	11	15	18	18	23
Metals & min	20	95%	95%	10	6	4	3	4	11	18
NBFC	54	50%	61%	34	29	29	28	30	34	35
Oil & gas	14	86%	79%	8	7	6	6	4	7	8
Others	53	83%	87%	33	26	17	15	21	31	36
Staples	28	46%	64%	23	18	17	17	21	24	20
Tele & Media	13	69%	85%	7	3	2	1	3	5	6
Transport	9	44%	67%	4	2	1	1	0	1	2
Utilities	11	91%	91%	9	10	6	3	5	7	9
Total	**501**	72%	77%	288	240	193	177	209	282	335
Large cap	**99**	73%	76%	59	45	34	39	49	53	71
Mid cap	**143**	69%	78%	89	74	58	56	67	87	101
Small cap	**259**	73%	76%	140	121	101	82	93	142	163

Source: Capitaline, Axis Securities, **Note -** EPS momentum score is a combination of 6 factors: **1)**EPS stability Factor for last 5 years **2)**EPS CAGR for last 5 years **3)**Recent quarter EPS growth (RQ0) **4)**Previous Quarter EPS growth (RQ1) **5)**Two quarterback EPS growth (RQ2) **6)** Three-Quarters back EPS growth (RQ3)

Last 4 quarters rolling profits for NSE 500 (Sum of the last 4 quarters earnings)

A few interesting findings from our study of NSE 500 universe net profit (trailing 4 quarters) - Sector-wise

- **The last 4 quarter cumulative net profit has reached an all-time high, crossing Rs 7 Lc Cr in Q1FY22**
- **The Financials are now significantly contributing to Net Profit vs. its contribution in 2019.**
- **Loss-making sectors have turned positive after being significantly disrupted in the pandemic.**

Sector-wise Net profit for NSE 500 - Trailing 4 Quarters (in Cr)									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Auto & Anc.	38,012	36,212	34,648	28,975	18,865	17,185	19,505	23,730	31,540
Staples	31,736	34,044	35,614	34,705	34,745	34,686	35,052	37,008	37,922
Discretionary	17,817	18,408	18,644	17,154	10,635	7,816	7,534	9,494	11,337
Financials	77,000	83,185	87,751	83,569	89,378	1,10,955	1,17,642	1,57,762	1,62,777
IT	80,725	81,462	82,965	82,387	82,322	82,966	86,266	84,321	89,699
Oil & gas	1,03,440	1,00,204	1,00,066	69,799	66,982	69,886	74,755	1,24,722	1,32,599
Metals & Mining	57,280	58,266	51,279	31,557	18,990	13,864	27,487	66,647	97,382
Industrials	31,309	31,188	27,506	21,567	16,733	19,543	21,798	26,350	30,392
Build Mate	18,867	22,387	21,725	21,114	17,331	17,898	21,364	25,539	30,375
Healthcare	25,464	28,133	25,734	24,580	23,333	24,784	32,227	34,995	38,836
Utilities	25,802	27,165	29,287	26,518	25,196	26,743	27,905	38,791	44,783
Transport	3,385	2,462	2,713	32	-4,815	-3,837	-5,147	-4,871	-5,289
Agri & Chem	11,856	12,424	13,976	14,142	14,060	15,001	15,127	16,737	18,690
Tele & Media	3,733	-19,015	-20,239	-27,164	-41,669	-20,379	-18,345	-10,089	7,343
Others	11,575	12,486	12,017	9,266	7,004	6,409	7,368	10,014	12,526
Total	5,38,001	5,29,010	5,23,684	4,38,202	3,79,091	4,23,520	4,70,538	6,41,149	7,40,911
Growth (%)		-2%	-1%	-16%	-13%	12%	11%	36%	16%

Source: Bloomberg, Axis Securities, Note: Tata Motors and Vodafone are not included in the study

Sector-wise earnings share (trailing 4 quarters) in NSE 500

- Financials share has significantly increased to 22% vs 6% in Q1FY19

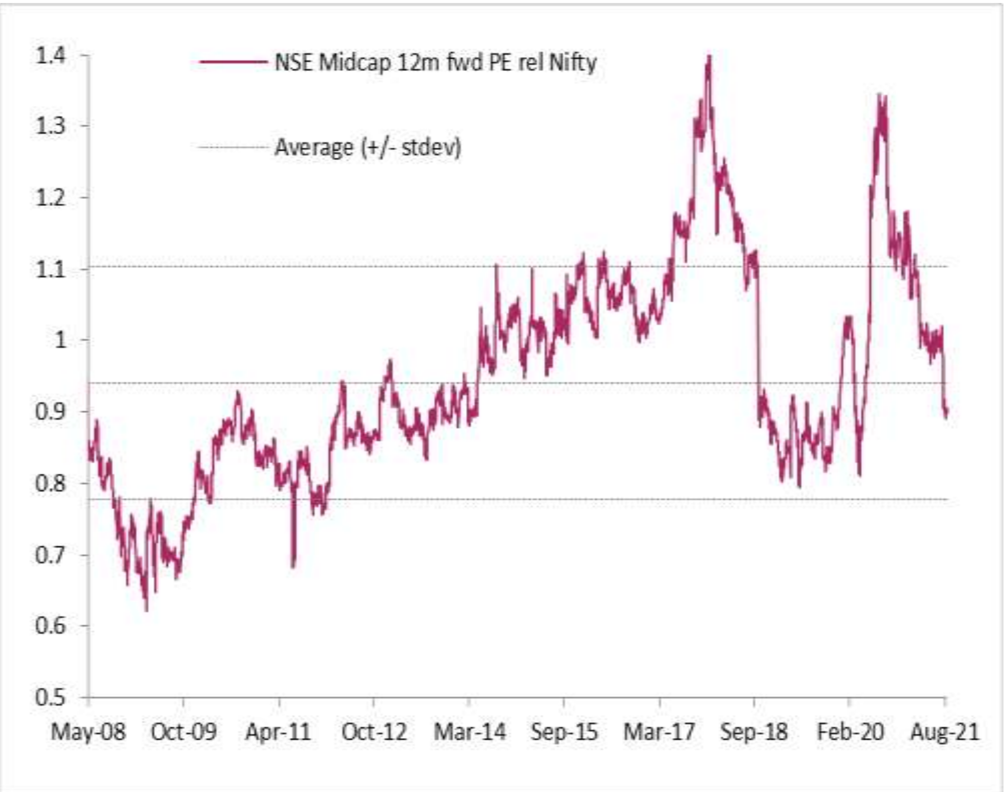
	Sector-wise trailing 4 quarters earnings share in NSE 500				Change in bps		
	Q1FY19	Q1FY20	Q1FY21	Q1FY22	1YR	2YR	3YR
Financials	6%	14%	24%	22%	-161	766	1586
Oil & gas	23%	19%	18%	18%	23	-133	-535
Metals & min	12%	11%	5%	13%	813	250	74
IT	15%	15%	22%	12%	-961	-290	-281
Utilities	6%	5%	7%	6%	-60	125	-34
Healthcare	5%	5%	6%	5%	-91	51	9
Staples	5%	6%	9%	5%	-405	-78	4
Auto & Anc	8%	7%	5%	4%	-72	-281	-343
Industrials	5%	6%	4%	4%	-31	-172	-83
Build Mate	4%	4%	5%	4%	-47	59	-34
Agri & Chem	2%	2%	4%	3%	-119	32	10
Others	2%	2%	2%	2%	-16	-46	-20
Discretionary	3%	3%	3%	2%	-128	-178	-163
Tele & Media	2%	1%	-11%	1%	1198	30	-58
Transport	1%	1%	-1%	-1%	56	-134	-132

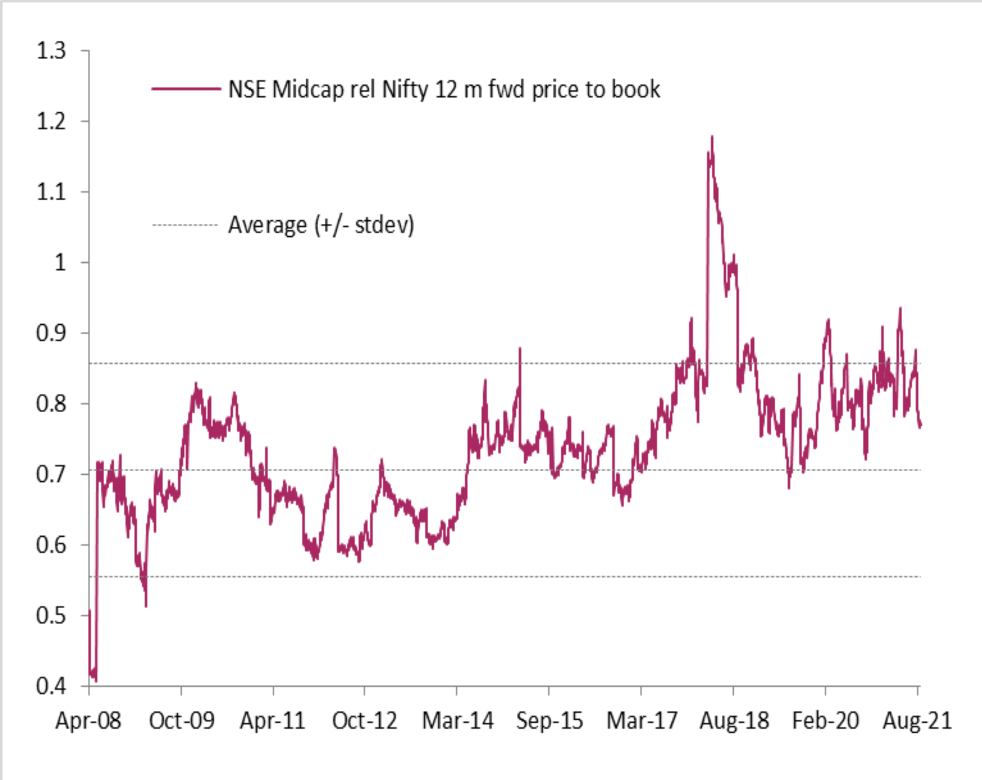
Source: Bloomberg, Axis Securities, Note: Tata Motors and Vodafone are not included in the study

Mid Caps look attractive; Trading at 10% discount to Large Caps

From a valuation perspective, the Mid Caps look relatively attractive over Large Caps. During the 2017 bull phase, Mid Caps had traded at a 45% premium to Large Caps. Besides, the recent spate of IPOs and their successes clearly indicate the market's 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.

