Choice Equity Broking Private Limited

CHOICE TOP PICKS FEB 2023

Choice

ICICI Bank

Recommendation: OUTPERFORM

Feb 23, 2023

Brief About the company:

ICICI Bank (ICICIBC IN) is the second largest private sector bank with the business size of Rs20,960 bn as of Dec'2022. The bank provides banking services through the pan India network of 5,700 branches. As of Dec'2022, advances book stood at Rs9,740 bn which is majorly dominated by the retail book with the share of ~63%. Over FY19-22, advances book of the bank grew by a CAGR of 13.6% while deposits at 17.7% CAGR. ICICIBC represents ~6.6% share in the industry's deposits and ~7.5% shares in the industry's advances as of Dec'2022.

Key Rationale:

- **Well placed to witness high credit growth:** ICICIBC has been recording over 17% YoY loan growth over the last 7 quarters. With the strong liability franchise, focus on tech driven growth and BS strength, the bank is expected to remain one of the major beneficiaries of the higher credit growth cycle in economy. Loan growth is expected to pick up to 16.8% CAGR over FY22-25E v/s 13.6% CAGR over FY19-22.
- **NIM to upgrade over 4.0%:** Increased share of high yielding assets , CASA share >45% and strong loan growth to support margin. NIM is likely to remain at the healthy level over 4% over the coming fiscals which in turn will continue to support the robust growth trend in core PPOP. ICICIBC reported over 20% growth in core PPOP over the last 8 quarters.
- **Strong earning trend to continue:** Earning growth is expected to remain robust on the back of likely strong growth in core PPOP, low credit cost and also boosted by higher loan growth. RoE is expected to remain at healthy level over 16.5% during the forecasted fiscals.
- **View & Valuation:** On the back of strong core performance, ICICIBC is expected to deliver robust earnings growth over the FY22-25E which will drive RoE over 16.5% during the forecasted period. Bank's BS remains resilient with low stress in book and higher standard assets provisioning. We assigned **'OUTPERFORM'** rating on ICICIBC with target price of Rs1,075 valuing core banking business P/Adjusted Book Value at 2.8x Sep'2024E. Bank's subsidiaries are valued at Rs150 per share.

Financial Snapshot (Rs bn)

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
NII	390	475	606	680	778
Gr. (%)	17.2	21.7	27.6	12.2	14.5
NIM	3.7	3.9	4.3	4.2	4.2
PPOP	364	393	488	581	664
A.PAT	162	233	314	355	405
Eq./As. (%)	12.0	12.1	12.1	12.1	12.1
RoE (%)	12.3	14.7	17.1	16.8	16.6
CASA(%)	46.3	48.7	49.2	48.9	48.7
GNPA (%)	5.3	3.8	3.4	3.2	3.1
P/ABV (x)			3.2	2.7	2.4

Source: Company, CEBPL

CMP (Rs)	**840**
Target Price (Rs)	**1,075**
Potential Upside (%)	**28.0**
Classification	**Large Cap**

Company Info

BB Code	ICICIBC IN
ISIN	INE090A01021
Face Value (Rs)	2
52 Week High (Rs)	958
52 Week Low (Rs)	642
Mkt Cap (Rs bn)	5,880
Mkt Cap ($ bn)	72
Shares o/s (bn)	7.1
FY22 ABVPS (Rs)	231
FY25E ABVPS (Rs)	350

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	-	-	-
FPIs'	44.5	44.8	43.5
DIIs'	45.1	45.0	45.3
Public	10.2	10.2	10.9

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AXIS Bank

Recommendation: OUTPERFORM

Feb 23, 2023

CMP (Rs)	**844**
Target Price (Rs)	**1,205**
Potential Upside (%)	**42.8**
Classification	**Large Cap**

Brief About the company:

Axis Bank (AXSB IN) is the third largest private sector bank in India. As of Dec'2022, business size of the bank stood at Rs16,103 bn. Over FY19-22, advances of the bank grew by a CAGR of 12.7% and deposits grew by a CAGR of 14.4%. As of Sep'2022, AXSB represents ~5.0% market share in the industry's deposits and ~6.0% in the industry 's advances. Advances book of the bank stood at Rs7,621 bn which is dominated by retail at 60%, followed by corporates at 30% and SME at 11%. GNPA/NNPA improved to 2.38%/0.47% in Q3FY23 v/s 2.50%/0.51% in Q2FY23.

Key Rationale:

- **Loan growth to pick-up:** AXSB is expected to deliver healthy loan growth of 16.1% CAGR over FY22-25E as compared to 12.7% over FY19-FY22E. Increase in productivity at branch level and digital focus is aiding to higher disbursements and new customers acquisition trend remains strong across segments. Credit book growth is likely to be driven by focus on high yielding retail products, MSMEs and mid corporates.

- **NIM trajectory to upgrade –** We expect NIM trajectory of the AXSB to upgrade to ~3.9% over FY23E-25E from the historical range of 3.3-3.5%. Increasing share of high yielding assets, management focus on risk adjusted return and strong loan growth amidst high interest rate scenario are likely to provide boost to margin.

- **Management's focus on consistent and sustained earning, higher margin and RoE drive optimism –** With the likely strong earnings growth, ROE is expected to improve over 400 bps during the forecasted period to >16.5% from 12.0% in FY22.

- **View & Valuation:** With the likely upgrade in NIM trajectory to ~3.9%, focus on core performance improvement and low credit cost, earning growth is expected to remain strong over the next two fiscals. Assets quality issues seems over as the stress in the book declined significantly while the bank created a healthy provisioning buffer to the tackle future uncertainties. We assigned **'OUTPERFORM'** rating on AXSB with target price of Rs1,205 per share. We value the core banking business at Rs1,145 of 2.1x Sep'2024E P/Adjusted Book and subsidiaries are valued at Rs60 per share.

