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INVESTMENT SERVICES

Diwali Picks - 2020

DiwaliPicks 2020

Script Name	CMP as on 06-Nov-20	Target Price	Upside Potential	Market Cap. (₹Bn.)	PE (FY22E)	Rationale/Description
Ultratech Cement Ltd.	4,556	5,300	16%	1,315	24.2	We are positive on Ultratech due to its strong business model, high operating margins, improving balance sheet, growing retail market share and potential for further integration & synergy benefits from its mergers & acquisitions.
Divi's Laboratories Ltd.	3,238	3,730	15%	860	38.7	We remain positive on Divi's given its strong market position, strength in API manufacturing, established long-term contract with customers and benefit form the ongoing and new capex programs.
Tata Consultancy Services Ltd	2,708	3,230	19%	10,162	27.0	Going forward, global digital technologies are expected to witness robust growth (~20% CAGR in next five years) led by robust growth in cloud, customer experience and robust growth in cloud native technologies. TCS is expected to be a key beneficiary of this trend leading to double-digit revenue growth over a sustainable period.
Hikal Ltd.	167	211	26%	21	14.0	The company sees several tail winds including additional capacity & new product pipeline to achieve 10% revenue growth along with higher margins.
Tata Consumer Products Ltd.	504	620	23%	467	44.0	TCPL remains committed to build its core businesses with focus on product launches and doubling the direct reach (1 million outlets for next 12 months). We believe TCPL remains well positioned for growth owing to its strong portfolio of products, expanding distribution network and the expected synergies from the merger with the consumer business of Tata Chemicals.
VIP Industries Ltd.	286	370	29%	40	33.7	While current macro-economic conditions is likely to keep the demand subdued in near term but owing to its strong balance sheet and being the market leader, VIP's business model has the inherent ability to tide over tough market conditions better than its peers.

Ultratech Cement Ltd. (ULTRACEMCO)

CMP: ₹4,556
Target: ₹5,300

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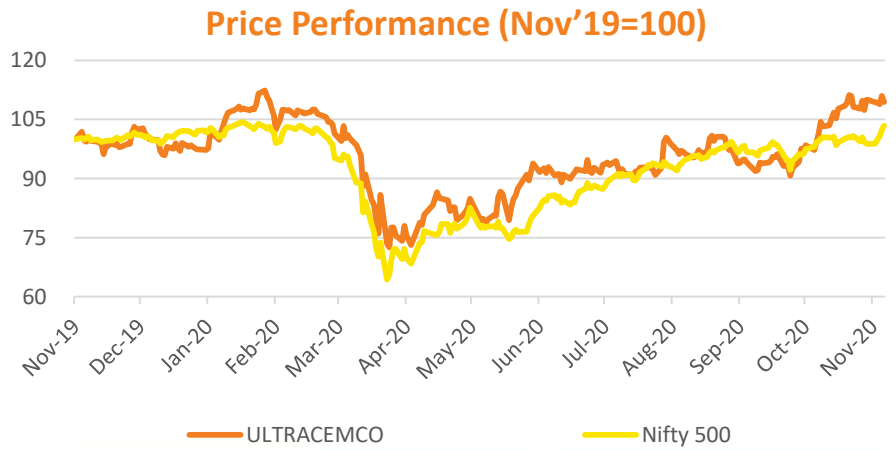
Rationale:

- Ultratech Cement Ltd is the largest manufacturer of grey cement, ready mix concrete (RMC) and white cement in India. It is also the 3rd largest cement manufacturer in the world (Ex-China). It has a consolidated capacity of 116.75 Million Tonnes Per Annum (MTPA) of grey cement, 0.68 MTPA of white cement & 0.85 MTPA of wall care putty. The company has 100+ RMC plants in 39 cities.
- Century Cement business completed 1 year of operations under Ultratech and has been fully integrated. Brand transition is likely to be completed by March 2021. The company is investing in 20 megawatt of waste heat recovery system (WHRS) power plants at two units of Century, which will result into further cost reduction and EBITDA improvement. These projects are scheduled to get commissioned by March 2022.
- Ultratech is undertaking integration efforts between acquired and existing plants, optimizing operating costs related to logistics, energy and raw material. The company reported an operating margin of 28% & EBITDA per ton of Rs.1387/ ton in Q2 FY21.
- The company has received proceeds from its divestment of China assets during the quarter and has also further reduced its net debt by ₹2,519 crores during the quarter to ₹12,132 crores. The company has a treasury surplus of ₹10,000 crores, which is generates positive carry over borrowing costs and further provides liquidity in case an opportunity for mergers & acquistions arises.
- The company's brownfield expansion plans of 3.5 - 3.4 million tonnes in West Bengal, Bihar and the greenfield Cuttack are expected to be completed in FY'22. All these expansion plans are being funded with internal accruals. The 2.3 million tonne, Dalla super clinker plant and the line to Bara plant are expected to be commissioned during the next financial year - both these assets have already been paid for. The legal clearances and work on Phase 2 Bara is in progress.
- We are positive on Ultratech due to its strong business model, high operating margins, improving balance sheet, growing retail market share and potential for further integration & synergy benefits from its mergers & acquisitions. At CMP the stock is trading at 24.2x FY22E EPS. We recommend BUY on the stock with a target price of ₹5,300 per share.

52 Week Low / High	2913.15 / 4753.35
Avg. Daily Volume (3M)	648,000
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	288.63 /1332,726
Shareholding (Promoters/Institutional/Others)	59.91% / 30.76% / 9.26%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Total Income	416,088	421,248	405,185	4,62,861
EBITDA	78103	99313	96,624	1,10,039
EBITDA Margin	18.7%	23.6%	23.8%	23.7%
PAT	23,998	58,116	42,804	53,915
PAT Margin	5.8%	13.8%	10.6%	11.6%
EPS (₹)	176.62	294.97	147.2	187.9
Debt/Equity	0.89	0.59	0.57	0.55
P/B	3.88	2.4	3.05	2.74
RoE	8.8%	17.2%	10.9%	12.4%
P/E	45.7	16.1	31.0	24.3

Source: Company, Anand Rathi Research. Note: Prices are as on 6-Nov-20



Divi's Laboratories Limited (DIVISLAB)

CMP: ₹3,238
Target: ₹3,730

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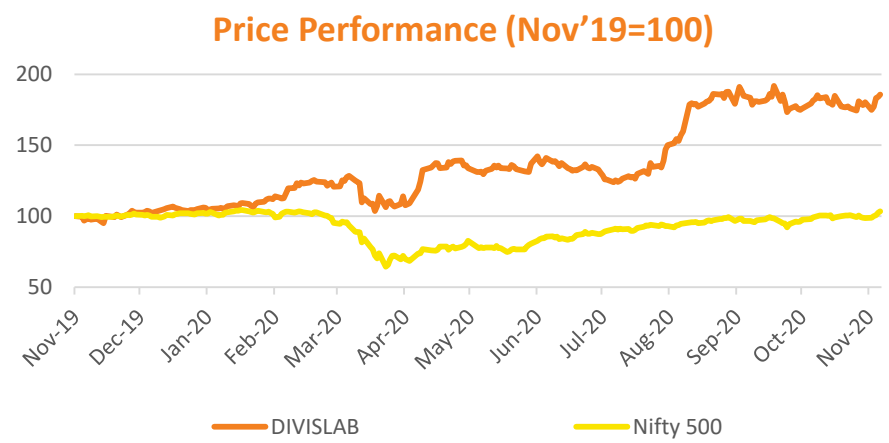
Rationale:

- Divi's Laboratories Ltd. is one of the leading manufacturers of Active Pharmaceutical Ingredients (API) in the world. The company's product portfolio comprises of two broad categories i) Generic APIs and Nutraceuticals and ii) Custom Synthesis of APIs, intermediates and specialty ingredients for innovator pharma giants. Apart from India, the company's major markets include Europe, USA and Asia. Region wise, Europe contributed 48% of FY20 revenues, America constituted 23.4%, India accounted for 13.1% while Asia and rest of the world comprised for 11.4% and 4.1% of revenues, respectively.
- During Q2FY21, the company delivered strong numbers with a revenue growth of 21% y/y to ₹17,493 million. EBITDA margins improved to 42.4% from 33.9% in Q2FY20. PAT jumped 46% y/y to ₹5,196 million.
- The company remains focused on its large capex programs (₹18 billion) which comprise two brownfield projects. As part of this capex program, Divi's recently completed debottlenecking/backward integration for intermediates to reduce dependency on supplies of raw materials from China and completed several utilities expansion projects as well. The company expects to complete the ongoing capex programs by end of FY21. Further, the company is undertaking new capex of ₹4 billion in order to meet new business opportunities in the custom synthesis projects.
- Growth prospects of Divi's look decent with favorable traits in the API industry due to supply chain readjustments/ diversification from China into other countries including India amid the COVID-19 pandemic. As global players are looking to reduce dependency on China and preferring India, companies like Divi's remain well placed to capitalize on such opportunity. Also, in custom synthesis, the company is connected with several pharma giants and looks to benefit as India may tap opportunities in terms of the consumption of custom synthesis. We remain positive on Divi's given its strong market position, strength in API manufacturing, established long-term contract with customers and benefit form the ongoing and new capex programs.
- At CMP the stock is trading at 38.7x FY22E EPS. We recommend BUY on the stock with a target price of ₹3,730 per share.

52 Week Low / High	1,626/3,389
Avg. Daily Volume (3M)	1,454
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	265/859,388
Shareholding (Promoters/Institutional/Others)	52.0%/37.1%/11.0%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Total Income	49,463	53,944	66,407	79,186
EBITDA	18,730	18,232	25,408	30,850
EBITDA Margin	37.87%	33.80%	38.26%	38.96%
PAT	13,527	13,765	18,050	22,203
PAT Margin	27.35%	25.52%	27.18%	28.04%
EPS (₹)	51.0	51.9	68.0	83.6
Debt/Equity	0.02	0.00	0.0	0.0
P/B	12.4	11.8	9.4	7.6
RoE	19.44%	18.83%	19.80%	19.59%
P/E	63.5	62.4	47.6	38.7

Source: Company, Anand Rathi Research. Note: Prices are as on 6-Nov-20



Tata Consultancy Services Limited (TCS)

CMP: ₹2,708
Target: ₹3,230

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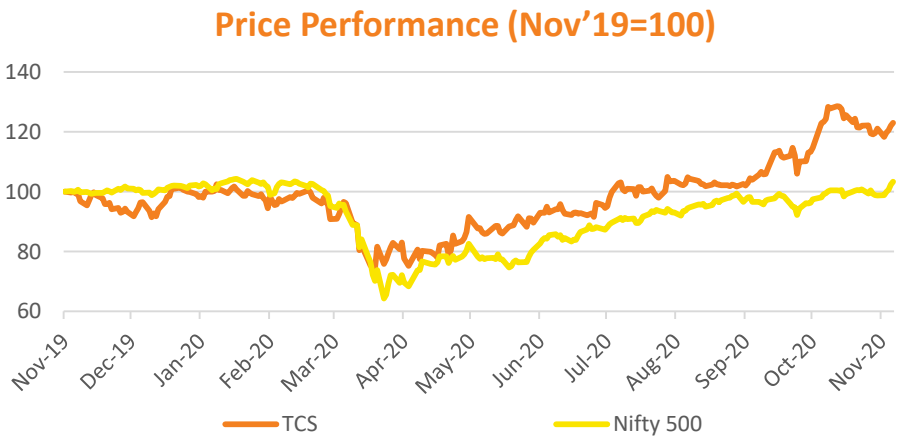
Rationale:

- TCS a division of Tata Sons Limited, is a global IT services organization that provides a comprehensive range of IT services to its clients in diverse industries.
- For the past 5-years, Company has outperformed across all verticals and geographies. Margin expansion was largely driven by revenue growth. Despite headwinds faced by the global economy, TCS continues to fare better on the back of a strong performance across regions aided by its astute cost management measures and a robust order book.
- In 2QFY21, revenues have sharply bounced back on the back of a healthy demand. The company has also seen market share gains via vendor consolidation opportunities. Further, accelerating investment in digital and core transformation will be key driver of technology in coming quarters.
- On geographical front, North America (51% of revenue) improved by 4.6% QoQ, Europe (32% of revenue) grew by 5.6% QoQ, India business grew by 20% QoQ in CC terms.
- We believe TCS has a resilient business structure from a long term perspective and multiple long term contracts with world's leading brands. With depreciation in INR, lower travel cost, lower on site expenses EBITDA margins likely to expand in near term.
- Going forward, global digital technologies are expected to witness robust growth (~20% CAGR in next five years) led by robust growth in cloud, customer experience and robust growth in cloud native technologies. TCS is expected to be a key beneficiary of this trend leading to double-digit revenue growth over a sustainable period.
- Backed by USD 8.6bn order book, TCS' growth trajectory remains robust. Furthermore, owing to the COVID-19, the digital transformation across sectors have accelerated and this will help TCS to leverage their expertise and gain more business.
- At CMP the stock is trading at 27x FY22E EPS. We recommend BUY on the stock with a target price of ₹3.230 per share.

52 Week Low / High	1,504/ 2,886
Avg. Daily Volume (3M)	1,65,112
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	3,752/ 10,159,390
Shareholding (Promoters/Institutional/Others)	72% / 24% / 4%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Total Income	1,464,630	1,569,490	1,614,000	1,795,000
EBITDA	395,060	421,090	438,019	502,213
EBITDA Margin	26.9%	26.8%	27.2%	27.9%
PAT	315,620	324,470	321,295	377,326
PAT Margin	21.5%	20.7%	19.9%	21.1%
EPS (₹)	83.9	86.3	86.1	100.4
Debt/Equity	0.02	0.1	-	-
P/B	11.4	12.1	10.9	9.8
RoE	35.3%	38.6%	35.8%	38.7%
P/E	32.3	31.4	31.5	26.9

Source: Company, Anand Rathi Research. Note: Prices are as on 6-Nov-20



HIKAL Limited (HIKAL)

CMP: ₹167
Target: ₹211

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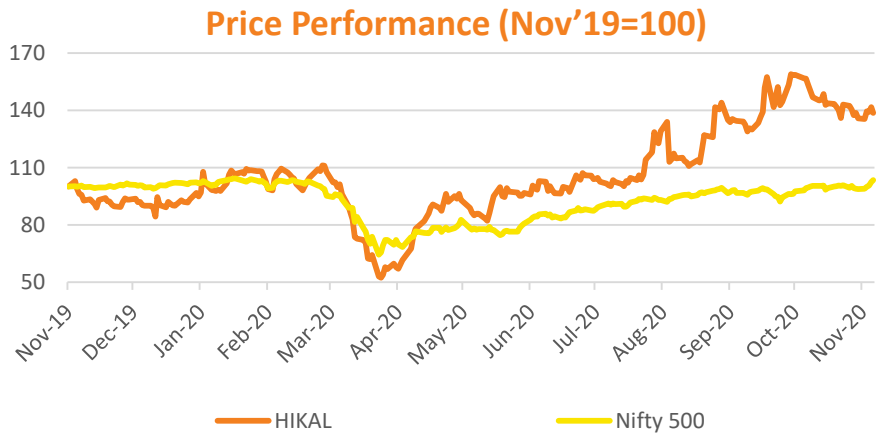
Rationale:

- Founded in 1988, Hikal Limited (HIKAL) is a Leading Sustainable Technology driven company serving the Crop Protection & Pharmaceutical Industries. The company also provides research services and custom manufacturing to its clients.
- The company's value chain includes not only having a backward integrated operations in APIs but also has expertise in Custom Synthesis and Contract Research with capabilities scaling up from Gram to Kilo and Ton level of Production.
- The company's manufacturing locations are located at Mahad, Taloja , Panoli and Bangalore while its research and technology centre is located at Pune. Over the years, the company has increased its product offerings with a foray into niche products and specialty chemicals.
- The company's existing business in export markets includes business from U.S, Europe and Japanese markets. Manufacturing large volume APIs, Intermediates and contract manufacture of molecules.
- In terms of long term strategy ex-crop protection, the company envisages to expand horizontally and gain market share in tis existing businesses while continue to add new innovator & biotech customers and expand its API facilities.
- In crop protection business, the company currently offers custom synthesis and contract manufacturing of agrochemicals, intermediates and specialty chemicals and is largest supplier of Thiabendazole (TBZ) with strong presence in Japanese markets.
- On strategy front in crop protection segment. The company continues to expand product portfolio, add value, introduce additional molecules for existing and new clients and scaleand commercialize molecules.
- The company's pharmaceutical division reported a growth of 34% YoY in Q2-FY21, driven by newly commercialised products and commissioning of additional capacity at Bangalore site, the capex plan has resumed and is going on full swing & the company is expecting commissioning of several projects during Q1-FY22.
- The company sees several tailwindsincluding additional capacity & new product pipeline to achieve 10% revenue growth along with higher margins.
- We re-iterate BUY rating on the company with a a target price of ₹ 211 per share.