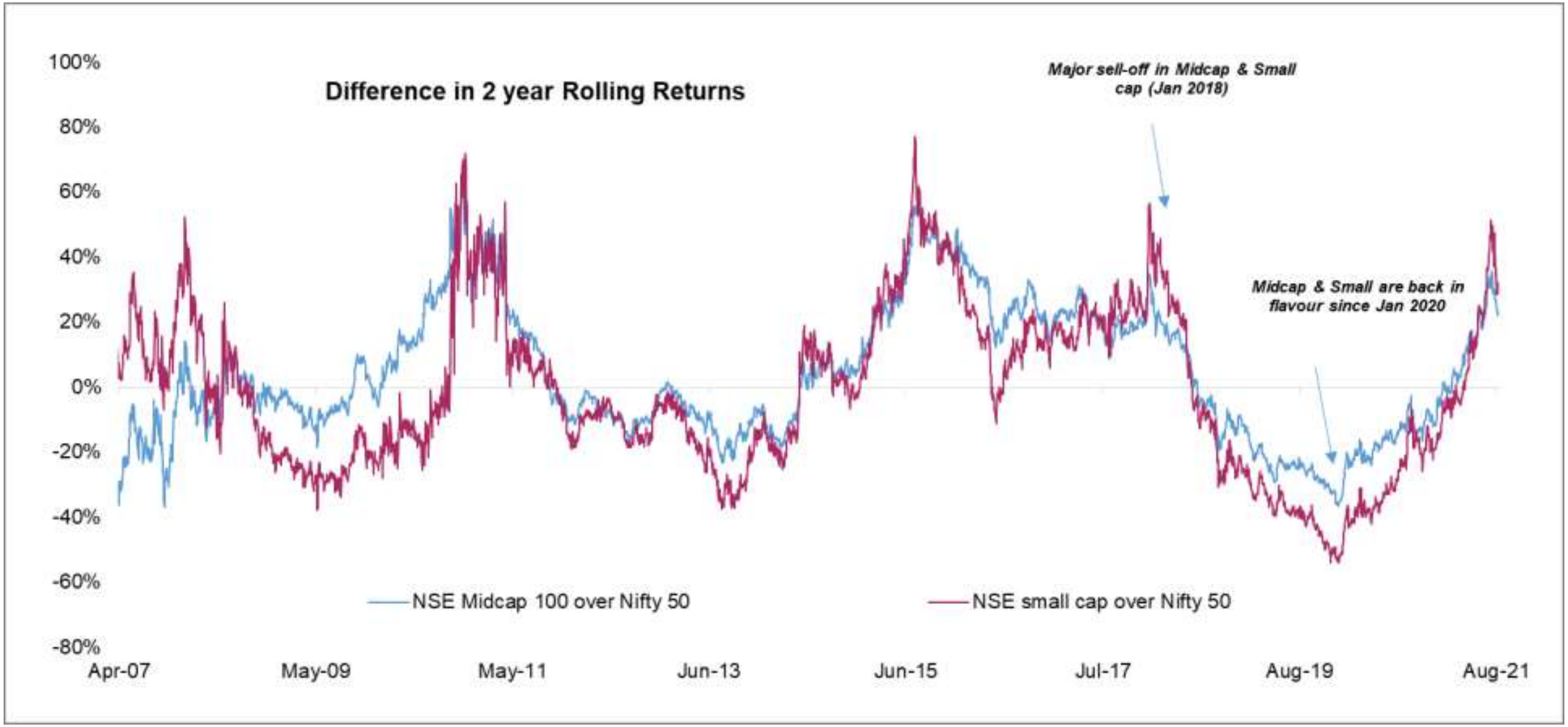




Source: Bloomberg, Axis Securities

Mean reversion in 2-years rolling returns

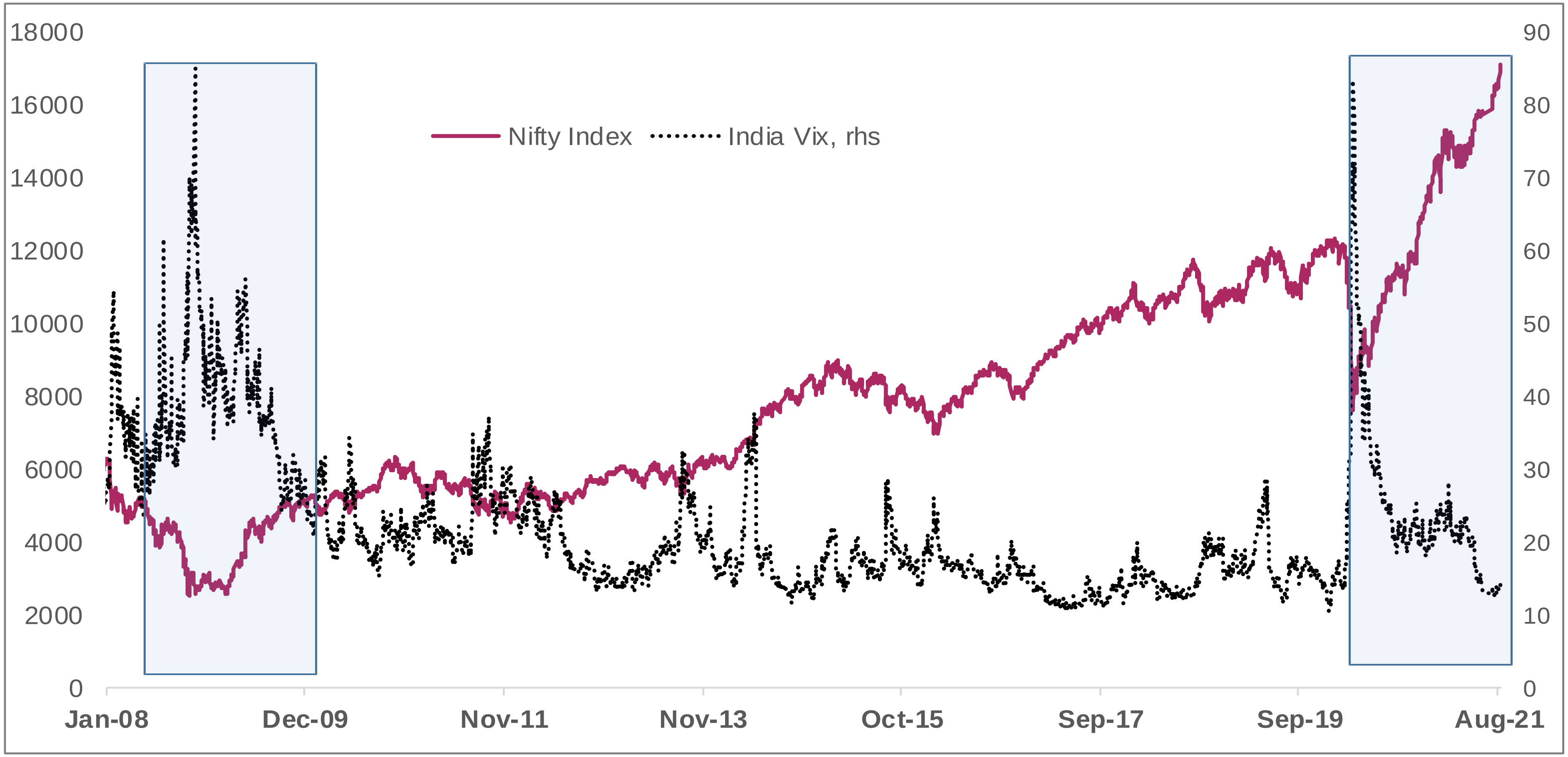
- Our case for two-year-rolling returns has reversed and turned in favour of Large Caps after reaching the highest level which equivalent was to Jan'18 levels.
- Large Caps are playing a catch-up rally



Source: Bloomberg, Axis Securities

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

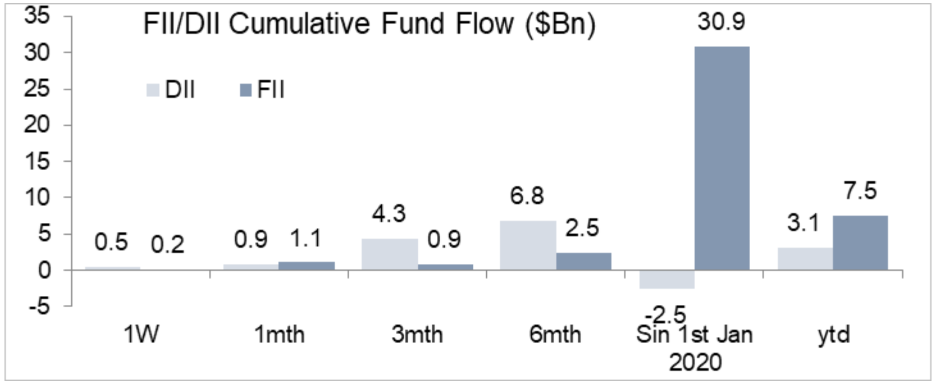
- Volatility has significantly reduced in the last four months and the volatility index is continuing with its downward trajectory. During the month, VIX was trading around 13 level vs. the long-term average of 22, indicating a positive setup for the market with limited downside. If VIX continues to 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.

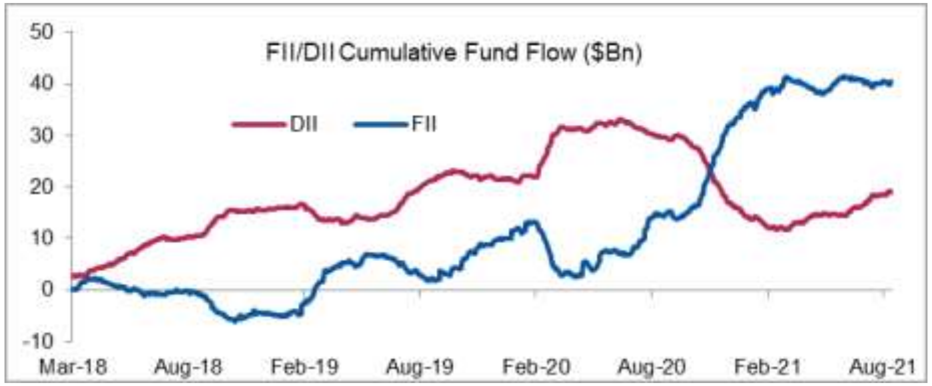


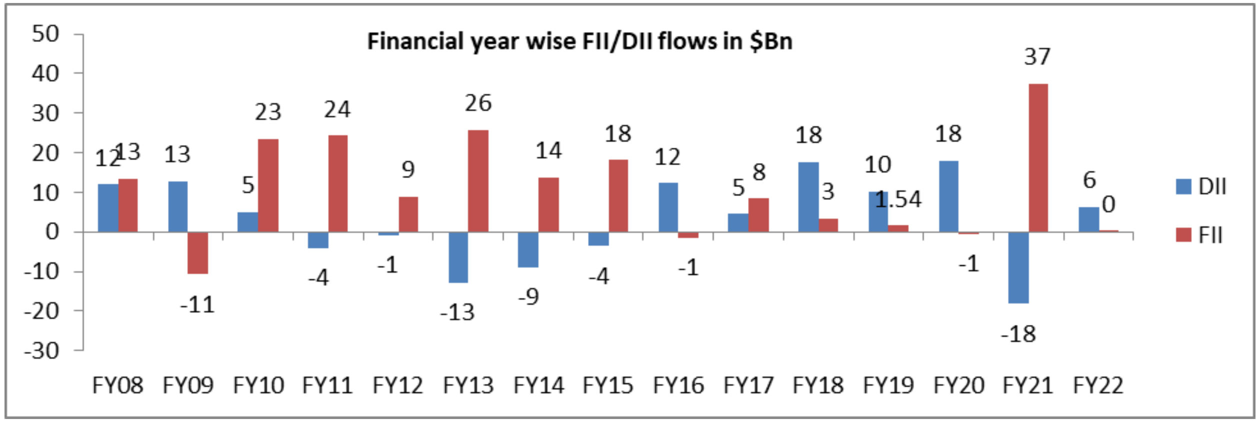
Source: Bloomberg, Axis Securities

Smart money turned positive in Aug'21

FIIs turned 'Buyers' in the equity market and added $1.1Bn in Aug'21 vs. being 'Net-sellers' in Jul'21. With continuous SIP flows, DIIs also bought the Indian equity of $0.9 Bn in the last month. Since Jan'20, FIIs have bought a massive amount of $30.9 Bn while the DIIs have sold $2.5 Bn from the Indian equity markets. The highest-ever FII inflows were witnessed in the FY21 at $37 Bn, which stands higher than FY10/FY11/FY13 levels.







Source: Bloomberg, Axis Securities

India Starts Outperforming: Large Caps plays a catch-up rally

Indian market performance was more resilient in the last one month. Large Caps are playing a catch-up rally in Aug'21, which is driving the benchmark indices to higher levels while the broader market is in a consolidation zone.

