

Arihant's Diwali

Stock Picks Samvat 2079





Happy Samvat 2079

We hope you and your family are safe and in good health.

Samvat 2078 was a challenging year for investors. During Samvat 2078, the Indian stock markets corrected from record highs made in October last year. However, they outperformed major global indices like S&P 500, Dow Jones, Nasdaq and European Indices. The key benchmark indices ended the year with a minor decline of about 5% after falling close to 18% in June. The geopolitical conflict in Europe and rising inflation were the key drivers, which led to correction across all markets.

Owing to a successful vaccination program, the Indian economy is shielded from the negative impact of COVID-19. The economic situation remains promising with sustained consumer sentiment and an improved job situation in the country. Additionally, good macroeconomic indicators (like export numbers, GST Collections, and PMI data) are all indicating positivity in the country. Discretionary spending has witnessed a pick-up in both rural and urban segments. Government spending on infrastructure is also boosting demand across sectors.

We have three concerns at this point in time – inflation, interest rates and geo-political conflict in Europe.

What next? Samvat 2078 was a year of consolidation after two good years of market run-up. With time and price correction, the stock market fundamentals are looking good and intact. We believe Indian corporates have sailed through tough times and their outlook remains robust despite all the challenges. We are also expecting positive announcements by the government in the budget in Samvat 2079. We believe corrections should be seen as a good opportunity to add good companies, as a rebound in the economy with strong fundamentals would lead to outperformance from Indian stock market.

For Samvat 2079, our team of experts have handpicked the Diwali Mithai Stocks Box aka companies with good quality of earnings with strong fundamentals.

WISHING YOU ALL A VERY HAPPY & AUSPICIOUS DIWALI !

Diwali Mithai Box

Sr. No	Company	CMP (₹)	TP (₹)	Potential Upside (%)
1	Tata Power Company Ltd.	219	250	14%
2	Oberoi Realty Ltd.	868	1,100	27%
3	Hindustan Aeronautics Ltd.	2,404	2,618	10%
4	Bharat Dynamics Ltd.	956	1,150	20%
5	Rane Holdings Ltd.	910	1,106	22%
6	HDFC Life Ltd.	542	655	21%
7	Bajaj Finserv Ltd.	1,684	2,065	23%
8	Grasim Industries Ltd.	1,677	1,878	12%
9	Phoenix Mills	1,431	1,671	17%
10	Colgate Palmolive	1,587	1,701	7%
11	Tata Consumer Products	762	935	23%



Tata Power Company Ltd.

CMP: ₹219
Target: ₹ 250

BUY
Arihant Rating

Tata Power Company Ltd is involved in the business of the generation, transmission and distribution of electricity. It is the largest integrated power company in India.

Valuation and Outlook

Tata Power witnessing traction in renewables and distribution businesses and backward integration and value chain across business would drive the business. We recommend a BUY rating on the stock with a Target Price of ₹250 per share; valued at PE of 28x and its FY24E EPS of ₹ 8.8

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
Net Sales	32,703	42,816	47,247	52,137
EBITDA	7,442	8,431	9,655	10,465
PAT	1,127	1,741	2,598	2,812
EPS (₹)	3.9	5.9	8.1	8.8
EBITDA Margin (%)	22.8%	19.7%	20.4%	20%
ROCE (%)	6.7%	7.1%	7.7%	8.1%
P/E (x)	26.7	40.3	28.4	26.2

Rational

Increasing the capacity to improve leadership position

- Tata Power targets to increase its utility-scale capacity to more than 20GW by FY27. The company focused on adding 3GW (2GW utility-scale and 1GW rooftop and C&I) of capacity annually over the next five years.

Increase in footprint would lead to business opportunities:

- Tata Power has focused to expand its distribution footprint to 40mn customers by 2027. They would increase the penetration in MP, Jharkhand, Rajasthan and UP etc by using upcoming privatisation opportunities.



Oberoi Realty Ltd.

CMP: ₹868
Target: ₹ 1,100

BUY
Arihant Rating

Oberoi Realty Ltd is a real estate development company, headquartered in Mumbai. It is the part of Oberoi Realty Group, focused on developments in the residential, office space, retail, hospitality, and social infrastructure verticals.