52 Week Low / High	57 / 204
Avg. Daily Volume (3M)	1453
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	123.3/20979
Shareholding (Promoters/Institutional/Others)	68.8%/6.47%/24.76%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-21E
Total Income	15,896	15,072	16,138	18,898
EBITDA	3,004	2,769	2,808	3,496
EBITDA Margin	18.9%	18.4%	17.4%	18.5%
PAT	1,031	844	989	1,467
PAT Margin	6.5%	5.6%	6.1%	7.7%
EPS (₹)	8.4	6.8	8.02	11.9
Debt/Equity	0.87	0.79	0.7	0.6
P/B	2.85	1.06	2.31	2.04
RoE	14.5%	10.7%	12.1%	16.0%
P/E	20.9	10.2	20.8	14.0

Source: Company, Anand Rathi Research. Note: Prices are as on 6-Nov-20



Tata Consumer Products Limited (TATACONSUM)

CMP: ₹504
Target: ₹620

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Rationale:

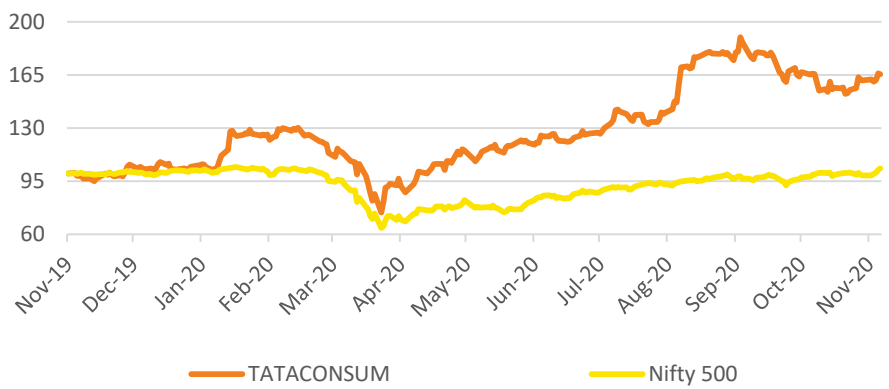
- Tata Consumer Products Limited (TCPL) is a focused consumer company with food and beverages portfolio. The company is the world's second largest branded tea company with growing coffee and water portfolio, housing key brands such as Tata Tea, Tetley, Eight O'Clock Coffee, Tata Starbucks and Himalayan water. Post merger with the consumer business of Tata Chemicals Ltd. (TCL), the company enhanced its product portfolio to offer salt, spices, pulses, snacks and nutri-supplements through Tata Salt and Tata Sampann brands.
- In the last couple of years, in order to improve effectiveness, unlock synergies, optimize costs and streamline operations, TCPL exited some of its loss making businesses and restructured its international operations. Simplifying the business structure with focus on core businesses should drive growth in long term.
- During Q2FY21, consolidated revenues increased 19% y/y to ₹27,813 million, mainly driven by volume and value growth in branded business in India. EBITDA margins improved to 14.4% from 13.4% in the previous year quarter. Consolidated net profit grew 33% y/y to ₹2,571 million. Tea prices in India has increased due to the pandemic and flood disruptions. Prices are tapering a bit, however, it is still significantly high and management remains focused on tackling such price escalation while maintaining margin and volume trajectory. In order to enable home delivery to consumers, the company has tied up with several E-commerce & Food Delivery providers. Also, it remains on track withthe integration of Foods & Beverages businesses and expects to substantially complete by Q4FY21.
- Going ahead, TCPL remains committed to build its core businesses with focus on product launches, enhancing digital capabilities and doubling the direct reach (1 million outlets for next 12 months). We believe TCPL remains well positioned for growth owing to its strong portfolio of products, expanding distribution network and the expected synergies from the merger with the consumer business of Tata Chemicals.
- At CMP the stock is trading at 44x FY22E earnings.We recommend a BUY on the stock with a target price of ₹620 per share.