- Mid Caps and Small Caps have witnessed a sharp rally in the last few months and now some profit booking is visible in the space which is a healthy sign for the market. However, the buying in the broader market was seen on the last 2 trading sessions from the lower levels.
- IT sector rallied 13% in the last one month on account of improved guidance and robust earnings outlook.

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	8.7%	9.9%	17.9%	12.0%	14.9%	78.0%
Nifty Next 50	5.6%	10.2%	21.5%	0.5%	14.8%	65.4%
Nifty 500	6.5%	10.1%	19.5%	7.7%	16.7%	82.1%
Nifty Midcap 100	2.2%	10.2%	22.1%	-4.3%	21.9%	106.5%
Nifty SmallCap 250	-3.0%	10.6%	28.5%	-8.3%	25.1%	119.3%
Sector Index (%)	**1m**	**3m**	**6m**	**2019**	**2020**	**FY2021**
NIFTY AUTO	-0.1%	-4.4%	-1.3%	-10.7%	11.5%	111.8%
NIFTY BANK	5.3%	2.5%	4.7%	18.4%	-2.8%	82.9%
NIFTY COMMODITIES	1.9%	7.3%	27.5%	0.0%	10.7%	100.8%
Nifty Financial Services	9.7%	8.4%	12.3%	25.6%	4.5%	75.7%
NIFTY ENERGY	7.2%	1.9%	8.0%	11.0%	6.4%	68.8%
NIFTY FMCG	9.6%	12.2%	21.8%	-1.3%	13.5%	32.5%
NIFTY IT	13.4%	27.5%	42.3%	8.4%	54.9%	114.6%
NIFTY INFRA	6.3%	8.8%	14.6%	2.5%	12.2%	79.0%
NIFTY MEDIA	-10.8%	-9.1%	-1.4%	-29.7%	-8.6%	54.3%
NIFTY METAL	-1.0%	10.7%	49.5%	-11.2%	16.2%	156.0%
NIFTY PHARMA	-0.6%	2.1%	20.3%	-9.3%	60.6%	74.7%
NIFTY PSU BANK	-4.4%	-3.8%	-2.4%	-18.3%	-30.6%	68.2%
Nifty Private Banks	4.8%	0.8%	1.5%	16.2%	-2.9%	83.4%
NIFTY REALTY	-3.0%	15.1%	10.6%	28.5%	5.1%	94.2%
NIFTY SERV SECTOR	10.3%	11.9%	17.7%	16.9%	12.5%	81.4%

International Index						
Index Performance	**1m**	**3m**	**6m**	**2019**	**2020**	**FY2021**
Shanghai Comp	4.3%	-2.0%	1.0%	22.3%	13.9%	25.9%
Bovespa	-2.5%	-5.9%	7.9%	31.6%	2.9%	64.3%
Russia	3.6%	5.4%	19.3%	44.9%	-10.4%	49.5%
south africa	-2.9%	-1.2%	0.5%	8.8%	7.0%	52.1%
Korea	-0.1%	-0.1%	6.2%	7.7%	30.8%	81.6%
Mexico	4.6%	4.7%	19.9%	3.6%	5.0%	50.1%
Indonesia	1.3%	3.4%	-1.5%	1.7%	-5.1%	34.0%
Argentina	15.8%	29.0%	57.9%	37.6%	22.9%	89.5%
Japan	3.0%	-2.7%	-3.0%	18.2%	16.0%	61.5%
Hongkong	-0.3%	-11.2%	-10.7%	9.1%	-3.4%	22.9%
Philipines	9.3%	3.4%	0.9%	4.7%	-8.6%	19.1%
Taiwan	1.4%	2.5%	9.6%	23.3%	22.8%	70.0%
Singapore	-3.5%	-3.5%	3.6%	5.0%	-11.8%	29.7%
Thailand	7.7%	2.8%	9.5%	1.0%	-8.3%	43.6%
Veitnam	1.6%	0.3%	13.9%	7.7%	14.9%	75.2%
Dow	1.2%	2.4%	14.3%	22.3%	7.2%	57.5%
Nasdaq	4.0%	11.0%	15.7%	35.2%	43.6%	80.0%
FTSE 100 INDEX	1.2%	1.4%	9.8%	12.1%	-14.3%	23.1%
DAX INDEX	1.9%	2.7%	14.9%	25.5%	3.5%	57.2%
CAC 40 INDEX	1.0%	3.6%	17.1%	26.4%	-7.1%	44.2%
S&P 500 Index	2.9%	7.6%	18.7%	28.9%	16.3%	60.8%

Source: Bloomberg, Axis Securities

Market Indicators

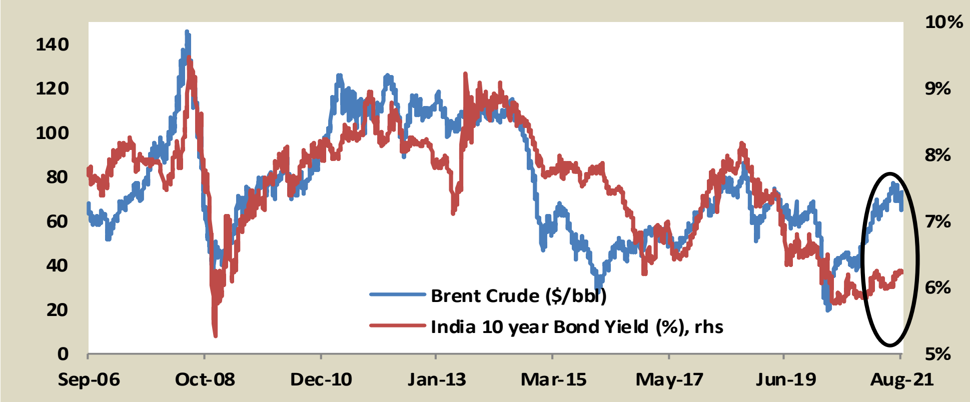
Precious Metals: Gold prices declined by 5% in the last three months on account of a stronger dollar. However, on a 6-month scale, Gold is up 4%.

Commodities: Steel prices rallied 36% while Aluminium has progressed up 23% in the last 6 months.

Crude: Brent crude is now trading at $72/bbl vs. $75/bbl in the last month. The decline was on account of the concerns over the Delta variant of Covid-19. However, the gap between the crude prices and the 10-year bond yields has widened in recent months.

Market Indicator	31-08-2021	1m ago	3m ago	Dec-19	Dec-20	01-04-2021
Brent Crude ($/bbl)	72.7	72.9	69.3	66.0	51.8	63.5
Bond Yield (GOi 10Yr)	6.2	6.2	6.0	6.6	5.9	6.2
USD/INR	73.0	74.3	72.6	71.4	73.1	73.1
India Vix	14.5	12.8	16.9	11.7	21.1	20.6

Commodity Index	1m	3m	6m	2019	2020	FY2021
Gold ($/OZ)	-0.1%	-5.0%	4.2%	18.3%	25.1%	7.3%
Steel ($/ton)	-1.1%	-0.5%	35.8%	-1.0%	41.2%	70.8%
Aluminium ($/ton)	1.5%	11.2%	22.9%	-3.7%	9.9%	51.2%
Copper ($/ton)	-2.6%	-8.0%	2.2%	3.4%	26.0%	83.6%
Zinc ($/ton)	-2.0%	-1.8%	5.8%	-8.7%	18.8%	51.7%



Source: Bloomberg, Axis Securities

Q1FY22 Earnings: Mixed Performance

8 companies have witnessed an FY22 EPS upgrade of over 5% while 9 companies have declined more than 5%

- IT sector is well-supported by positive revisions in the revenue guidance by major IT companies. We believe this will augur well for the IT companies moving forward and valuations are likely to sustain in the near future. However, the execution will be a key monitorable for the upcoming FY22 quarters.
- Cyclical sectors (Metals, Oil & Gas, and Cement) have posted robust earnings for the quarter.
- Margins disappointments were visible in the Automobiles and Staples led by higher RM prices.
- HDFC Bank posted lower-than-expected operational numbers with a visible pressure on its NIMs. The management indicated a possibility of more loans restructuring in Q2FY22.
- The NBFC sector delivered a disappointing performance primarily due to the lockdowns and the collections for the quarter was below our expectations.

Nifty Q1FY22	Earnings			EBITDA			Revenue		
Results Out	Beat	In Line	Miss	Beat	In Line	Miss	Beat	In Line	Miss
50	19	8	23	15	15	18	22	19	9

Q1FY22 Performance:

Beat results: Ultratech, Wipro, JSW steel, SBI, ICICI bank

Weak results: Dr Reddy, Maruti

FY22 EPS:

Key Upgrade: Tata Steel (+22%), JSW Steel (+16%), Hindalco (12%), Sun Pharma (+10%), Ultratech (7%), Wipro (+5 %)

Key Downgrade: Tata Motors (-70%), Eicher M (-12%), Dr Reddy (-12%), Maruti (11%), Bajaj Finance (-10%)

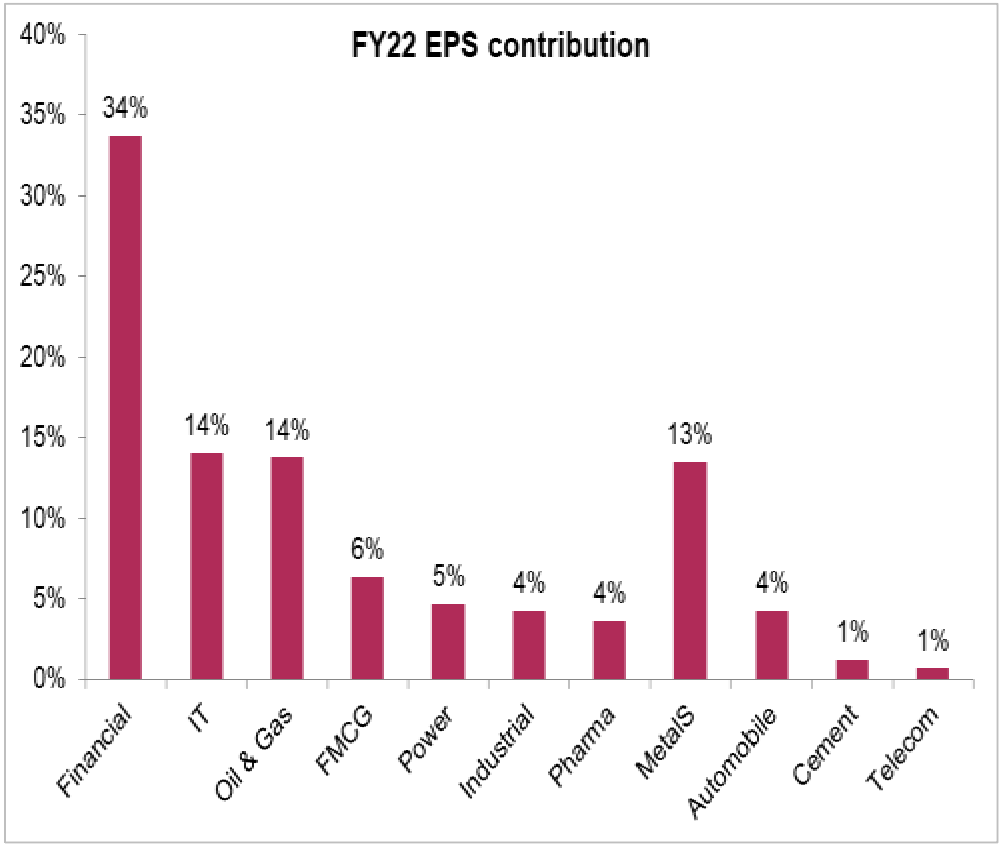
FY22 EBITDA

Key Upgrade: Tata Steel (+17%), Ultratech (6%), JSW Steel (+11%)

Nifty EPS Contribution

We foresee FY22/23 Nifty Earnings at 706/806, up marginally by 1%/2% respectively post Q1FY22. The growth would be primarily supported by the Metals sector. However, our estimates are 5% below the consensuses expectation. Consequently, our Dec'21 target is also upgraded by 2% to 17700 by valuing Nifty at 22x on FY23 earnings.