Financial Snapshot (Rs bn)

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
NII	292	331	430	494	570
Gr. (%)	16.0	13.3	29.9	14.9	15.3
NIM (%)	3.5	3.4	3.8	3.9	3.9
PPOP	257	250	326	411	476
A.PAT	66	130	214	248	280
Eq./As. (%)	10.3	9.8	10.2	10.4	10.5
RoE (%)	7.1	12.0	17.1	17.0	16.5
CASA(%)	45.5	45.0	44.6	44.3	43.6
GNPA (%)	4.0	3.2	2.5	2.3	2.2
P/ABV (x)			2.2	1.9	1.6

Source: Company, CEBPL

Company Info

BB Code	AXSB IN EQUITY
ISIN	INE238A01034
Face Value (Rs)	2
52 Week High (Rs)	970
52 Week Low (Rs)	618
Mkt Cap (Rs bn)	2,596
Mkt Cap ($ bn)	32
Shares o/s (bn)	3.1
FY22 ABVPS (Rs)	355
FY25E ABVPS (Rs)	577

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	8.2	9.7	9.7
FPI's	49.5	46.1	46.6
DII's	31.5	32.3	31.5
Public	10.8	11.9	12.3

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Grasim Industries Ltd.

Recommendation: OUTPERFORM

Feb 23, 2023

Brief About the company:

Grasim Industries Limited, the flagship company of the global conglomerate Aditya Birla Group, has evolved from a textiles manufacturer into a leading diversified player with leadership presence across many sectors. It is a major global producer of Viscose Staple Fibre (VSF) and the largest Chlor-Alkali Chemicals, Linen and Insulators player in India. Through its subsidiaries UltraTech Cement and Aditya Birla Capital, it is also India's largest cement producer and a leading diversified financial services player. Moreover, it has forayed in decorative Paints business and B2B E-commerce business, which are segments where we believe Grasim to have inherent advantages.

Key Rationale:

- **VSF and VSY business:** Grasim is historically a major player in this segment. However, VSF sales volume is getting impacted in recent quarters due to increasing imports from Indonesia impacting volumes, resulting in lower capacity utilisation. VFY also faces demand challenges due to decreased demand from downstream value chain. VSF EBITDA margins are under pressure due to lower prices coupled with increased cost of key inputs (Pulp, Caustic Soda & Energy).
- **Chemicals business:** While this business is getting impacted by normalisation of margins in speciality chemicals, caustic soda volumes are continuing strongly. Chlorine realisation continues to stay negative due to over-supply; however, as of Feb 2023, the Board has approved an investment of Rs.3,630 Mn. for Chlorine derivatives projects in the Chemicals business. Chlorine Integration should reach 72% post commissioning, leading to improvement in topline and margins.
- **Newer segments get impetus:** Advanced Material business is reporting progress, while company has been progressing on its ~Rs. 10,000 crore entry into the paints business (which we expect to be a major booster from FY25 onwards). The construction progress remains on track across all six paint plant locations, while the state-of-the-art R&D facility has been commissioned to develop innovative products; the commercial launch is scheduled for Q4FY24. Grasim also has progressed on developing a B2B e-commerce platform for Building Materials, where it will leverage on its existing activities and strong India network- most of the senior leadership has joined, while hiring for the next level and shortlisting of partners (sourcing, logistics, vendors, etc.) to provide an integrated fulfilment experience to customers is in progress.
- **Subsidiaries performing well:** UltraTech Ltd. is currently working at a strong ~83% utilisation of its ~136MnT capacity. Moreover, it is working on capacity expansion, upon completion of which its capacity would grow to 159.25 mtpa. Financial Services Subsidiary Aditya Birla Capital Limited (ABCL) is showing accelerated growth momentum across its businesses- for example, ABCL added 1.4mn customers during the quarter, taking the active customer base to ~43mn.
- **Outlook On Valuation:** Visible progress in E-Commerce and Paints poise company well for a rerating. While the new paints business may take time to get established, and rising interest rates may impact growth, we have better greater visibility of future earnings. Hence, we value Grasim on SOTP basis to arrive at a 12 month TP of Rs.1,888 (Grasim's standalone business at Rs.721/share + 50% holding company discount to investment at Rs.1,167/share).

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	1,23,864	2,08,568	2,68,733	3,22,991	5,06,627
EBITDA (INR Mn.)	15,643	32,162	41,010	51,654	73,962
EBITDA Margin (%)	12.6	15.4	15.3	16.0	14.6
Net Profit (INR Mn.)	9,050	30,513	24,895	27,876	43,178
Adj. EPS (INR)	13.8	46.4	37.8	42.4	65.6

Source: Company, CEBPL

CMP (Rs)	**1578**
Target Price (Rs)	**1888**
Potential Upside (%)	**19.7**
Classification	**Large Cap**

Company Info

BB Code	GRASIM IN EQUITY
ISIN	INE047A01021
Face Value (Rs.)	2.0
52 Week High (Rs.)	1839.5
52 Week Low (Rs.)	1272.6
Mkt Cap (Rs bn.)	1,040.5
Mkt Cap ($ bn.)	12.6
Shares o/s (Mn.)/F.Float	658.4M/321.1M
TTM EPS (Rs)	47.1
EPS FY25E (Rs)	65.6

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	42.8	42.8	42.8
FII's	12.6	12.0	11.5
DII's	16.5	21.0	19.2
Public	28.1	24.2	26.5

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Nuvoco Vistas Ltd.