Valuation and Outlook

There is strong visibility on business development that will provide further growth visibility but there is delayed execution of the Mulund Project. The stock is valued on a SOTP-based target price of ₹1,100.

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
Net Sales	2,056	2,694	3,735	4,307
EBITDA	1,000	1,181	1,760	1,972
PAT	739	1,047	1,482	1,538
EPS (₹)	20.3	28.8	40.8	42.3
EBITDA Margin (%)	48.7%	43.9%	47.1%	45.8%
ROCE (%)	42.8	30.1	21.3	20.5
P/E (x)	2,056	2,694	3,735	4,307

Rational

Launch momentum strong; price hikes 5-10% across project portfolio:

- With new towers in Borivali and Goregaon Garden City expected to be launched, plus with the unsold Mulund inventory, the Worli project, and the Thane project (to be launched by Q3FY23) on the anvil, ORL has a strong sales pipeline for the next 12 months.*

Deal with Morgan Stanley

- Morgan Stanley and Oberoi Realty announced a deal to lease up to 1.1 mn sq ft of office space for 9.5 years from the company to consolidate Morgan Stanley's Mumbai Global In-house Centre operations to a single campus in the city. The new campus will be located at the Commerz III building in Goregaon and will be ready by 2023.

*Oberoi registered presales at ₹11.6bn (+39.5/51.8% YoY/QoQ). For Q2FY23, the area booked was at 0.37msf (-16.5/-7.7% YoY/QoQ). Q2 collections came in at ₹8.7bn (+62/+55.4% YoY/QoQ). ORL's flagship project Three Sixty West recorded its maiden presales at 73,281 sq.ft., valued at ₹6.1bn with an average realization of ₹83,181.



Hindustan Aeronautics Ltd.

CMP: ₹ 2,404
Target: ₹ 2,618

BUY
Arihant Rating

Hindustan Aeronautics Ltd. (HAL) is engaged in the business of Manufacture of Aircraft and Helicopters and Repair, Maintenance of Aircraft and Helicopters. HAL plays a strategic role in India's defense program being the only Indian company having specialization in aircraft manufacturing and providing its Maintenance and related services.

Valuation and Outlook

The order book is expected to cross ₹1,000 bn by FY23. On a DCF basis the stock is valued at ₹2,618 per share.

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
Net Sales	22,755	24,620	26,181	29,314
EBITDA	5,349	5,409	6,031	6,566
Net profit	3,239	5,080	5,565	6,016
EPS (₹)	96.9	151.9	126	136.3
PE (x)	24.5	16.3	19.6	18.1
EBITDA Margin (%)	23.5%	22%	23%	22.4%
Net Sales	22,755	24,620	26,181	29,314

Rational

Key new initiatives

- Production of Light Utility Helicopter (LUH) Mk1 has started and is ready for rollout from the new greenfield helicopter factory at Tumakuru. Light transport aircraft (LTA) Dornier attained civil certification from DGCA in May'22. In GAGANYAN project HAL has delivered crew model ferrying and truck transportation structure to ISRO in Aug'22. First flight of Light Combat Aircraft (LCA) Mk1A has been completed and deliveries would start from Feb'23. HAL has signed an MoU with Safran for a JV intended for internal development, production and sales of helicopter, and support for helicopter engines for India as well as the global market. Company also entered into an MoU with Israel Aerospace Industries (IAI) in Mar'22 to convert civil passenger aircraft into multi-mission tanker aircraft.*

Significant strides in indigenization:

- During FY22, of the 34 new platforms that were manufactured and delivered, 30 were indigenously designed and developed. All the major platforms of HAL – such as LCA, LTA-Dornier, LCH, LUH, etc. – are part of the positive list notified by MoD. Recently, the third positive indigenization list (containing ~780 LRUs, systems + sub-systems, and components) has ~50% from HAL platforms. HAL has increased its contribution to R&D reserve from ~10% to ~15% of operating PAT.



Bharat Dynamics Ltd.