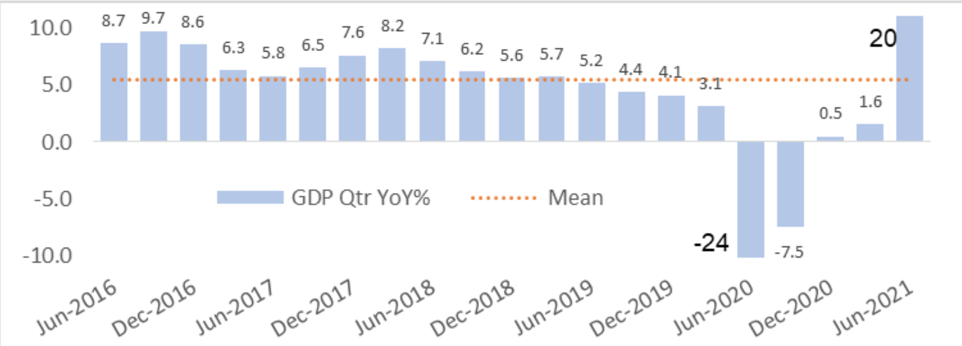
	FY22 EPS			FY23 EPS		
Sector	After Q4	After Q1	Chg	After Q4	After Q1	Chg
Financial	242	238	-2%	294	292	-1%
IT	99	99	-1%	110	110	0%
Oil & Gas	93	97	4%	114	116	2%
FMCG	46	45	-3%	49	49	0%
Power	33	33	1%	37	37	1%
Industrial	29	30	5%	34	34	1%
Pharma	25	26	0%	30	30	-1%
Metals	79	95	21%	58	72	24%
Automobile	38	30	-21%	46	46	0%
Cement	8	9	8%	9	9	0%
Telecom	5	5	-5%	11	11	-3%
Total	**698**	**706**	**1%**	**792**	**806**	**2%**

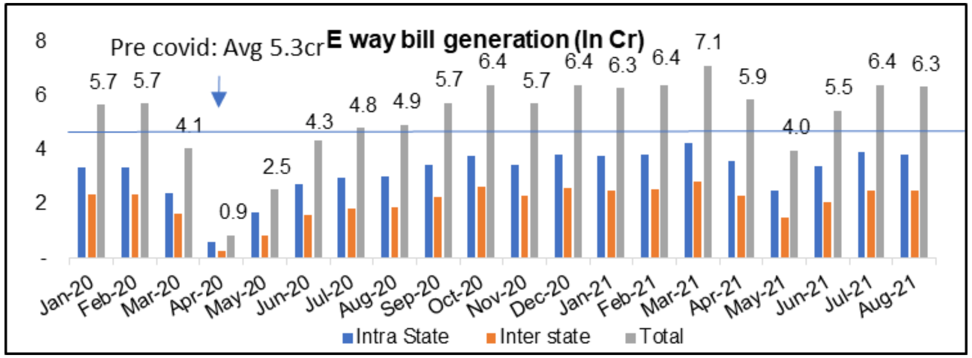


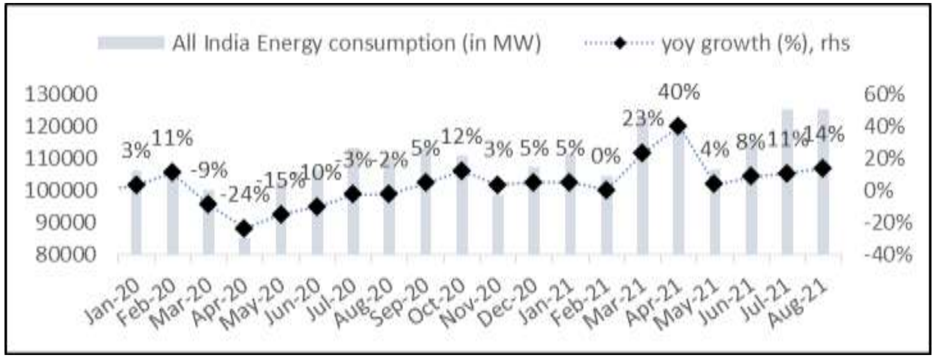
Source: Bloomberg, Axis Securities

Macro Indicators – Sequential improvement

- June Quarter GDP grew by 20% vs 1.6% in the march quarter. Due to an extremely low base in the last year due to strict lockdown, it is difficult to compare YoY growth. However, quarterly GDP numbers indicate the modest fall in the economic activities due to the second Covid-19 wave. Manufacturing & Construction activity was the biggest contributor to GVA during the quarter while growth in Other Services was at a moderate level.
- Normalization of economic activities continued in August - Electricity Generation and the E-ways bills exhibited continued sequential recovery. Moreover, healthy demand recovery was witnessed in energy consumption in Aug’21 which was up 14% YoY. Absolute energy consumption for Aug’21 crossed Mar’21 levels, signifying a strong pick-up in the economic activities after the second wave.
- July CPI fell to 5.6% vs 6.3% in Jun’21. The lower CPI number is led by softness in the food prices on a YoY basis. Normalization in the supply side activities in the upcoming month would be a key monitorable and so would the demand pattern curve which will guide the CPI trend in H2FY22.







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
719

Target Price
810

Upside
13%

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 BnQoQ 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%inQ3FY21/Q4FY21, driven by benigncost 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 Rs810/share (SOTP basis core book at 2.6x FY23E and Rs 177 Subsidiary value), implying an upside of 13% 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 (RsCr)	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	4.2	0.8	1.5
FY21P	38,989	36,397	16,193	23.4	181.3	3.3	1.4	1.2
FY22E	46,682	40,893	20,948	30.2	206.4	2.8	1.6	1.2
FY23E	53,683	47,876	26,796	38.7	238.5	2.1	1.7	1.2

Source: Company, Axis Securities

Income Statement (RsCr)

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 (RsCr)]

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
426

Target Price
555

Upside
30%

Key Rationale

- **Asset quality outlook improves**: SBIN maintained a decent asset quality performance in Q1FY22 with slippages at ~ Rs 157 Bn. While slippage ratio is higher at 2.5%, the management has indicated significant amount of slippages have already been pulled back in July '21. Retail slippages were Rs 53 Bn w/w home loans were Rs 31 Bn. GNPAs in Home Loans/Auto Loans stood at ~1.4% while in Xpress Credit it was low at 0.7%. In Personal Gold loans, GNPAs stood at 2.2% which is visible across most lenders. Gold loans were impacted by mobility restrictions due to lockdown. Agri slippages are under control. Out of the total agri book of Rs 2,093 Bn, ~Rs 1020 Bn is KCC which has seen more seasonal stress. SMA2 book fell to Rs 33 Bn from Rs 68 Bn in Q4FY21 while SMA1 book went up from Rs 47 Bn to Rs 80 Bn QoQ.
- **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 arelikely 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 maintaina BUY on the stock with a target price of Rs555/share (SOTP basis core book at 1.2x and subsidiaries at Rs 162).
- **Key risks:** a) Slower-than-expected recovery cycle.

Key Financials (Standalone)

Y/E Mar (Rs00'Cr)	NII (Rs00'Cr)	PPOP (Rs00'Cr)	Net Profit (Rs00'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	1,229	776	330	37	274	1.6	0.7	1.3
FY23E	1,377	876	428	48	325	1.3	0.8	1.1

Source: Company, Axis Securities.

Profit & Loss (Rs00'Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
Net Interest Income	981	1,107	1,229	1,377
Other Income	452	435	391	411
Total Income	1,433	1,542	1,621	1,788
Total Operating Exp.	752	827	844	912
Staff expenses	457	509	535	588
Other operating expenses	295	317	310	323
PPOP	681	716	776	876
Provisions & Contingencies	431	440	330	297
PBT	250	276	446	579
Provision for Tax	106	71	116	151
PAT	144	204	330	428

Source: Company, Axis Research

Balance Sheet (Rs00'Cr)

Y/E MAR	FY20	FY21	FY22E	FY23E
SOURCES OF FUNDS				
Share capital	9	9	9	9
Reserves and surplus	2,074	2,530	2,860	3,288
Shareholders' funds	2,083	2,539	2,794	3,222
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	47,752	52,041
APPLICATION OF FUNDS				
Cash & Bank Balance	2,511	3,430	2,265	2,124
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	47,752	52,041

Source: Company, Axis Research

KEY RATIOS (%)

Y/E MAR	FY20	FY21	FY22E	FY23E
VALUATION RATIOS				
EPS	16.0	22.9	37.0	48.0
Earnings Growth (%)	1502.8	43.0	61.5	29.7
DPS	0.0	4.6	3.0	3.0
BVPS	231.4	284.6	313.2	361.2
Adj. BVPS	222.4	242.6	274.2	325.2
ROAA (%)	0.2	0.5	0.7	0.8
ROAE (%)	3.5	8.8	12.4	14.2
P/E (x)	26.6	18.6	11.5	8.9
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 hasexposure 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
81

Target Price
100

Upside
23%

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/NNPAsat 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 bookstands 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 850Cr was restructured during Q1FY22 and the management indicated further Rs400Crworth 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 23% 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/E (%)	P/ABV (%)	ROAA (%)	NNPA (%)
FY20	4,649	3,205	1,543	7.8	64.9	10.4	1.2	0.9	1.3
FY21	5,534	3,787	1,590	8.0	73.8	10.2	1.1	0.6	1.2
FY22E	6,087	3,978	1,766	8.9	82.0	9.1	1.0	0.8	1.1
FY23E	6,878	4,520	2,274	8.0	92.6	7.1	0.9	1.0	1.0

Source: Company, Axis Securities

Profit & Loss (RsCr)

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 (RsCr)

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
60

Target Price
76

Upside
28%

Key Rationale

- **Improving liability franchise:** EQSFB continues to witness good traction in deposits, especially in the retail deposits and expects the momentum to continue moving forward. With a continued focus on the retail TDs and retail CASA deposits, we expect the bank's deposits to grow at a healthy rate of ~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 due to the absence of any blanket moratorium. The bank expects to cap COVID 2.0 impacted restructured book at ~10% of advances (Rs 1,400-1,700 Cr). A higher restructured book would result in elevated provisions for FY22E. The management expects the credit costs to be capped at ~2.5% in FY22E. We believe EQSFB is likely to upfront the provisions in FY22E to avoid any spill-over in FY23E. The bank has witnessed a sharp improvement in CE/BE across key segments as lockdowns eased across geographies. However, the CV segment may take slightly longer to recover.

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 its improving profitability, asset quality as well as return ratios. The bank has recently approved the scheme of amalgamation (reverse merger) with the promoter (Equitas Holdings), which would ensure compliance with the regulatory requirements. Moreover, its application for a universal banking license further supports our re-rating rationale. We recommend a BUY rating on the stock with a target price of Rs 76 (2.1x FY23E ABV), implying an upside potential of 28% from CMP.
- **Key risks:** a) Asset quality stress from the high restructured book, (2) Growth moderation in case of COVID 3.0 advent.