Recommendation: OUTPERFORM

Feb 23, 2023

CMP (Rs)	**360.1**
Target Price (Rs)	**428**
Potential Upside (%)	**18.9**
Classification	**Small Cap**

Brief About the company:

Nuvoco Vistas Corporation Limited (NVCL) is the 5th largest cement company in India and the largest in East India with a consolidated capacity of ~25mtpa. Nirma group forayed into the cement business in 2014 through a greenfield cement plant in Nimbol- thereafter, the cement business grew through the acquisition of the Indian cement business of LafargeHolcim in 2016 and NU Vista, formerly Emami Cements in 2020. Currently NVCL has 11 cement plants comprising of five integrated units, five grinding units and one blending unit. Strategic location and connectivity to the key markets of East India and North India provides competitive advantage to NVCL.

Key Rationale:

- **Company focusing on margin improvement; capacity expansion could occur post FY24:** Management has assured that it will be focusing in the near term on improving profitability. However, capacity expansion may be looked into post FY24.
- **Product mix is shifting towards value-added products:** These products have been steadily improving as a percentage of sales (32% in Q3FY23). Company has focused on individual home-builders by launching a direct-to-consumer home app "Nuvo Nirmax" which covers a wide range of information and guidance throughout the home building stages, besides introducing express vehicles to provide on-site service to customers- these initiatives will further strengthen brand and enhance retail reach. Cement demand is expected to improve over next few quarters on account of robust Union budget as well as upcoming elections. We conservatively forecast average utilization rate to reach 85% by FY24-25, leading to a revenue growth CAGR of 10% (Volume CAGR of 7%, average realization CAGR of 3%) from TTM to FY25.
- **East Region has witnessed healthy double-digit demand growth**: this Q-o-Q and Y-o-Y growth has been driven by housing and rural segments, coupled with lower base effect of last year. Hence, we feel it possible that company increase utilisation and touch production of 22-23MTPA by FY25 (TTM volumes were 18.8MTPA). Organic growth prospects beyond this seem limited, at least for the next 2-3 years (and company has provided no guidance on inorganic growth plans), but there seems to be headroom for good EPS growth due to efficiency improvements
- **Management is focusing on improving operations**: Management has implied that it should work in the future on capacity expansion, once it has cleaned its balance sheet. Management understands that further price hikes remain essential to mitigate the impact of soaring costs and is working towards premiumisation and geo-optimisation. Management says that next phase of growth is planned in North and West India and that an update shall be provided quarter on quarter.
- **View & Valuation:** We have incorporated effects of sales increase and margin improvement efforts in our forecasts. We value the company at 8.5x FY25E EBITDA and ascribe a target price of Rs. 428, encouraged by visibility of margin growth as well as operational improvement.

Company Info

BB Code	NUVOCO IN EQUITY
ISIN	INE118D01016
Face Value (Rs.)	10
52 Week High (Rs.)	475
52 Week Low (Rs.)	260
Mkt Cap (Rs bn.)	129.0
Mkt Cap ($ bn.)	1.6
Shares o/s (Mn.)/F.Float (%)	357.2/100.8
TTM EPS (Rs)	-4.4
EPS FY24E (Rs)	12.4

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	71.79	71.78	71.72
FII's	3.08	2.99	3.65
DII's	20.16	19.67	19.06
Public	4.97	5.55	5.57

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	74,888	93,180	1,10,957	1,27,976	1,44,174
EBITDA (INR Mn.)	14,605	14,967	13,473	17,705	19,848
EBITDA Margin (%)	19.5	16.1	12.1%	13.8%	13.8%
Net Profit (INR Mn.)	(259)	321	(700)	4,418	6,744
Adj. EPS (INR)	(0.8)	0.9	(2.0)	12.4	18.9

Source: Company, CEBPL

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Godrej Properties Ltd. (GPLTD) Recommendation: OUTPERFORM

Feb 23, 2023

Brief About the company:

GPLTD is currently developing residential projects of estd. 89.7 mn. sq.ft. The strongest pan-India residential real estate player, GPLTD has a track record of appointing the best designers, architects and contractors within India and around the globe to create high quality developments. We believe that the stock is the best player in a growing market that has been beaten down below fair value due to lumpiness of its cash flows. Even in current scenario of high interest rates, sustained increases in projects is offseting rising debt- growth and margin outlook remain strong.

Key Rationale:

- **Strong brand:** The strength and track record of the "Godrej" brand and its association with trust, quality, and reliability help GPLTD in many aspects of its business, including financing, sales, and also entering into joint development agreements, expansion into new cities and markets and formulation of business associations. GPLTD's binding arrangements with Godrej & Boyce (G&B) to be the development manager for G&B's lands in Vikhroli provides a massive opportunity to earn fees with limited capital deployment. Further, association with the Godrej Group provides access not only to several other land parcels owned by Godrej Group companies, while strong Godrej reputation also makes it a partner of choice for JV/JD with other landowners, as well as ability to raise funding for land acquisitions at lowest rates which ensure that it will be able to launch its current 213 mn sq feet of developable area within the foreseeable future, besides having visibility for future growth (via Godrej group pan-India land bank, and future land acquisitions).
- **Outright purchase of land beong favoured:** GPLTD's business model is veering from asset-light JV-JD model to outright purchasing of land and full ownership and development of project (which allows Godrej to have full control on the project and hence ensure it meets GPL quality standards). Valuations of land are at attractive levels, given the stress the industry has undergone over this down cycle over the past eight years, hence the outright purchase of land is being preferred by GPL. There are good land deals available in the market, making land acquisitions value accretive for the company and giving revenue-visibility for the next 5-6 years. Besides mid-income residential (flats in Rs.0.5-2cr range), GPLTD has also ventured into plotted developments in Tier-2 cities which exhibit good sales potential.
- **Strengthening Cash Flow to aid growth:** OCF is expected to pick up strongly in FY24 on back of multiple projects in multiple micromarkets, including launches on Vikhroli land. Management expects Q4 to show strong performance.
- **Strong earnings visibility to materialise within next 2 years:** We have valued GPLTD using NPV methodology. We have increased discount rate keeping in mind increased interest rates and increasing debt requirement for company's wholly owned projects- but see substantial upside from current levels, as we believe that 45 mn sq.ft. should be delivered in 2-2.5 years, which allows good PnL visibility. We ascribe a SOTP-based TP of Rs. 1762.