CMP: ₹956
Target: ₹ 1,150

BUY
Arihant Rating

Bharat Dynamics Ltd. (BDL) was a Public Sector Undertaking under the Ministry of Defence, Government of India and has a manufacturing base for guided missile systems and allied equipment for the Indian Armed Forces. BDL has been working in collaboration with DRDO and foreign Original Equipment Manufacturers (OEM) for manufacture and supply of various missiles. It is headquartered in Hyderabad.

Valuation and Outlook

It has good revenue visibility in future and experience to execute the orders. We value the stock at 25x its FY24E EPS of ₹46 and have a Target Price of ₹1,150 per share. Accordingly, we have a BUY Rating on the shares of Bharat Dynamics Ltd.

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
Net Sales	1,914	2,817	3946	4,578
EBITDA	345	726	952	1,127
Net profit	256	534	704	849
EPS (₹)	14.1	29.1	38.3	46.0
PE (x)	67.2	32.5	24.7	20.6
EBITDA Margin (%)	18.0%	25.8%	24.1%	24.6%
Net Sales	1,914	2,817	3946	4,578

Rational

Robust order book position:

- The company has a strong order book, which stands at ₹130 bn. The timeline for the execution of the order book is about 2-3 years. It has also received leads for the export of Akash to friendly foreign countries. This is likely to be materialized in 1-2 years. The value of export orders received till date is about ₹3.5 bn. The company exports light weight torpedoes and CMDS to friendly foreign countries. Important new domestic orders in the pipeline are to the tune of ₹80 bn. This augurs well for the company as it gives strong revenue visibility, going forward.

Strong expertise in defence sector:

- It is engaged in the business of manufacturing defence equipments for the last 40 years. It has vast experience in manufacturing Surface to Air missiles (SAMs), Anti-tank guided missiles (ATGMs), launchers, underwater weapons, countermeasures and test equipments. It is also in the business of refurbishment and life extension of missiles manufactured and a sole supplier of SAMs and ATGMs to the Indian armed forces.

Government impetus on defence sector:

- The Government of India (GoI) is focusing on the defence sector and taken many initiatives to revitalize it. Through "Make in India" programme, the government is emphasizing on localization to reduce the cost of imports. Bharat Dynamics is the direct beneficiary of such government initiatives in the defence sector.



HDFC Life is among the top 3 insurance companies in India. It is a leading long-term life insurance solutions provider and offers a range of individual and group insurance solutions that meet various customer needs such as Protection, Pension, Savings, Investment, Annuity and Health.

Valuation and Outlook

The company is fundamentally strong with healthy solvency margins and high persistency. It is also well-positioned as a top-3 insurance player. We value the company at 3.2x FY24E P/EV and recommend a BUY rating on the stock with a Target Price of ₹655 per share.

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
AUM	173839	204170	233341	266139
New Business Premium	20107	24155	28194	32741
Annual Premium Equivalent	8370	9758	11424	13141
Value of New Business	2185	2674	3119	3643
Opex ratio (%)	11.9	12.2	12.0	11.8
ROEV (%)	18.5	16.6	18.7	18.6
ROE (%)	17.6	10.0	8.9	9.8

Rational

Momentum in Savings business:

- HDFC Life has a balanced product portfolio. In Q1FY23, the non-par savings contributed about 28% of APE (Annual Premium Equivalent), while par savings contributed about 24% of APE. Savings products grew by 21% YoY to ₹15.8 bn. Management is of the view that the non-par savings will continue to witness momentum, going forward.

Robust distribution channel to facilitate growth:

- The share of Bancassurance channel is about 55%-56% and is stable on an annual basis. The direct channel contributed about 23%, while share of Agency stood around 15%-16%. Hence, it has a robust and diversified distribution network which will support in pushing sales to clients.



Bajaj Finserv Ltd.

CMP: ₹1,684

Target: ₹ 2,065

BUY

Arihant Rating

Bajaj Finserv Ltd. is a non-banking financial services company and is headquartered in Pune. The main business areas of the company include lending, asset management, wealth management and insurance. It has three important subsidiaries; Bajaj Finance Limited (BFL), Bajaj Allianz Life Insurance Co. (BALIC) and Bajaj Allianz General Insurance Co. (BAGIC)..