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	2.5	1.4	1.7
FY21P	1,798	887	384	3.4	27.5	2.2	1.7	1.6
FY22E	2,156	1,043	409	3.6	30.4	2.0	1.5	1.6
FY23E	2,596	1,343	660	5.8	36.4	1.6	2.0	1.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E MAR	FY20	FY21	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	FY21	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	FY21	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)	2.5	2.2	2.0	1.6
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	FY21	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
847

Target Price
960

Upside
13%

Key Rationale

- **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.
- **Healthy growth visibility going forward:** We expect VBL to report healthy growth going ahead on account of accelerated vaccination across the nation, visible increase in people's mobility which will aid on-the-go consumption. Upcoming festive season and permission for restaurants to remain open for longer hours in Maharashtra augur well from the near term volume growth perspective. We understand that organic growth could bounce back to pre-covid levels despite rising cases in key geographies. In-home consumption trend is expected to continue going ahead as consumers are perhaps more aware of what to expect from COVID and learn to rework their lifestyles around it. With a lean season during Q4CY21 impact of 3rd wave is likely to be limited in our understanding.
- **Key risks:** a) Seasonality, b) Re-imposition of lockdown to control any possible spread of COVID-19 caused by newer variants, 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.
- **Valuation:** We 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 now value VBL at 18x CY23E EV/EBITDA to arrive at our TP of Rs 960/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	111.5	22.4	6.8	10.3
CY21E	8,800	1,778	781	18.0	47.0	21.5	8.6	19.9
CY22E	9,575	2,020	999	23.1	36.8	18.3	7.1	21.3
CY23E	10,428	2,263	1,197	27.6	30.7	15.8	5.9	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	111.5	47.0	36.8	30.7
P/BV	6.8	8.6	7.1	5.9
EV / EBITDA	22.4	21.5	18.3	15.8
EV / Net Sales	4.2	4.3	3.9	3.4
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 world-class integrated facility for IML.

Industry view

Over weight

CMP
473

Target Price
585

Upside
24%

Key Rationale

- **Strong Growth Outlook:** During Q1FY22, MTEP has seen improving traction to its innovative product - 'QR Code Printed IML' which offers traceability and anti-counterfeit solutions in the supply chain. This product has particularly gained encouraging responses from Paints and MNC Lubricant customers. MTEP also intends to supply superior IML based packaging solutions to sweet boxes, adhesive square packets. These innovations have widened the technological gap for MTEP versus competition thus maintaining its leadership position in our view.
- **New Client Additions continue**: In Q1FY22, MTEP received a major order from BPCL for Rs. 70Cr to be supplied over 2 years for their requirements. The company also added Gulf Oil as one of its key customers for its new range of products which will incrementally add to its topline. Additionally, in F&F segment MTEP is adding 10-15 new clients every month giving about Rs.1-2Cr annual business with the existing product range. For its pumps business, MTEP has added Wipro, HUL, and Reckitt & Benckiser to name a few. Agro-chemicals sector too is a promising area of growth for MTEP and initial response has been encouraging from some of the leading agro-chemical companies.
- **Key risks:** a) COVID-19 led uncertainties; b) Sudden spike in RM prices and inability to pass it onto customers.
- **EBITDA/kg to grow with rising IML contribution:** Over the last 3 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. In Q1FY22, EBITDA/kg at Rs. 42.2/kg was healthy driven by a better product mix in favour of IML. IML packaging is seeing increasing acceptance across key end-user industries. Entry into higher-margin pumps (import substitution opportunity) can further drive EBITDA/kg.
- **Maintain FY22 guidance despite challenges:** At peak utilization level on expanded capacity base, management guided to achieve a 25% Revenue CAGR over FY21-23E provided there are no further disruptions caused by COVID-19. It aims to target an EBITDA/Kg between Rs 36-42/kg over FY22/23E.
- **Valuation**: We expect MTEP to register Revenue/EBITDA/PAT CAGR of 18%/17%/20% respectively over FY20-24E. For FY22, the management remains hopeful of scaling back to a positive volume growth trajectory despite a miss in Q1FY22 impacted by the lockdown. **We assign a target PE multiple of 20x FY24E 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 (%)
FY21	478.9	94.5	48.8	17.2	29.7	16.1	19.0%	19.7%
FY22E	600.8	111.1	59.6	21.1	24.2	13.5	19.4%	20.7%
FY23E	712.8	133.3	71.1	25.2	20.2	11.4	19.4%	21.2%
FY24E	787.5	151.2	82.7	29.3	17.4	9.8	18.9%	21.5%

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY21	FY22E	FY23E	FY24E
Total Sales	**478.9**	**600.8**	**712.8**	**787.5**
Total RM Consumption	272.4	345.5	408.4	448.9
Staff Costs	32.9	64.3	76.3	84.3
Other Expenses	79.1	79.9	94.8	103.2
Total Expenditure	384.4	489.6	579.5	636.3
EBITDA	**94.5**	**111.1**	**133.3**	**151.2**
Depreciation	21.5	24.9	31.1	34.6
EBIT	73.0	86.2	102.1	116.6
Interest & Finance charges	9.9	9.4	9.9	8.9
Other Income	0.9	1.8	1.8	1.8
PBT (as reported)	63.9	78.6	94.0	109.5
Tax	16.0	19.8	23.7	27.6
APAT	**48.8**	**59.6**	**71.1**	**82.7**
EPS	**17.2**	**21.1**	**25.2**	**29.3**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY21	FY22E	FY23E	FY24E
Equity Share Capital	**14.0**	**14.0**	**14.0**	**14.0**
Reserves	242.0	292.6	353.1	423.4
Net worth	256.0	306.6	367.0	437.3
Total loans	98.9	93.9	98.9	88.9
Deferred tax liability (Net)	12.0	12.0	12.0	12.0
Long Term Provisions	3.5	3.5	3.5	3.5
Other Long Term Liability	0.0	0.0	0.0	0.0
Capital Employed	**370.4**	**416.0**	**481.5**	**541.7**
Net Block	235.3	260.3	319.2	334.6
CWIP	11.3	11.3	11.3	11.3
Inventories	70.8	70.8	84.0	92.8
Sundry debtors	90.1	103.7	123.0	135.9
Cash and bank	0.4	17.3	5.2	37.4
Loans and advances	0.3	0.3	0.3	0.3
Other Current Assets	7.8	7.8	7.8	7.8
Total Current assets	170.3	200.8	221.1	275.0
Total Current liabilities	66.1	75.4	89.1	98.1
Net Current assets	104.2	125.4	132.0	176.8
Capital Deployed	**370.4**	**416.0**	**481.5**	**541.7**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY21	FY22E	FY23E	FY24E
PBT	63.9	78.6	94.0	109.5
Depreciation & Amortization	21.9	24.9	31.1	34.6
Finance costs	9.9	9,4	9.9	8.9
Changes in Working Capital	(12.5)	(4.2)	(18.8)	(12.7)
Cash Flow from Operations	**57.9**	**68.4**	**89.7**	**93.4**
(Increase)/ Decrease in Gross Block	(59.5)	(49.4)	(90.0)	(50.0)
Proceeds from sale of fixed asset	-	-	-	-
Cash Flow from Investing Activities	**(58.8)**	**(49.4)**	**(90.0)**	**(50.0)**
(Decrease)/Increase in Debt	(11.1)	(5.0)	5.0	(10.0)
Payment of finance costs	(9.5)	(9.4)	(9.9)	(8.9)
Dividend	(8.4)	(8.9)	(10.7)	(12.4)
Cash Flow From Financing Activities	**(9.6)**	**(23.4)**	**(15.6)**	**(31.3)**
Change in Cash	**0.1**	**16.9**	**(12.2)**	**32.2**
Cash at Start	0.4	0.4	17.3	5.2
Cash at End	0.4	17.3	5.2	37.4

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY21	FY22E	FY23E	FY24E
Growth (%)				
Total Sales	9.3%	25.4%	18.6%	10.5%
EBITDA	23.1%	17.6%	19.9%	13.4%
APAT	40.8%	22.2%	19.4%	16.3%
Profitability (%)				
EBITDA Margin	19.7%	18.5%	18.7%	19.2%
Net Profit Margin	10.2%	9.9%	10.0%	10.5%
ROCE	19.7%	20.7%	21.2%	21.5%
ROE	19.0%	19.4%	19.4%	18.9%
Per Share Data (Rs.)				
EPS	17.2	21.1	25.2	29.3
BVPS	91.7	109.8	131.5	156.7
Valuations (x)				
PER (x)	29.7	24.2	20.2	17.4
P/BV (x)	5.6	4.6	3.9	3.3
EV/EBITDA (x)	16.1	13.5	11.4	9.8
Turnover days				
Debtor Days	56.8	58.9	53.1	57.0
Payable Days	33.7	34.5	29.6	31.8
Gearing Ratio				
D/E	0.4	0.3	0.3	0.2

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

Equal Weight

CMP
173

Target Price
215

Upside
24%

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.
- **Outlook:** Global demand for CFS's products remains robust despite the ongoing pandemic situation. CFS is also working towards developing new downstream products to enhance its product basket. The management remains confident of achieving high teen margins by FY22 end on account of operating leverage from the Dahej plant, softening RM prices in H2 and addition of new downstream products (expected to contribute ~10% to topline) with better margins.

Key Rationale

- **Geared for Second Phase of Growth:** CFS plans to focus on adding more Hydroquinone (HQ) downstream products and has increased the production of HQ, as the HQ downstream market seems strong. CFS plans to scale up its MEHQ capacity utilization to 90% and commence HQEE production (high GM generating products). Alongside, the Omega 3 fermentation business is another long-term driver for the company given the market size and a limited number of players to procure Omega 3 from algae. The commercialization of the Ethyl Vanillin plant at Dahej will add incremental Rs 400-500 Cr to the top-line in FY23E and the scale-up of the Di-phenol plant at Dahej will lead to cost savings, further enhancing the EBITDA Margins. With regards to the Lockheed Martin deal, the pilot project with 1,500 ton capacity has the potential to generate Rs 120 Cr revenue with contribution kicking in from FY23 onwards.
- **Valuation:** We introduce FY24E estimates to factor in the growth over FY21-FY24E and expect the company to register Revenue/EBITDA/PAT CAGR of 19/24/37% respectively over FY21-24E. We continue recommend a BUY on the stock and value the company at 14x FY24E EPS 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 (%)
FY21	1,187	182	65	5.1	33.9	14.5	9.2	12.3
FY22E	1,512	246	101	7.9	22.0	10.9	12.9	14.7
FY23E	1,797	304	141	11.1	15.7	8.8	15.3	16.8
FY24E	2,018	347	167	13.1	13.3	7.5	15.4	18.1

Source: Company, Axis Research

Profit & Loss (Rs Cr)

Y/E Mar	FY21	FY22E	FY23E	FY24E
Net sales	**1,187**	**1,512**	**1,797**	**2,018**
% change	13.1%	27.3%	18.9%	12.2%
Raw material expenses	583	748	883	985
Employee expenses	120	147	180	208
Other Operating expenses	301	370	431	478
Total Expenditure	1,005	1,265	1,494	1,671
EBITDA	**182**	**246**	**304**	**347**
% change	39.2%	35.4%	23.3%	14.2%
EBITDA Margin %	**15.3%**	**16.3%**	**16.9%**	**17.2%**
Depreciation	44	66	74	80.6
EBIT	138	180	230	266
% change	40.6%	30.9%	27.4%	16.1%
EBIT Margin %	11.6%	11.9%	12.8%	13.2%
Interest paid	38	42	43	45
Other Non-Operating Income	5	6	7	8
PBT	105	144	194	229
Tax	40	43	52	62
Tax %	*37.8%*	*30.0%*	*27.0%*	*27.0%*
Net Profit	**65**	**101**	**141**	**167**
% change	119.1%	54.1%	40.3%	18.3%