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	7649	18249	25,548	38,322	61,316
EBITDA (INR Mn.)	(3334)	1332	701	3,315	5,304
EBITDA Margin (%)	-	7.3	2.7	8.6	8.7
Net Profit (INR Mn.)	(1900)	3513	7,102	7,862	14,150
Adj. EPS (INR)	(7.0)	12.6	25.5	28.3	50.9

Source: Company, CEBPL

CMP (Rs)	**1094**
Target Price (Rs)	**1762**
Potential Upside (%)	**61**
Classification	**Mid Cap**

Company Info

BB Code	GPL IN EQUITY
ISIN	INE484J01027
Face Value (Rs.)	5.0
52 Week High (Rs.)	1792
52 Week Low (Rs.)	1129
Mkt Cap (Rs bn.)	303.8
Mkt Cap ($ bn.)	3.7
Shares o/s (Mn.)/F.Float (%)	278/42
TTM EPS (Rs)	15.1
EPS Sep-24E (Rs)	50.9

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	58.48	58.48	58.43
FII's	27.41	27.50	27.73
DII's	4.56	4.54	4.92
Public	9.55	9.48	8.92

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Sun Pharma Industries

Recommendation: ADD

Feb 23, 2023

Brief About the company:

Sun Pharmaceutical Industries Ltd is the fourth largest specialty generic company globally which is engaged in the business of manufacturing, developing, and marketing a wide range of Specialty products, branded generics, generics & APIs. t offers medicines in all forms of dosages i.e. injectables, sprays, ointments, creams, liquids, tablets, and capsules. It has a diversified revenue base in which India contributes c.33%, the US has a share of c.30%, Emerging markets- c.18%, and the remaining from ROW.

Key Rationale:

- **Improving traction in the specialty portfolio:** Global specialty revenue recorded a growth of 21.6% YoY (ex-milestone) which accounted for 16.5% of overall sales. The company will continue to focus on expanding the global specialty business through the addition of products in dermatology and increasing its footprint in new markets.

- **Strong ANDA pipeline:** The company is building a niche ANDA pipeline that provides good visibility for earnings growth. The current growth of Winlevi & Illumya (key product) will be sustained on the back of improved access and expansion into other markets and the company is increasing its R&D expenditure consciously in order to develop a strong specialty and generic R&D pipeline.

- **India growth story:** The India business will continue to outperform the IPM by increasing revenue in key therapeutic areas (through new launches), improving market share, and improving overall productivity.

- **Valuation:** The company is expected to yield Revenue/EBITDA/PAT CAGR of 11.6%/11.6%/15.9% between FY22-25E. We value the stock based on Sep-24E EPS to arrive at a target price of INR 1,142 (valuing at 28x).

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	3,34,982	3,86,545	4,40,870	4,79,867	5,37,400
Gross Profit (INR Mn.)	2,48,082	2,83,029	3,28,799	3,57,182	4,00,601
EBITDA (INR Mn.)	84,917	1,03,977	1,17,046	1,28,046	1,44,530
EBITDA Margin (%)	25.3	26.9	26.5	26.7	26.9
Adj. EPS (INR)	26.8	28.1	35.2	37.7	43.8

Source: Company, CEBPL

CMP (Rs)	**973.4**
Target Price (Rs)	**1,142**
Potential Upside (%)	**17.3**
Classification	**Large Cap**

Company Info

BB Code	SUNP IN EQUITY
ISIN	INE044A01036
Face Value (Rs.)	1
52 Week High (Rs.)	1,071.9
52 Week Low (Rs.)	789.7
Mkt Cap (Rs bn.)	2,335.5
Mkt Cap ($ bn.)	29.1
Shares o/s (Mn.)/F.Float (%)	2,399/45
TTM EPS (Rs)	35.1
EPS Sep-24E (Rs)	40.8

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	54.48	54.48	54.48
FII's	16.87	16.00	14.95
DII's	19.08	19.64	19.66
Public	9.58	9.86	10.91

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Dr. Reddy's Labs

Recommendation: OUTPERFORM

Feb 23, 2023

Brief About the company:

Dr. Reddy's Laboratories Ltd is a leading India-based pharmaceutical company that offers a portfolio of products and services, including Active Pharmaceutical Ingredients (APIs), Custom Pharmaceutical services (CPS), generics, biosimilars, and differentiated formulations. The global generic segment which contributes c.87% of the revenue benefits from its expertise in active ingredients, product development skills, a keen understanding of regulations and intellectual property rights & streamlined supply chain.

Key Rationale:

- **Strong product launch run-rate in the US:** Healthy launches of up to 36 products till FY24 to achieve double-digit growth and offset price erosion. US revenue was up 6.8% QoQ which was largely due to higher-than-expected sales of Revlimid which is expected to continue to be meaningful in the coming quarters.

- **Breaching the sustainable EBITDA margin:** The company is successfully breaching the sustainable EBITDA margin of 25% and continuing the momentum in the coming quarters on the back of softening of raw material costs, off-setting price erosion through new launches, cost improvement programs, sourcing alternate suppliers and increasing plant yield.

- **Ploughing back the cash flows into the business:** Dr. Reddy is actively making investments in a few businesses that could see long-term growth. It will continue to focus on investing in R&D to build a healthy pipeline of new products across the markets including the development of products in the biosimilars and generics businesses and they are actively constructing a global pipeline of biosimilars and actively developing immune-oncology, and building up a Nutraceuticals portfolio, vaccines, CDMO, and digital healthcare platforms.