Valuation and Outlook

Bajaj Finserv Ltd. is a dominant player in its sector. Considering the business and operational strengths of its subsidiaries, we value the company on a SOTP basis and recommend a BUY rating with a Target Price of ₹2,065 per share.

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
Revenue	60,592	68,439	82,392	1,03,687
PAT	4,471	4,557	6,798	8,967
EPS (₹)	35.2	52.7	56.2	62.4
BV (₹)	439.9	505.9	561.3	612.4
P/BV	3.8	3.3	3.0	2.7
RoA	1.1	1.4	1.5	1.4
RoE	8.3	11.1	15.4	17.1

Rational

Strong growth-oriented subsidiaries:

- Bajaj Finance Ltd. is a subsidiary of Bajaj Finserv Ltd. and is well-capitalized with a robust balance sheet and liquidity position. It is focusing and employing resources on digital transformation to enhance operational efficiency and productivity. It has a well-diversified and rich product portfolio, along with an experienced, competent management team, which can catapult the firm to the next growth level.

Presence in the lucrative insurance sector:

- Bajaj Finserv has subsidiaries operating in the insurance sector. They have a well-established distribution channel and a strong product portfolio to cater to its insurance clients. Also, the sector is grossly under-penetrated, which creates massive growth opportunity in the future.

Traction in asset under management:

- The growth in asset under management has been impressive post Covid and it has reached levels similar to pre-Covid levels. It's consolidated asset under management crossed the mark of ₹2,00,000 crores in Q1FY23 and stood at ₹2,04,018



Grasim Industries Ltd.

CMP: ₹1,677
Target: ₹ 1,878

BUY
Arihant Rating

Grasim Industries Ltd. is engaged in multiple sector which includes cement, Financial Services and Chemicals. Grasim operates in India through its subsidiaries, Ultratech Cement for cement business and Aditya Birla Capital for its financial services.

Valuation and Outlook

The company is strengthening its balance sheet, which will support future capital expenditure plans. Factoring in the future growth drivers across its various segment, we value the company on a SOTP basis and recommend a BUY rating with a Target Price of ₹1,878 per share.

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
Revenue	12,954	20,857	28,967	30,672
EBITDA	1,564	3,216	4,551	4,803
PAT	891	2,444	3,162	3,283
EPS (₹)	13.5	37.1	48.4	50.1
PE	124.2	45.2	34.6	33.5
RoE	5.0	15.8	17.8	16.3
RoCE	4.4	11.9	13.2	11.6

Rational

Traction in the chemical business:

- The chemical business has consistently reported strong numbers, driven by better realization and higher volumes. The chlor-alkali segment, particularly caustic soda has advanced robustly with volumes growing in double digit. The outlook remains positive, thus facilitating revenue visibility in the future.

Capacity expansion to drive volumes:

- The company commissioned its 600 tpd brownfield expansion in two phases in the second half of FY22 at Vilayat, Gujarat. With this, the total VSF (Viscose Staple Fibre) capacity has increased to 824 ktpa. It is targeting to further increase its VSF capacity by 48 tpd through de-bottlenecking across three plants.

Entry into lucrative paint vertical:

- The company has done an investment of ₹10,000 crores for its new vertical of decorative paints business, which will bring in scalability for the company. The segment is high-growth and high RoCE and is a good diversification play.



Phoenix Mills

CMP: ₹1,431
Target: ₹ 1,671

BUY
Arihant Rating

Phoenix Mills is engaged in property development. The business areas covered include retail and hospitality

Valuation and Outlook

The company is valued at an SOTP NAV of ₹1,671 per share which includes increase in Palladium, Mumbai leasable area and considers growth opportunities from new office capex and new malls (including Surat).