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY21	FY22E	FY23E	FY24E
Share Capital	**13**	**13**	**13**	**13**
Reserves & Surplus	631	697	838	1,006
Net Worth	713	780	921	1,088
Total Loan funds	490	529	539	504
Deferred Tax Liability	6	6	6	6
Long Term Provisions	3	5	6	7
Other Long Term Liability	8	8	8	8
Capital Employed	**1,221**	**1,329**	**1,481**	**1,614**
Net Block	607	627	681	714
Investments	27	31	35	39
Sundry Debtors	271	311	369	387
Cash & Bank Bal	138	135	142	202
Loans & Advances	11	11	11	11
Inventory	320	390	447	499
Other Current Assets	55	76	90	101
Total Current Assets	**795**	**922**	**1,060**	**1,200**
Current Liabilities & Provisions	261	305	347	391
Net Current Assets	534	617	712	809
Capital Deployed	**1,221**	**1,329**	**1,481**	**1,614**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY21	FY22E	FY23E	FY24E
PBT	105	144	194	229
Depreciation & Amortization	44	66	74	81
Chg in Working cap	-66	-87	-88	-67
Direct tax paid	-36	-43	-52	-62
Cash flow from operations	**117**	**117**	**163**	**219**
Chg in Gross Block	-84	-165	-128	-114
Purchase of Non-Current Assets	0.1	-4.7	-4.1	-3.2
Chg in Investments	-50	0	0	0
Cash flow from investing	**-133**	**-164**	**-124**	**-109**
Proceeds / (Repayment) of Short Term Borrowings (Net)	-61	101	6	-21
Loans	84	-62	4	-14
Finance Cost paid	-48	-42	-43	-45
Dividends paid	-5	0	0	0
Cash flow from financing	**39**	**44**	**-32**	**-80**
Chg in cash	**23**	**-3**	**7**	**30**
Cash at start	52	76	72	79
Cash at end	76	72	79	109

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY21	FY22E	FY23E	FY24E
Growth (%)				
Net Sales	13.1%	27.3%	18.9%	12.2%
EBITDA	39.2%	35.4%	23.3%	14.2%
APAT	119.1%	54.1%	40.3%	18.3%
Per Share Data (Rs.)				
Adj. EPS	5.1	7.9	11.1	13.1
BVPS	55.9	61.1	72.2	85.3
Profitability (%)				
EBITDA Margin	15.3%	16.3%	16.9%	17.2%
Adj. PAT Margin	5.5%	6.7%	7.9%	8.3%
ROCE	12.3%	14.7%	16.8%	18.1%
ROE	9.2%	12.9%	15.3%	15.4%
Valuations (x)				
PER	35.3	22.9	16.3	13.8
P/BV	3.2	3.0	2.5	2.1
EV / EBITDA	15.0	11.2	9.1	7.8
EV / Net Sales	2.3	1.8	1.5	1.3
Turnover Days				
Asset Turnover (x)	2.5	2.3	2.4	2.4
Inventory days	193.3	173.0	173.1	175.4
Debtors days	80.5	70.2	69.0	68.4
Creditors days	103.9	88.6	89.9	90.1
Working Capital days	169.9	154.6	152.2	153.7
Gearing Ratio				
Total Debt to Equity (x)	0.6	0.6	0.5	0.4

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 recently forayed into commercial AC's as well.

Industry view

Equal Weight

CMP
2,895

Target Price
3,330

Upside
15%

Key Rationale

- **Completely backward-integrated player with strategically located plants:** AEL provides cost-efficient solutions to RAC brands/OEMs by leveraging its highly backward-integrated and strategically located plants. It caters to the majority of clients' requirements for ACs and commands 49% of outdoor units, 78% of indoor units, and 60% of the window ACs market.
- **Revenues impacted in peak season, demand recovery seen post unlocking:** RAC revenues stood at Rs 452 Cr (contributing 64% of the revenues during the quarter). The Components and Mobility Application business (Sidwal Subsidiary) revenues stood at Rs 256 Cr, contributing 36% of Q1FY22 revenues. Though the demand was impacted due to lockdown in peak season in Apr-May'21, a faster-than-expected recovery was witnessed in Jun'21.
- **A key beneficiary of the government schemes:** Amber has benefited from the import ban on RAC with refrigerants and an increase in duties on ACs and components. Moreover, the company has been able to add 6 new clients for Gas Filling and plans to increase the wallet share further by providing them with full RAC solutions, moving forward.
- **Participation in the PLI Scheme:** Amber plans to apply for a licence under the PLI scheme for the high category as well as the lower segment (through subsidiaries). The government is expected to announce a licence under the PLI scheme over the next few months and the management is hopeful of acquiring a licence under the scheme. The said licence will enable the company to expand its presence domestically as well as in the export markets.

Key Rationale

- **Plans to increase revenues from components and exports:** The management plans to increase the share of revenues from components by increasing product offerings, catering to newer geographies, adding new clients, and building a strong order book (Sidwal). Amber has started exports of components and RACs to the Middle East post completion of the approval process by the OEMs. For the US markets, the company expects approvals by FY23 and it is in discussions with large brands for exports of RAC's.
- **Outlook**: While COVID-2 is expected to impact the company's near-term outlook, its long-term growth prospects continue to remain 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) Sharp focus on exports and e) Diversification through mobility business (Sidwal Subsidiary).
- **Valuation**: We estimate Amber to register a Revenue CAGR of 37% over FY21-23E. While the long-term outlook remains intact with demand recovery and growth in the underpenetrated domestic market, we reduce FY22E revenue estimates by 3.4% and tweak our FY23 estimates higher by 0.3%. We value Amber at 40x FY23 EPS of Rs 83.3 to arrive at a target of Rs 3,330/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)	Net Sales (Rs Cr)	EBITDA (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	4,064	348	152	45.2	63.6	28.3	12.0	14.9
FY23E	5,721	523	281	83.3	34.8	18.6	18.8	22.2

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Net sales	**3,963**	**3,031**	**4,064**	**5,721**
Other operating inc.	8.2	33.1	22.9	22.9
Total income	3,971	3,064	4,087	5,744
Cost of goods sold	3,654	2,810	3,739	5,220
Contribution (%)	7.8%	7.3%	8.0%	8.7%
Operating Profit	**317**	**253**	**348**	**523**
Depreciation	85	92	105	113
Interest & Fin Chg.	42	41	38	35
E/o income / (Expense)	0	0	0	0
Pre-tax profit	191	120	204	375
Tax provision	27	37	52	94
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**163**	**84**	**152**	**281**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20	FY21	FY22E	FY23E
Total assets	**1,638**	**1,728**	**1,895**	**2,194**
Net Block	1,106	1,223	1,453	1,465
CWIP	6	20	35	10
Investments	45	45	45	45
Wkg. cap. (excl cash)	361	310	279	500
Cash / Bank balance	120	129	83	174
Misc. Assets	0	0.0	0.0	0.0
Capital employed	**1,638**	**1,728**	**1,895**	**2,194**
Equity capital	31	34	34	34
Reserves	1,097	1,175	1,321	1,594
Pref. Share Capital	0	0	0	0
Minority Interests	35	35	35	35
Borrowings	405	405	410	430
Def tax Liabilities	70	80	96	102

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20	FY21E	FY22E	FY23E
Sources	**318.9**	**182.3**	**266.9**	**392.8**
Cash profit	290.8	216.5	295.8	429.3
(-) Dividends	12.1	5.5	6.3	7.3
Retained earnings	278.7	211.1	289.5	422.0
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)	(22.5)	(29.1)
Applications	**318.9**	**182.3**	**266.9**	**392.8**
Capital expenditure	369.2	224.1	350.0	100.0
Investments	(15.2)	0.0	0.0	0.0
Net current assets	(121.4)	(50.6)	(36.6)	201.1
Change in cash	86.3	8.8	(46.5)	91.7

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21E	FY22E	FY23E
Sales growth	**44.0**	**(23.5)**	**34.1**	**40.8**
OPM	8.0	8.3	8.5	9.1
Oper. profit growth	42.5	(20.2)	37.2	50.5
COGS / Net sales	92.2	92.7	92.0	91.3
Overheads/Net sales	0.0	0.0	0.0	0.0
Depreciation / G. block	5.8	5.5	5.2	5.3
Effective interest rate	15.1	12.8	11.9	10.5
Net wkg.cap / Net sales	0.09	0.11	0.07	0.07
Net sales / Gr block (x)	2.7	1.8	2.0	2.7
RoCE	17.3	10.7	14.9	22.2
Debt / equity (x)	0.28	0.27	0.24	0.21
Effective tax rate	13.9	30.7	25.4	25.1
RoE	15.4	7.2	12.0	18.8
Payout ratio (Div/NP)	7.4	6.5	4.1	2.6
EPS (Rs.)	52.2	24.7	45.2	83.3
EPS Growth	73.2	(52.6)	83.0	84.3
CEPS (Rs.)	78.9	52.3	76.8	117.0
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 as well as global OEMs. It has a well-diversified presence across segments 2W, CV, PV, and Aftermarket that contributed 52%/21%/11%/16% of its FY21 sales, respectively. Geographically, India contributes ~85% of the company's sales while the rest ~15% is contributed by the Overseas markets. 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
120

Target Price
148

Upside
24%

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 company's growth story 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 e-2Ws and e-3Ws. The company's 3x3x3 EV strategy will provide complete drive-train solutions to 3 segments (2Ws/3Ws/Entry cars) with 3 products (DC-DC converter, Battery Charger, Motor Controllers) as well as products less than 3kW. New orders in the EV space have been won from Ola Electric, Ampere, Polarity, and Revolt. 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 was 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) is expected to further boost its topline over the next two to three years.
- **Valuation:** We expect Minda Corp's profitability to improve over FY22-23E in the backdrop of its wide product basket, robust market share, consistent new product addition, and operating leverage. The company is expected to deliver excellent growth in 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 FY23E 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 15x FY23E EPS to arrive at a target price of Rs 148, implying an upside potential of 24% 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
FY21A	2,368	53	2.21	50.0	5.0	12.7	10.4	0.4
FY22E	2,931	139	5.83	19.0	11.6	16.4	8.1	0.3
FY23E	3,604	236	9.88	11.2	17.3	23.8	5.3	0.1

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21A	FY22E	FY23E
Net sales	**2,223**	**2,368**	**2,931**	**3,604**
Other operating income	0	0	0	0
Total income	2,223	2,368	2,931	3,604
Cost of goods sold	1,338	1,493	1,778	2,148
Contribution (%)	356.6	382.7	502.4	594.6
Advt/Sales/Distrn O/H	282.1	275.7	366.4	450.5
Operating Profit	**245**	**217**	**284**	**411**
Other income	43	33	39	35
PBIDT	**288**	**250**	**323**	**446**
Depreciation	87	94	107	109
Interest & Fin Chg.	39	36	34	25
E/o income / (Expense)	-293	-42	0	0
Pre-tax profit	**-131**	**79**	**183**	**312**
Tax provision	45	31	46	79
(-) Minority Interests	0	0	0	0
Associates	-24	5	3	3
Adjusted PAT	**195**	**78**	**139**	**236**
Reported PAT	**93**	**94**	**139**	**236**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21A	FY22E	FY23E
Total assets	**1,524**	**1,623**	**1,645**	**1,719**
Gross block	529.2	574.5	530.0	506.4
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	484	540
Wkg. cap. (excl cash)	472.4	499.3	406.4	447.2
Cash / Bank balance	0.0	0.0	0.0	0.0
Misc. Assets				
	1,524	**1,623**	**1,645**	**1,719**
Capital employed	45.4	47.8	47.8	47.8
Equity capital	930	1,099	1,203	1,426
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	FY21A	FY22E	FY23E
Sources	**-137**	**156**	**152**	**183**
Cash profit	-51	177	277	367
(-) Dividends	19	10	10	10
Retained earnings	-70	167	267	357
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	-31	-25
Applications	**-137**	**156**	**152**	**183**
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	162.7	56.7
Change in cash	107.7	44.8	(92.9)	40.8