52 Week Low / High	214 /592
Avg. Daily Volume (3M)	5,451
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	922/464,646
Shareholding (Promoters/Institutional/Others)	34.7%/39.3%/26.0%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Total Income	72,515	96,374	108,312	116,917
EBITDA	7,859	12,922	15,894	17,819
EBITDA Margin	10.84%	13.41%	14.67%	15.24%
PAT	4,082	4,598	8,862	10,554
PAT Margin	5.63%	4.77%	8.18%	9.03%
EPS (₹)	4.43	4.99	9.62	11.45
Debt/Equity	0.16	0.09	0.3	0.1
P/B	6.3	3.4	3.2	2.9
RoE	5.57%	3.33%	6.03%	6.70%
P/E	113.8	101.1	52.4	44.0

Source: Company, Anand Rathi Research. Note: Prices are as on 6-Nov-20

Price Performance (Nov'19=100)



VIP Industries Limited

CMP: ₹286
Target: ₹370

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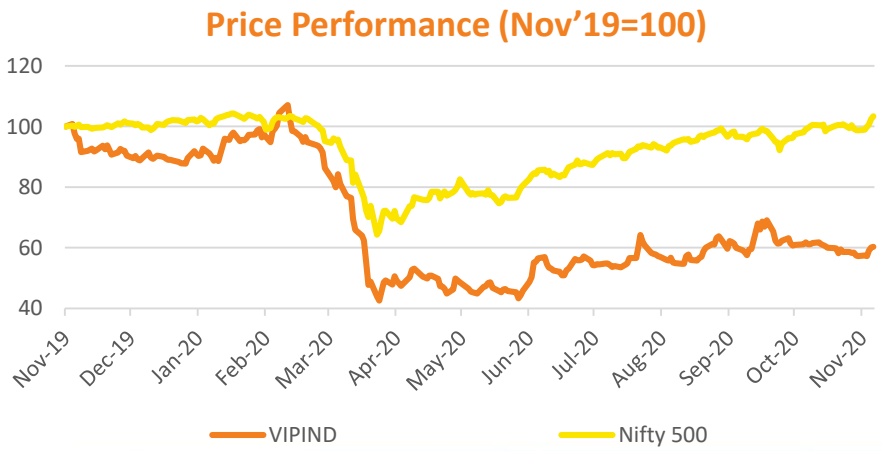
Rationale:

- VIP Industries is engaged in the business of manufacturing and marketing of luggage, bags and accessories. VIP Industries is Asia's largest and the world's second largest luggage architect, headquartered in Mumbai.
- Over the past 5-years, VIP has exhibited a decent track record in terms of revenue and margin growth but owing to the pandemic, Q4FY20 followed by Q1FY21 was a complete washout.
- Q1FY21 which is a peak quarter owing to vacations and marriage season was the weakest in the last 24 quarters due to the COVID-19. Revenue for the quarter stood at 7% of last year June quarter at `40cr. Gross Margins at 42% vs 57% in Q4FY20 were mainly lower due to higher discounts and lower sourcing from Bangladesh.
- Although the demand has been disrupted abruptly but it has been improving gradually on an account of opening of malls; increasing footfalls in malls and gradual recovery in travel & tourism. It is also expected that from Q3FY21 onwards improvement can be seen in both top-line & bottom-line due to the festive season and marriage season.
- During this pandemic time, management prime focus is "Cost Rationalization" as they achieved reduction in Fixed Overheads by 35% YoY by rationalization in Manpower Cost; eliminating all discretionary spends and by closing 100-EBOs (hardly contribute 10% of overall business).
- VIP Industries over the years, maintained healthy balance sheet. At the end of July, company net debt was nil. However, management is planning to borrow around `300Cr to have a war chest for this tough times but this money will not utilized (i.e. it has been invested).
- While current macro-economic conditions is likely to keep the demand subdued in near term but owing to its strong balance sheet and being the market leader, VIP's business model has the inherent ability to tide over tough market conditions better than its peers.
- At CMP the stock is trading at 33.7x FY22E earnings. We recommend a BUY on the stock with a target price of ₹ 370 per share.