- **Valuation:** The company is expected to yield Revenue/EBITDA/PAT CAGR of 12.8%/31%/36.6% between FY22-25E. We value the stock based on Sep-24E EPS to arrive at a target price of INR 5,031.

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	1,90,475	2,15,452	2,52,583	2,80,368	3,08,965
Gross Profit (INR Mn.)	1,29,686	1,41,030	1,74,308	1,95,897	2,18,158
EBITDA (INR Mn.)	38,699	37,677	67,150	75,619	84,685
EBITDA Margin (%)	20.3	17.5	26.6	27.0	27.4
Adj. EPS (INR)	117.3	131.2	284.8	294.3	334.6

Source: Company, CEBPL

CMP (Rs)	**4,465**
Target Price (Rs)	**5,031**
Potential Upside (%)	**12.7**
Classification	**Large Cap**

Company Info

BB Code	DRRD IN EQUITY
ISIN	INE089A01023
Face Value (Rs.)	5
52 Week High (Rs.)	4,645
52 Week Low (Rs.)	3,655
Mkt Cap (Rs bn.)	743.6
Mkt Cap ($ mn.)	9295
Shares o/s (Mn.)/F.Float (%)	1489.8/73
TTM EPS (Rs)	218.9
EPS Sep-24E (Rs)	314.5

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	26.69	26.71	26.71
FII's	27.29	26.26	25.87
DII's	23.38	24.69	25.18
Public	22.64	22.06	21.96

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Infosys Ltd.

Recommendation: OUTPERFORM

Strength in digitization capabilities will drive superior growth

Feb 23, 2023

CMP (Rs)	**1,551**
Target Price (Rs)	**1,807**
Potential Upside (%)	**16.5**
Classification	**Large Cap**

Brief About the company:

Infosys is a leading provider of consulting, technology, outsourcing and next-generation digital services, enabling clients around the world to create and execute strategies for their digital transformation. The company also provides digital marketing, artificial intelligence, automation, analytics, engineering services, and Internet of Things services among others. Its subsidiary Infosys BPM provides business process outsourcing services. Infosys makes almost all of its sales overseas, with North America accounting for more than 60% of the total. Key industries served by the company are financial services, insurance, manufacturing, telecom, retail, and consumer goods.

Key Rationale:

- Increasing market share in digitization to drive revenue momentum: CIER estimates depict that Infosys's continuing investments over the last four years to scale the digital capabilities, have positioned it well to participate in the upcoming technology up cycle. Our estimates indicate revenues to grow at c.14.3% CAGR between FY22-25E driven by increased deal win visibility (TTM TCV of $10Bn at 8 quarter high) & increased share of digital revenues.
- Employee yield expected to improve on back of moderating attrition and improving utilization levels along with cost optimization benefits will lead to potentially higher operating earnings.
- Valuation discount to TCS expected to further reduce on faster earnings growth. Infosys is currently trading at a 12m forward PE of 22x. However, compared to TCS, the current valuation discount is c.15%; given the EBIT growth differential turning positive over the next few quarters, we expect the valuation discount to further reduce in the coming quarters

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	10,04,730	12,16,410	14,95,094	18,13,475	21,60,899
Gross Profit (INR Mn.)	3,50,580	4,14,000	4,54,019	5,55,294	7,02,704
EBIT (INR Mn.)	2,46,220	2,80,150	3,21,112	4,07,273	5,21,057
EBIT Margin (%)	24.5	23.0	21.5	22.5	24.1
EPS (INR)	45.6	52.5	58.4	70.3	90.1

Source: Company, CEBPL

Company Info

BB Code	INFO IN EQUITY
ISIN	INE009A01021
Face Value (Rs.)	5
52 Week High (Rs.)	1,954
52 Week Low (Rs.)	1,355
Mkt Cap (Rs bn.)	6,431.8
Mkt Cap ($ bn.)	77.8
Shares o/s (Mn.)/F.Float (%)	4,417.7/74.1
TTM EPS (Rs)	56.3
FY24E EPS (Rs)	70.3

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	15.1	15.2	13.1
FII's	36.3	36.2	31.7
DII's	32.5	32.1	18.9
Public	16.1	16.5	36.3

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LTI Mindtree Ltd.

Recommendation: OUTPERFORM

1+1 will be greater than 2

Feb 23, 2023

CMP (Rs)	**4,860**
Target Price (Rs)	**6,010**
Potential Upside (%)	**23.7**
Classification	**Large Cap**

Brief About the company:

LTIMindtree is a global technology consulting and digital solutions company that enables enterprises across industries to digitize business models, accelerate innovation, and maximize growth by harnessing digital technologies. As a digital transformation partner to more than 700 clients, LTIMindtree brings extensive domain and technology expertise to help drive superior competitive differentiation, customer experiences, and business outcomes in a converging world. The company is supported by almost 90,000 employees across more than 30 countries, LTIMindtree — a Larsen & Toubro Group company — combines the industry-acclaimed strengths of erstwhile Larsen and Toubro Infotech and Mindtree in solving the most complex business challenges and delivering transformation at scale.

Key Rationale:

- The company is expected to enjoy synergies from the merger and benefit from vendor consolidation. The management is ready with a roadmap to realize the revenue and cost synergies presented by the merger which includes further diversification of offerings, cross selling, up selling and cross pollination of learnings and capabilities, in order to gain wallet share across LTIMindtree's expanded portfolios and achieve pyramid optimization, working capital efficiencies, inorganic growth advantages and operating leverage resulting from scale.
- Operating margins were negatively impacted by the merger due to integration costs. However, management strongly believes that this is a one time phenomenon and margins will gradually normalize in FY24 and pick up strongly hence forth. Effort mix should be tilted towards offshore (~85%) and reduction in attrition resulting in lower employee costs will further aiding favorable margin tailwinds.
- We expect strong revenue growth across key verticals, particularly BFSI and Manufacturing along with margin improvement will help the company earn revenue cagr of c.24% and EPS cagr of c.29%. We ascribe a 12 month TP of Rs 6,010 implying 30x FY24E EPS of Rs.202 and 24x FY25E EPS of Rs.252).