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21A	FY22E	FY23E
Sales growth	**(28.1)**	**6.5**	**23.8**	**23.0**
OPM	**11.0**	**9.2**	**9.7**	**11.4**
Oper. profit growth	(16.0)	(11.6)	30.7	44.8
COGS / Net sales	28.7	27.8	29.6	29.0
Overheads/Net sales	32.1	32.2	32.8	32.1
Depreciation / G. block	10.1	9.9	10.4	9.8
Effective interest rate	5.4	7.5	7.4	7.5
Net wkg.cap / Net sales	0.15	0.11	0.12	0.13
Net sales / Gr block (x)	2.6	2.5	2.8	3.2
RoCE	**15.9**	**12.7**	**16.4**	**23.8**
Debt / equity (x)	0.53	0.39	0.29	0.14
Effective tax rate	(34.7)	39.4	25.1	25.2
RoE	**(18.3)**	**5.0**	**11.6**	**17.3**
Payout ratio (Div/NP)	(9.6)	19.1	7.2	4.3
EPS (Rs.)	**-8.79**	**2.21**	**5.83**	**9.88**
EPS Growth	(218.8)	(125.1)	163.8	69.5
Adj EPS (Rs.)	**4.1**	**4.0**	**5.8**	**9.9**
Adj EPS growth	(37.9)	(4.0)	47.4	69.5
CEPS (Rs.)	(5.0)	6.1	10.3	14.4
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
1898

Target Price
2122

Upside
12%

Key Rationale

- **Robust production capacity:** SSWL has a massive capacity across auto segments including 2W, PV, CV, Tractors, OTR, and Al-alloy wheels. Currently, all these capacities are underutilized due 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 and 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 0.24 Cr Al-alloy wheels manufacturing facility at Mehsana, Gujarat, which will be expanded to 0.3 Cr by Nov'21. Recovery in the automobile demand would help SSWL to utilize its capacity optimally, which in turn, would help it improve its profitability over the next two years.
- **Exciting export opportunities:** The export segment has witnessed an astounding volume CAGR of 30% over FY18-21 and 33% revenue CAGR over the same period. This has been on account of the opening up of the US and Europe markets due to heavy anti-dumping duties levied on Chinese products in these regions. 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.

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 26% over the next couple of years, backed by robust order visibility for the next 5 years. SSWL is expanding Al-alloy wheel capacity to 0.3 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 and well-nurtured relations with OEMs across all the auto segments. Furthermore, we expect operating leverage to kick in as the company's capacity utilization improves with domestic auto-recovery, increasing penetration in alloy wheels and improving exports. Keeping this in view, we pencil in higher Revenue/EBIDTA/PAT CAGR estimates of 36%/49%/149% over FY20-23E vis-à-vis 7%/9%/(1)% CAGR delivered over FY13-20.
- **Key risks:** a) Delay in automobile demand recovery, especially PV and CV, 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	126.1	3.4	8.9	19.8	1.40
FY21P	1,749	49	32	60.0	6.8	10.7	16.5	1.13
FY22E	2,904	204	131	14.5	24.0	22.7	8.1	0.88
FY23E	3,979	371	238	8.0	32.7	32.1	5.1	0.54

Source: Company, Axis Securities

Income Statement (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Net sales	**1,563**	**1,749**	**2,904**	**3,979**
Other operating income	0	0	0	0
Total income	1,563	1,749	2,904	3,979
Cost of goods sold	1,311	1,458	2,361	3,209
Contribution (%)	*16.1%*	*16.7%*	*18.7%*	*19.4%*
Advt/Sales/Distrn O/H	80.9	88.1	145.5	196.9
Operating Profit	**171**	**204**	**398**	**573**
Other income	22	16	17	56
PBIDT	**193**	**220**	**415**	**629**
Depreciation	72	72	77	78
Interest & Fin Chg.	89	84	76	68
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**33**	**64**	**262**	**482**
Tax provision	9	15	58	111
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**23**	**49**	**204**	**371**
Reported PAT	**23**	**49**	**204**	**371**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
Total assets	**1,734**	**1,845**	**2,054**	**2,301**
Net Block	1,329.2	1,306.5	1,411.7	1,353.4
CWIP	52.8	85.5	10.0	10.0
Investments	0.2	0.2	0.2	110.0
Wkg. cap. (excl cash)	231	361	400	415
Cash / Bank balance	121.0	91.7	232.3	412.1
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**1,734**	**1,845**	**2,054**	**2,301**
Equity capital	15.6	15.6	15.6	15.6
Reserves	666	682	1,043	1,408
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	927	994	845	725
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**	**248**	**325**
Cash profit	237	184	357	518
(-) Dividends	8	8	6	6
Retained earnings	229	177	352	512
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	-15	-120
Others	-72	-65	-89	-67
Applications	**169**	**179**	**248**	**325**
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	48.4	15.5
Change in cash	(9.6)	(29.3)	179.1	179.7

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20	FY21P	FY22E	FY23E
Sales growth	**(23.4)**	**11.9**	**66.0**	**37.0**
OPM	**11.0**	**11.6**	**13.7**	**14.4**
Oper. profit growth	(30.4)	19.0	95.3	44.0
COGS / Net sales	83.9	83.3	81.3	80.7
Overheads/Net sales	5.2	5.0	5.0	5.0
Depreciation / G. block	3.8	3.6	3.6	3.6
Effective interest rate	9.4	9.2	9.0	8.9
	1.5	2.8	7.0	9.3
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**	**22.7**	**32.1**
Debt / equity (x)	1.40	1.13	0.88	0.54
Effective tax rate	28.3	22.8	22.0	23.0
RoE	**3.4**	**6.8**	**24.0**	**32.7**
Payout ratio (Div/NP)	32.1	11.5	2.8	1.5
EPS (Rs.)	**15.0**	**31.6**	**130.9**	**238.0**
EPS Growth	(71.5)	110.0	314.4	81.8
CEPS (Rs.)	61.2	78.0	180.5	288.2
DPS (Rs.)	4.0	3.0	3.0	3.0

Source: Company, Axis Research

Krishna Institute of Medical Sciences Ltd (KIMS) – Affordable Healthcare with High Growth

KIMS operates nine multi-speciality hospitals with an aggregate bed capacity of 3,064. KIM's focus on affordable health services has led to Average Revenue Per Occupied bed (ARPOB) of Rs 28,820, which is 35% lower than the industry average.

Key Rationale

- KIM's is focused on affordable health services across Tier II and Tier III cities with Average Revenue Per Occupied bed (ARPOB) standing at Rs 28,820, 35% lower than the industry average of Rs 38,400. This has led to high revenue growth. Operating leverage derived from higher volume delivered the highest EBITDA margins (+28%) as compared to average industry margins (+17.8%). The company has achieved this by controlling capital and operating expenditure along with a multi-disciplinary approach. KIMS treatment costs across medical procedures are on an average 20-30% lower than other private hospitals in India.
- KIMS has the highest return ratios with RoIC of 32% due to 1.) Lowest Capex per bed (Rs 36 Lc/bed) and 2.) Highest EBIT margins 22.7%. Low Capex strategy is a mix of acquiring land in advance and constructs building on their own to reduce costs and another is acquiring land on a long-term lease with low-cost terms to avoid high rental costs. KIMS has achieved the highest EBIT margins in the industry by controlling doctors costs (doctor participation model) and no rental expenses.

Key Rationale

- KIMS has planned to add an incremental bed capacity of 1,500 (50%) from the current bed capacity of 3,065 over the next 36-40 months. This could lead to a total bed capacity of 4,500. It is planning to add an incremental 500 capacity in current hospitals to meet growing demand. Furthermore, an incremental 1,000 bed capacity in adjacents markets such as Bangalore, Chennai, Bhubaneswar, Indore, Aurangabad, and Nagpur. KIMS is expected to incur a Capex of Rs 300 Cr per year over the next 3-4 years to create these capabilities.
- High RoIC (32%) led to generate a strong cash flow of ~ Rs 300 Cr every year enabling the company to achieve net debt-free status. We expect KIMS cashflow generation of Rs 300 Cr every year plus minimum debt required to fund incremental bed capacity in the next 36-40 months.
- Key risks: High reliance on single facility, Debt funded Capex, retention of Doctors

Industry view

Equal Weight

CMP
1,285

Target Price
1,570

Upside
22%

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	EBIDTA (Rs)	Net Profit (Rs)	FDEPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	RoE (%)
2020	245	100	13.4	95.1	39.8	15.5	16.3
2021E	371	202	26.1	48.8	26.6	11.3	23.1
2022E	431	255	30.7	41.4	24.1	9.3	22.4
2023E	511	310	37.2	34.1	20.2	7.3	21.4

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	**1,123**	**1,330**	**1,540**	**1,811**
Other operating income	0	0	0	0
Net Revenue	1,123	1,330	1,540	1,811
Cost of goods sold	254	289	336	395
Contribution (%)	*22.64%*	*21.73%*	*21.80%*	*21.80%*
Other operating costs	623	670	773	906
EBITDA	**245**	**371**	**431**	**511**
Other income	6	10	15	18
PBIDT	**251**	**381**	**446**	**529**
Depreciation	71	70	77	96
Interest & Fin Chg.	40	33	27	21
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**141**	**279**	**342**	**412**
Tax provision	41	77	87	102
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**100**	**202**	**255**	**310**
Other Comprehensive Income	0	0	0	0
Reported PAT	**100**	**202**	**255**	**310**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Share Capital	74	78	83	83
Reserves & Surplus	537	799	1,054	1,364
Net Worth	611	876	1,137	1,447
Total Loan funds	327	286	236	186
Deferred Tax Liability	36	36	36	36
Long Term Provisions	14	16	16	16
Other Long Term Liability	2	2	2	2
Capital Employed	**1,196**	**1,436**	**1,663**	**1,949**
Gross Block	987	1,103	1,218	1,518
Less: Depreciation	124	187	264	360
Net Block	863	916	954	1,159
Investments	0	0	0	0
Sundry Debtors	132	110	127	149
Cash & Bank Bal	46	284	441	435
Loans & Advances	2	2	2	2
Inventory	30	24	30	35
Other Current Assets	10	31	41	100
Total Current Assets	219	278	294	320
Curr Liab & Prov	220	451	639	721
Net Current Assets	1	173	345	401
Total Assets	**1,196**	**1,436**	**1,663**	**1,949**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
PBT	141	279	342	412
Add: depreciation	71	70	77	96
Add: Interest	40	33	27	21
Cash flow from operations	251	381	446	529
Change in working capital	(39)	(38)	16	61
Taxes	41	77	87	102
Miscellaneous expenses	0	0	0	0
Net cash from operations	249	343	343	366
Capital expenditure	(126)	(92)	(115)	(300)
Change in Investments	0	0	0	0
Net cash from investing	(126)	(92)	(115)	(300)
Increase/Decrease in debt	18	(41)	(50)	(50)
Dividends	0	0	0	0
Proceedings from equity	0	3	6	0
Interest	(40)	(33)	(27)	(21)
Others	(66)	58	0	0
Net cash from financing	(88)	(12)	(71)	(71)
Net Inc./(Dec.) in Cash	35	239	156	(5)
Opening cash balance	10	46	284	441
Closing cash balance	45	284	441	435

Source: Company, Axis Research

Ratio Analysis (%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	**22.3**	**18.5**	**15.8**	**17.7**
OPM	**21.8**	**27.9**	**28.0**	**28.2**
Oper. profit growth	202.6	51.4	16.2	18.5
COGS / Net sales	22.6	21.7	21.8	21.8
Overheads/Net sales	55.5	50.4	50.2	50.0
Depreciation / G. block	7.2	6.3	6.3	6.3
Effective interest rate	29.1	27.5	25.5	24.8
Net wkg.cap / Net sales	0.0	(0.0)	(0.0)	0.0
Net sales / Gr block (x)	1.1	1.2	1.3	1.2
RoCE	**18.2**	**32.0**	**35.9**	**34.8**
Debt / equity (x)	0.5	0.3	0.2	0.1
Effective tax rate	29.1	27.5	25.5	24.8
RoE	**16.3**	**23.1**	**22.4**	**21.4**
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
EPS (Rs.)	**13.4**	**26.1**	**30.7**	**37.2**
EPS Growth	(284.9)	103.0	26.2	21.4
CEPS (Rs.)	22.8	35.0	39.9	48.7
DPS (Rs.)	0.0	0.0	0.0	0.0

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
1,448

Target Price
1,600

Upside
11%

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 23x P/E multiple to its FY23E earnings of Rs 70.0/share, which gives a **TP of Rs. 1,600/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.