52 Week Low / High	188/520
Avg. Daily Volume (3M)	50,620
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	141/40,450296
Shareholding (Promoters/Institutional/Others)	53.5%/18%/28.5%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Total Income	17,846	17,183	7,803	14,974
EBITDA	2,263	2,930	216	2,645
EBITDA Margin	12.7%	17.1%	2.8%	17.7%
PAT	1,453	1,117	399	1,201
PAT Margin	8.2%	6.5%	-5.1%	8.1%
EPS (₹)	10.3	7.91	-4.87	8.49
Debt/Equity	0.02	0.32	0.35	0.30
P/B	7.0	6.6	7.4	5.8
RoE	25%	18.3%	-8.4%	20.2%
P/E	27.8	36.2	-58.7	33.7

Source: Company, Anand Rathi Research. Note: Prices are as on 6-Nov-20



Diwali Picks 2019 Performance (17th Oct 2019)

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Company	Reco	Target	CMP/Exit	Hi/Lo for Period	Status	Return	Booked on Date	Nifty500 Return	Alpha Return	Annualized Return
Nippon Life Asset Management Ltd.	260	321	319	453 / 208	Closed	23%	05-Feb-19	-4%	26%	86%
Reliance Industries Limited	1,350	1566	1600	2369 / 867	Closed	19%	02-Dec-19	4%	14%	12%
Indraprasth Gas Ltd.	370	450	445	534 / 284	Closed	20%	15-Jan-20	7%	13%	10%
Hindustan Unilever Limited	2,079	2422	2565	2614 / 1757	Closed	23%	08-Apr-20	-24%	47%	31%
Return on closed Calls						**21%**				
ICICI Pru Life Insurance Limited	465	570	418	537 / 226	Open	-10%	-	7%	-17%	-17%
Bharat electronics Limited	112	135	92	118 / 56	Open	-18%	-	7%	-24%	-24%
Total Return						**10%**				**16%**

Status of open calls:

In our last Diwali picks we have closed three calls in profit and three stocks have remained open. The open stock picks witnessed few uncertain business events due to unprecedented slowdown in automobile sector and liquidity crisis in NBFC space leading to funding squeeze to most of the related businesses. This resulted in delay in growth of our subject companies. We continue to monitor our recommended companies and review our recommendations accordingly. In this case, we continue to remain positive on long term growth prospects of these three open stock calls.

Bharat Electronics Limited:

- In Q2FY21, the company reported 16% year over year (y/y) growth in consolidated revenue from operations to ₹31,952 million. Consolidated net profit increased 16% y/y to ₹3,990 million in the quarter. The order book position of the company as on Oct 1, 2020 stood at ₹521,480 million.

- We believe over the long term, the company remains well positioned for growth given its strong order book position, expertise in executing complex projects, healthy client base, cost reduction efforts and diversification initiatives. Additionally, Ministry of Defence has decided to ban import of 101 weapons progressively from 2020 to 2024, to boost domestic defence industry. BEL, being a major supplier of products and turnkey systems to the Indian Defence Forces, is likely to benefit from such favorable government initiatives.

ICICI Prudential Life Insurance Company Ltd. (IPRU):

- IPRU reported 6.6% y/y growth in gross premium to ₹87.33 billion in Q2FY21, mainly driven by renewal growth while new business premium growth largely remained flat. Profit after tax was flat y/y at. ₹3.02 billion.

- We remain optimistic on IPRU given its continued focus on diversifying product mix with increasing share of margin accretive protection business, focus on improving Value of New Business margin, ongoing investments in its multi-channel distribution platform with greater thrust on digitization, cost management efforts, healthy capital position and benefit from the significant under penetration in domestic life insurance industry.

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Ratings Methodology

- Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Billion) and Mid/Small Caps (<₹300 Billion) or SEBI definition vide its circularSEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

Disclaimer:

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