Financial Snapshot

Year end: March	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	2,61,087	3,36,033	4,18,620	5,17,575
Gross Profit (INR Mn.)	77,604	97,103	1,27,750	1,56,834
EBIT (INR Mn.)	46,515	53,457	74,586	93,690
EBIT Margin (%)	17.8	15.9	17.8	18.1
EPS (INR)	133.7	149.9	201.6	251.8

Source: Company, CEBPL

Company Info

BB Code	LTIM IN EQUITY
ISIN	INE214T01019
Face Value (Rs.)	1.0
52 Week High (Rs.)	6,525
52 Week Low (Rs.)	3,733
Mkt Cap (Rs bn.)	1,435.7
Mkt Cap ($ bn.)	17.4
Shares o/s (Mn.)/F.Float (%)	295.8/30.9
TTM EPS (Rs)	148.9
FY24E EPS (Rs)	201.6

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	68.7	74.0	74.0
FII's	9.2	8.1	8.4
DII's	10.4	8.1	8.1
Public	11.7	9.8	9.5

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L&T Technology Services

Recommendation: OUTPERFORM

SWC acquisitions invites vast opportunistes amid robust demand environment

Feb 23, 2023

CMP (Rs)	**3,710**
Target Price (Rs)	**4,400**
Potential Upside (%)	**18.6**
Classification	**Mid Cap**

Brief About the company:

L&T Technology Services Limited (LTTS) is a listed subsidiary of Larsen & Toubro Limited focused on Engineering and R&D (ER&D) services. It offers consultancy, design, development and testing services across the product and process development life cycle. The customer base includes 69 Fortune 500 companies and 57 of the world's top ER&D companies, across industrial products, medical devices, transportation, telecom & hi-tech, and the process industries. Headquartered in India, the company has over 21,600 employees spread across 22 global design centers, 28 global sales offices and 91 innovation labs as of December 31, 2022. A few of notable clients include BMW, Airbus, United Technologies Corp. and P&G.

Key Rationale:

- The acquisition of Smart World and Communication (SWC), a subsidiary of L&T, open up the opportunities for cross-selling services amongst existing as well as new clients. The management has described the acquisition as one that aligns with its bets in 5G, Digital Products AI and Sustainability . LTTS seeks to turn around SWC's existing systems integrator business and make it a master software solutions player. This will enable LTTS to further bid for larger deals in communications segment.
- The management commentary demonstrates its confidence in a strong demand environment. It foresees a robust deal pipeline in the US, Europe and Middle East, driving growth going forward, and has re-affirmed its target revenue run rate of $1.5 Bn by FY25. We expect LTTS to achieve their target although margins will remain under pressure in the medium term due to the acquisition.
- Valuation based on DCF based methodology suggests further upside. We forecast EBIT to increase 16.3% in FY24E and 25.3% in FY25E due to strong revenue growth. LTTS is trading at 28x FY24E EPS and 22x FY25E EPS. We ascribe an OUTPERFORM rating with a target price of Rs. 4,400 (34x FY24E EPS and 26x FY25E EPS).

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	54,497	65,697	80,849	99,648	1,24,702
Gross Profit (INR Mn.)	20,288	29,192	33,950	40,063	49,962
EBIT (INR Mn.)	7,834	12,005	14,507	17,020	21,624
EBIT Margin (%)	14.4	18.3	17.9	17.1	17.3
EPS (INR)	65.7	91.1	109.4	130.3	167.6

Source: Company, CEBPL

Company Info

BB Code	LTTS IN EQUITY
ISIN	INE010V01017
Face Value (Rs.)	2.0
52 Week High (Rs.)	5295.0
52 Week Low (Rs.)	2923.4
Mkt Cap (Rs bn.)	391.4
Mkt Cap ($ bn.)	4.7
Shares o/s (Mn.)/F.Float (%)	105.6/22.1
TTM EPS (Rs)	106.5
FY24E EPS (Rs)	130.3

Shareholding Pattern (%)

	Dec-22	Sep-22	June-22
Promoters	73.9	73.9	73.9
FII's	7.2	6.0	6.3
DII's	7.7	8.0	4.1
Public	11.2	12.1	15.7

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Lumax Industries

Recommendation: OUTPERFORM

Feb 23, 2023

CMP (Rs)	**1,663**
Target Price (Rs)	**2,160**
Potential Upside (%)	**30**
Classification	**Small Cap**

Brief About the company:

Lumax Industries Limited, a flagship company of D.K. Jain Group, is India's pioneer and most experienced player in the Automotive Lighting Industry. The company has almost four decades of strong partnership with Stanley Electric Co. Limited, Japan, a world leader in Vehicle Lighting and illumination products. Lumax has eleven ultramodern manufacturing plants in India, strategically located near manufacturing locations of major OEMs. Lumax is one of the major suppliers to OEMs including Hero MotoCorp, HMSI, Honda Cars, Mahindra & Mahindra, Maruti Suzuki, MG Motors, Tata Motors, TVS and others.