Industry view

Overweight

CMP
664

Target Price
740

Upside
11%

Key Rationale

- Bharti Airtel Bharti Airtel Ltd (Airtel) reported strong growth in Q1FY22 and reported better numbers than our expectations. Revenues at Rs 26,854 Cr improved 4.3% QoQ and grew 15.3% YoY . EBIDTA grew by 2.3% QoQ at Rs 12,331 Cr and the margin expanded by 40 bps QoQ to 48.3%, 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 Q1FY22 (excluding lease obligations at Rs 1, 15, 500 Cr at end of Q1FY22). Bharti Airtel's Operating Free Cash Flow (EBITDA - Capex) improved in Q1 FY22 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 Q1 FY22.

Key Rationale

- The Digital TV grew by 5.5% QoQ backed by strong customer additions of 282K during the quarter. Airtel continues to make good progress through innovative propositions and providing differential experiences to accelerate its business growth. The company strengthened its network by deploying additional spectrum in multiple circles to significantly bolster its high-speed data capacity.
- The company's relentless focus on stepping up customer experience led to Africa revenue growth of 7.6% QoQ to reach Rs 8,177 Cr. Operating Margins for the quarter, too, improved by 30bps to 48%. The management is optimistic about gaining momentum and generating free cash flow as it treads ahead.
- Business fundamentals remain strong and continue to improve. The management foresees the huge potential for continued strong revenue and profit growth, supported by expanding distribution in rural areas, investing in the network, and increasing 4G coverage. Further strategic investment opportunities are available in tower sales, minority, and IPO investments in mobile money, among others.
- Airtel is gaining momentum with strong customer addition and market share gain. The management is confident of gaining further momentum moving ahead aided by favourable macroeconomic conditions like dive to digital, rising consumptions of the data, increasing penetration in tier 2 and 3 cities, rising use of DTH and other digital services. The management also guided for the ARPU of 200/month to be reached by the end of this fiscal and eventually to 300 levels.
- **Valuation:** We value and recommend a BUY with SOTP based valuation at Rs 740/share aided by better margins, stronger subscriber growth, and higher 4G conversions. TP indicates an upside of 11% from CMP.

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
1,182

Target Price
1,300

Upside
10%

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 22x P/E multiple to its FY23E earnings of Rs. 59.2/share which gives a TP of Rs 1,300/share, an upside of 10%.

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
152

Target Price
180

Upside
19%

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 16% over FY21-FY23E, driven by a volume CAGR of 12% 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 24% in FY23E from 16% in FY20A and EBITDA per tonne to Rs1,183 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 Q1FY22 results as Volume/Revenue/EBITDA/APAT grew by 66%/28%/89%/247% 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 5.2x FY22E and 4.1x 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 19%.
- **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 (Rscr)	EBIDTA (Rscr)	Net Profit (Rscr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	RoE (x)	RoCE (x)	D/E (x)
FY20	2422	383	87	4	11	5.4	7.7	10.7	1.06
FY21	2324	551	214	10	9	5.0	16.4	18.0	0.67
FY22E	2857	673	311	15	10	5.2	19.5	22.9	0.45
FY23E	3128	755	374	18	8	4.1	19.2	24.7	0.27

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	CY20	CY21E	CY22E	CY23E
Net sales	2422	2324	2857	3128
Other operating income	0	0	0	0
Total income	2422	2324	2857	3128
Raw Material	203	325	365	398
Power & Fuel	591	451	578	630
Freight & Forwarding	693	609	792	863
Employee benefit expenses	155	153	167	177
Other Expenses	396	237	283	306
EBITDA	383	551	673	755
Other income	18	18	23	25
PBIDT	401	569	695	779
Depreciation	141	142	146	150
Interest & Fin Chg.	122	94	65	47
E/o income / (Expense)	0	0	0	0
Pre-tax profit	137	334	484	582
Tax provision	51	119	173	208
RPAT	87	214	311	374
Minority Interests	0	0	0	0
Associates	0	0	0	0
APAT after EO item	87	214	311	374

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	CY20	CY21E	CY22E	CY23E
Total assets	2900	2812	3001	3175
Net Block	2210	2146	2081	2019
CWIP	67	41	50	50
Investments	0	115	225	375
Working Capital (excl cash)	222	96	119	130
Cash / Bank balance	35	35	100	154
Misc. Assets	366	378	426	447
Capital employed	2900	2812	3001	3175
Equity capital	20	20	20	20
Reserves	1098	1285	1576	1929
Minority Interests	0	0	0	0
Borrowings	1135	784	634	434
Def tax Liabilities	122	181	181	181
Other Liabilities and Provision	524	541	590	611

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	CY20	CY21E	CY22E	CY23E
Profit before tax	137	334	484	582
Depreciation	141	142	146	150
Interest Expenses	122	94	65	47
Non operating/ EO item	-13	-12	-23	-25
Change in W/C	-63	216	-23	-11
Income Tax	31	59	173	208
Operating Cash Flow	293	714	477	535
Capital Expenditure	-77	-51	-89	-88
Investments	-191	-444	-110	-150
Others	195	333	23	25
Investing Cash Flow	-73	-162	-176	-213
Borrowings	-60	-431	-150	-200
Interest Expenses	-121	-93	-65	-47
Dividend paid	-19	-26	-20	-20
Others	-7	-3	0	0
Financing Cash Flow	-206	-552	-236	-268
Change in Cash	13.9	0.4	65	54
Opening Cash	22	35	35	100
Closing Cash	15	35	100	154

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	CY20	CY21E	CY22E	CY23E
Operational Ratios				
Gross profit margin	39%	40%	39%	40%
EBITDA margin	16%	24%	24%	24%
PAT margin	4%	9%	11%	12%
COGS / Net sales	61%	60%	61%	60%
Overheads/Net sales	23%	17%	16%	15%
Depreciation / G. block	5.1%	5.0%	5.0%	5.0%
Growth Indicators				
Sales growth	-4%	-4%	23%	9%
EBITDA growth	23%	44%	22%	12%
PAT growth	82%	147%	45%	20%
Efficiency Ratios				
Total Asset turnover (x)	0.9	0.8	1.0	1.0
Sales/Gross block (x)	0.9	0.8	1.0	1.0
Sales/Net block(x)	1.0	1.0	1.3	1.4
Working capital/Sales (%)	0.24	0.20	0.20	0.20
Valuation Ratios				
PE (x)	11	9	10	8
P/BV (x)	0.8	1.5	1.9	1.6
EV/Ebitda (x)	5.4	5.0	5.2	4.1
EV/Sales (x)	0.9	1.2	1.2	1.0
MCap/ Sales (x)	0.4	0.9	1.1	1.0

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
123

Target Price
155

Upside
26%

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

Key Rationale

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 normlacy resumes.

- **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. Dana Incorporated (Dana) made a strategic investment in Switch Mobility and will also be a preferred supplier of electric drivetrain components for the company's e-bus and EV CV offerings – including e-Axles, gearboxes, motors, inverters, software and controls, and electronics cooling.
- **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 155.**
- **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
FY21A	15,301	535	(324)	(1.0)	(102.9)	67.6	(4.5)	(0.8)
FY22E	26,523	2,564	1,258	4.3	28.4	14.8	16.5	12.6
FY23E	36,235	4,225	2,534	8.6	14.1	8.6	26.7	20.9

Source: Company, Axis Securities

Profit & Loss (Rs Cr)

Y/E Mar	FY20A	FY21A	FY22E	FY23E
Net revenues	**17,467**	**15,301**	**26,523**	**36,235**
Operating expenses	16,294	14,766	23,959	32,010
EBIDTA	**1,174**	**535**	**2,564**	**4,225**
EBIDTA margin (%)	**6.7**	**3.5**	**9.7**	**11.7**
Other income	76	94	111	143
Interest	109	307	257	231
Depreciation	670	748	742	751
Profit Before Tax	362	(412)	1,674	3,386
Tax	122	(98)	417	852
Reported Net Profit	**240**	**(314)**	**1,257**	**2,534**
Net Margin (%)	1.4	(2.1)	4.7	7.0
Adjusted Net Profit	**311**	**(324)**	**1,258**	**2,534**

Source: Company, Axis Research

Balance Sheet (Rs Cr)

Y/E Mar	FY20A	FY21A	FY22E	FY23E
Equity capital	294	294	294	294
Reserves & surplus	6,970	6,684	7,941	10,474
Shareholders' funds	**7,264**	**6,977**	**8,234**	**10,768**
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**	**11,621**	**13,655**
Gross block	10,019	10,460	11,207	11,957
Depreciation	2,400	2,923	3,664	4,416
Net block	7,619	7,537	7,542	7,541
Capital WIP	594	372	375	375
Investments	2,720	3,069	3,269	3,369
Inventory	1,238	2,142	2,905	3,772
Debtors	1,180	2,816	2,543	3,276
Cash & Bank Bal	1,322	823	997	2,086
Loans & Advances	1,716	1,691	1,402	1,911
Current Assets	5,456	7,472	7,847	11,046
Sundry Creditors	2,624	5,165	4,923	5,700
Other Current Liability	3,172	2,421	2,489	2,975
Current Liability& Provisions	5,796	7,586	7,412	8,676
Net current assets	(339)	(113)	435	2,370
Total Assets	**10,594**	**10,864**	**11,621**	**13,655**

Source: Company, Axis Research

Cash Flow (Rs Cr)

Y/E Mar	FY20A	FY21A	FY22E	FY23E
EBIT	504	(213)	1,822	3,474
Other Income	76	94	111	143
Depreciation & Amortisation	670	748	742	751
Interest paid(-)	(109)	(307)	(257)	(231)
Tax paid(-)	(122)	98	(417)	(852)
Extra Ord Income	(108)	13	(2)	-
Operating Cash Flow	909	434	1,998	3,285
Change in Working Capital	(737)	(726)	(374)	(846)
Cash flow from Operations	**172**	**(292)**	**1,624**	**2,439**
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)	(67)	-	-
Dividends paid(-)	(1,270)	-	-	-
Cashflow from Financial Activities	**1,374**	**584**	**(500)**	**(500)**
Change in Cash	(51)	(500)	174	1,089
Opening cash	1,374	1,322	823	997
Closing cash	**1,322**	**823**	**997**	**2,086**

Source: Company, Axis Research

Ratio Analysis (%)

Key Ratios	FY20A	FY21A	FY22E	FY23E
Revenue Growth	(39.9)	(12.4)	73.3	36.6
EBITDA Margin	6.7	3.5	9.7	11.7
Net Profit Margin	1.8	(2.1)	4.7	7.0
ROCE (%)	3.6	(0.8)	12.6	20.9
ROE (%)	3.7	(4.5)	16.5	26.7
EPS	1.1	(1.1)	4.3	8.6
P/E (x)	40.6	(102.9)	28.4	14.1
P/ BV (x)	1.7	4.8	4.3	3.3
EV/ EBITDA (x)	12.3	67.6	14.8	8.6
Fixed Assets Turnover Ratio (x)	2.9	2.6	4.4	6.1
Debt / Equity (x)	0.4	0.5	0.4	0.3
EV/ Sales (x)	0.8	2.4	1.4	1.0

Source: Company, Axis Research

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