Key Rationale:

- **Healthy PV revenue share bode well for revenue visibility**: LIL's 66% of revenue comes from passenger vehicles (PV) and MSIL contributes roughly 32% (in 9MFY23) of total lightning revenue. We expect offtake by PV OEM to improve further due to: 1) improvement in supply chain; 2) new launches and capacity expansion; 3) growing preference for personal mobility, and 4) improving premium products. Further, overall demand for PV is strong as owning a car is now a necessity instead of a luxury. This will help to increase LIL's PV segment revenue to grow at a CAGR of ~20% over 2022-25E.
- **Increasing localization to improve margin profile**: LIL is in the process to reduce import content in LED lights by increasing localization. The current import content in 2W LED lighting is 25-30% and in PV 50% (depending upon headlamp and tail lamp), which is expected to reduce by half in the next couple of years. Further, the commercialization of the electronic facility at Bawal will add another 130-150bps margin expansion. The management expects the margin to improve gradually to c.13% in the next three years.
- **View & Valuation**: We like the growth story of Lumax Ind based on: 1) its strong relationship with the majority of auto OEMs; 2) healthy demand in the PV segment; 3) recovery in 2W sales; 4) upcycle in the CV segment; 5) localization of electronic facility levers for margin expansion; 6) addition of new clients and models; and 7) strong order book with front loaded capex. We ascribe a target price of Rs.2160 (15x of Sep-24E EPS) and recommend OUTPERFORM.

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	14,260	17,513	23,165	26,019	28,465
Gross Profit (INR Mn.)	5,234	6,244	8,455	9,627	10,618
EBITDA (INR Mn.)	993	1,350	2,201	2,524	2,847
EBITDA Margin (%)	7.0	7.7	9.5	9.7	10.0
Adj. EPS (INR)	19.4	80.2	140.5	134.5	153.5

Source: Company, CEBPL

Company Info

BB Code	LUMX IN EQUITY
ISIN	INE162B01018
Face Value (Rs.)	10.0
52 Week High (Rs.)	2023.0
52 Week Low (Rs.)	840.0
Mkt Cap (Rs bn.)	15.5
Mkt Cap ($ bn.)	0.18
Shares o/s (Mn.)/F.Float (%)	9.3/24
TTM EPS (Rs)	125
EPS Sep-24E (Rs)	144.0

Shareholding Pattern (%)

	Dec-22	Sep-22	June-22
Promoters	75.0	75.0	75.0
FII's	0.65	0.47	0.24
DII's	0.56	0.58	0.30
Public	23.79	23.95	24.46

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Eicher Motors

Recommendation: OUTPERFORM

Feb 23, 2023

CMP (Rs)	**3237.0**
Target Price (Rs)	**3865**
Potential Upside (%)	**19.0**
Classification	**Large Cap**

Brief About the company:

Eicher Motors Limited is the listed parent of Royal Enfield, global leader in the middleweight motorcycles segment (250cc - 750cc). EML has a joint venture with Sweden's AB Volvo - VE Commercial Vehicles Limited (VECV) - which is driving modernization in India's commercial vehicle space, and in other developing countries. VECV includes the complete range of Eicher branded trucks and buses, Volvo trucks in India, engine manufacturing and exports for Volvo Group, non-automotive engines, and Eicher component business.

Key Rationale:

- **Improving market share**: Overall market share in 125CC+ MC segment improved from 27% in 9MFY22 to 31% in 9MFY23. In 650CC segment, the company also launched cruiser variant in India and Europe which will further help to improve the volume. Further it is also looking to increase Hunter production capacity by 25-30%.
- **Strong global opportunity:** In export, the company is growing very strategically and launching selective product such as the J-series engine platform which is EURO-5 compliant and strengthening retail outlets. Currently, there are 950+ global touchpoints with 187 exclusive stores. The management expects huge growth potential in global market. Current market share in America is 8%, APAC - 9% and EMEA-10%.
- **VECV-CV play**: We expect increasing spending on infrastructure and improvement in Private and Public capex along with rising freight rates will encourage the fleet owner to expand their fleet, and a further improvement in industry utilization will help to lower the discount level.
- **Outlook and Valuations**: Due to the launch of Hunter 350 (lower price point product) the near-term margin performance would be under pressure. However, going forward, increasing accessories revenue, price hike, softening of RM prices, value engineering initiatives, increasing presence in the underpenetrated market, digital focus, and expanding RE presence in the international market augur well for RE to witness healthy growth in FY23-FY25. Stock has corrected in last few months and most of the negative factors has already been priced in. We recommend Outperform rating on the stock with a target price of Rs. 3,865 (24X Sep-24E EPS).

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	87,204	1,02,978	1,61,885	1,95,545	2,30,314
Gross Profit (INR Mn.)	36,076	43,422	70,258	85,062	1,00,647
EBITDA (INR Mn.)	17,813	21,723	38,691	47,909	57,348
EBITDA Margin (%)	20.4	21.1	23.9	24.5	24.9
Adj. EPS (INR)	49.3	61.3	116.6	143.9	178.2

Source: Company, CEBPL

Company Info

BB Code	EIM IN EQUITY
ISIN	INE066A01021
Face Value (Rs.)	1.0
52 Week High (Rs.)	3,886
52 Week Low (Rs.)	2,110
Mkt Cap (Rs bn.)	885.2
Mkt Cap ($ bn.)	10.7
Shares o/s (Mn.)/F.Float (%)	273.4/50
TTM EPS (Rs)	96.0
EPS Sep-24E (Rs)	161.0

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	49.20	49.21	49.21
FII's	29.85	30.25	29.50
DII's	9.96	9.95	10.13
Public	10.98	10.58	11.16

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Ashok Leyland

Recommendation: ADD

Feb 23, 2023

Brief About the company:

Ashok Leyland Limited (ALL), flagship company of the Hinduja group, is one of the largest commercial vehicle manufacturers in India. ALL is one of the largest manufacturers of Medium and Heavy Commercial Vehicles (M&HCV) in India and also has significant presence in the Light Commercial Vehicle (LCV) segment. ALL's product profile includes buses, trucks, engines and defence vehicles.

Key Rationale:

- **Better realisation to continue**: AL due to its better product range of AVTR and Bada dost was able to take price from last few month and also able to retain those price hikes. in MHCV segment such as Multi axle, tractor trailer in larger tonnage (40-49 tonnage category) is expected to register healthy growth going forward driven by improved freight availability, growth in end-user industries like real estate, cement, infrastructure, chemical, paper and replacement demand.
- **Improving market share**: Improving dealerships is helping to gain in market share and management is confident to further improve the market share led by better product range and geography expansion. AL maintaining a 30%+ market share from the last 3-4 quarters. Domestic MHCV market share improved from 26.1% in Q3FY22 to 33% in Q3FY23.
- **EV strategy**: AL expect to launch few more E-vehicle in coming years like Switch-UK V1 bus by end of the year, and Bada dost (EV) launch around Q3FY24. Its recently launch double decker e-bus is getting better response.
- **Outlook and Valuations**: We expect AL to be benefited from: 1) new product launches (in EV, Multi-axle, Tipper/haulage segment); 2) expanding domestic network; 3) increasing global presence (in Africa, SAARC and GCC countries); 4) increasing intensity of infrastructure and construction activity, and 5) softening of RM prices and reduction in discounts. We value the AL based on 18x of Sep-24E EPS to arrive at a TP of Rs. 170 and recommend ADD.

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	1,53,015	2,16,883	3,22,912	3,90,510	4,73,807
Gross Profit (INR Mn.)	38,981	49,272	75,239	1,00,361	1,23,190
EBITDA (INR Mn.)	5,351	9,945	25,345	41,043	51,882
EBITDA Margin (%)	3.5	4.6	7.8	10.5	11.0
Adj. EPS (INR)	(1.1)	1.9	4.0	8.1	10.8

Source: Company, CEBPL

CMP (Rs)	**140.6**
Target Price (Rs)	**170**
Potential Upside (%)	**21**
Classification	**Mid Cap**

Company Info

BB Code	AL IN EQUITY
ISIN	INE208A01029
Face Value (Rs.)	1.0
52 Week High (Rs.)	169.4
52 Week Low (Rs.)	93.2
Mkt Cap (Rs bn.)	412.6
Mkt Cap ($ bn.)	4.9
Shares o/s (Mn.)/F.Float (%)	2936.1/49
TTM EPS (Rs)	3.9
EPS Sep-24E (Rs)	9.45

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	51.54	51.54	51.54
FII's	15.30	17.59	15.03
DII's	21.30	19.58	21.81
Public	11.86	11.29	11.62

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Hero MotoCorp

Recommendation: ADD

Feb 23, 2023

CMP (Rs)	**2,495.9**
Target Price (Rs)	**2,935**
Potential Upside (%)	**18**
Classification	**Large Cap**

Brief About the company:

Hero MotoCorp Limited is a public company domiciled and incorporated under the provisions of the Companies Act, 1956 on January 19, 1984. Hero MotoCorp is an India-based holding company and a two-wheeler manufacturer. The company is engaged in the manufacturing and selling of motorised two-wheelers, spare parts and related services. The company is a leading two wheeler manufacturer and has a dominant presence in domestic market

Key Rationale:

- **Premiumisation of Product portfolio:** The company continues to focus on the entry-level, and 125+CC segments to recover lost market share. In the sports and racing segment, the company expects to launch a new model which will help HMCL to deliver growth and profitability going forward.
- **Strengthen scooter portfolio**: Due to HMCL's continued effort of new launches in the scooter segment HMCL is gradually gaining market share. Company's market share has improved from 7.5% to 8.8% in Q3FY23 vs last year same quarter. To further increase its scooter market share HMCL launched Xoom in the 110CC segment scooter where it will compete with the likes of Activa, Dio and Jupiter.
- **EV portfolio:** HMCL is preparing itself more aggressively towards EV transition. To tap the upcoming EV opportunities: 1) The company has launched 'VIDA' under the EV brand and expects to expand its footprint further; 2) JV with Gogoro (Taiwan) for a swappable battery model; and 3) Investment in Ather energy.
- **Outlook and valuations:** We have a positive view on HMCL based on: 1) lower threat to EV transition (scooter ~8% of overall volume); 2) Proxy play on rural recovery (expected to improve due to marriage related demand); 3) Strategic alliance and investments in EVs (Ather + Gogoro + new EV offering); and 4) Healthy balance sheet. We maintain our ADD rating on the stock with TP of Rs.2,935 (16x of Sep-FY24E EPS).

Financial Snapshot

Year end: March	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	3,08,006	2,92,455	3,38,249	3,86,544	4,25,976
Gross Profit (INR Mn.)	90,383	84,187	96,401	1,10,552	1,23,533
EBITDA (INR Mn.)	40,192	33,688	39,301	48,391	55,338
EBITDA Margin (%)	13.0	11.5	11.6	12.5	13.0
Adj. EPS (INR)	148.4	123.8	137.9	170.4	196.5

Source: Company, CEBPL

Company Info

BB Code	HMCL IN EQUITY
ISIN	INE158A01026
Face Value (Rs.)	2
52 Week High (Rs.)	2,939.4
52 Week Low (Rs.)	2,148.0
Mkt Cap (Rs bn.)	497.8
Mkt Cap ($ bn.)	6.01
Shares o/s (Mn.)/F.Float (%)	199.8/65
TTM EPS (Rs)	134.3
EPS Sep-24E (Rs)	183.4

Shareholding Pattern (%)

	Dec-22	Sep-22	Jun-22
Promoters	34.80	34.80	34.78
FII's	27.50	27.80	28.84
DII's	27.30	26.90	25.57
Public	10.40	10.50	10.81

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CHOICE RATING DISTRIBUTION & METHODOLOGY

OUTPERFORM	The security is expected to generate more than 15% returns over the next 12 months
ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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