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
Net Sales	1,040	1,484	2,614	3,248
EBITDA	501	734	1,454	1,864
PAT	48	237	926	818
EPS (₹)	3.4	13.9	54.1	47.8
EBITDA Margin (%)	48%	49%	56%	57%
P/E (x)	419.4	102.6	26.4	29.8
Net Sales	1,040	1,484	2,614	3,248

Rational

Consumption recovery firmly on track:

- PHNX saw Sep'22 like-to-like (LTL) consumption across malls at ₹5.8 cr or 115% of Sep'19 levels and mirrors the Jul'22 LTL consumption growth which was at 120% of Jul'19 levels and Aug'22 LTL consumption growth which was at 114% of Aug'19 levels.
- **Retail-** Under this company is engaged into development of malls. The company's flagship development High Street Phoenix has emerged as the most frequented destination in Mumbai. It has strategic alliance with Pantaloon group which owns brands like Big Bazaar and Pantaloon. Phoenix Market City malls are located in Mumbai, Pune, Bangalore and Chennai.
- **Hospitality-** the company is engaged in developing 5-star hotels and has various ongoing projects in Mumbai, Chennai, Pune and Agra. Entertainment- It develops entertainment zones such as multiplexes, gaming arcades, food courts and shopping centers. Commercial- Under this company has developed commercial offices.



Colgate Palmolive

CMP: ₹1,587
Target: ₹ 1,701

BUY
Arihant Rating

Colgate-Palmolive India Ltd is engaged in manufacturing/ trading of toothpaste, tooth powder, toothbrush, mouthwash and personal care products. They are sold under its well-recognized brands i.e. Colgate and Palmolive. The company has ~51% market share in the toothpaste segment, 48% in the toothpowder, and ~30% share in the toothbrush segment. The company's flagship brand Colgate is one of the most recognized oral care brands in India and it has a penetration of ~88% in the domestic market.

Valuation and Outlook

Although the company's growth is unexciting, favorable financial parameters (34x FY24PE, 2.6% Dividend yield, 90%+ payout and 80% ROCE) limit downside. We value the stock at 37x FY24 EPS and assign a Target of ₹1,701 per share.

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
Net Sales	4,841	5,100	5,503	5,921
EBITDA	1,510	1,566	1,618	1,808
PAT	1,035	1,409	1,108	1,251
EPS (₹)	38.1	39.6	40.8	46.0
EBITDA Margin (%)	31.2%	30.7%	29.4%	30.5%
P/E (x)	41.4	39.8	38.7	34.3

Rational

New Product Launches:

- During FY22, the Co. launched new products such as Colgate Gum Expert, Colgate Visible White O2, Colgate RecyClean, Colgate Water Flosser, and Pro-Clinical 250R and 500R Electric Toothbrush.

Strong Parentage:

- Colgate Palmolive Company, USA is the ultimate holding company. It holds a stake of ~40% in the company, focusing on accelerating growth- Led by 1) Ramping up innovations (Colgate Gum Expert, Colgate Visible White 2); 2) Increasing promotion intensity; 3) Entry into premium face cleansing category (foams, scrubs and masques under Palmolive brand).



Tata Consumer Products

CMP: ₹762
Target: ₹ 935

BUY
Arihant Rating

Tata Consumer Products Ltd. is one of the leading companies of the Tata Group, with presence in the food and beverages business in India and internationally. It is the second largest tea company globally and has significant market presence and leadership in many markets. In addition to South Asia (mainly India), it has presence in various other geographies including Canada, UK, North America, Australia, Europe, Middle East and Africa.

Valuation and Outlook

TCPL expects to grow at a low-to-mid-single-digit level in the international business, while in the domestic business, it is targeting a double-digit growth. At the CMP, the scrip is valued at P/E of 48.8x FY24E EPS for a target of ₹935.

Financials

₹ in cr	FY21	FY22	FY23E	FY24E
Net Sales	11,535	12,347	13,815	15,282
EBITDA	1,544	1,719	2,026	2,367
Net profit	965	958	1,255	1,531
EPS (₹)	10.47	10.39	13.51	16.51
PE (x)	72.8	73.3	56.4	46.2
EBITDA Margin (%)	13.4%	13.9%	14.7%	15.5%

Rational

Multiple catalysts for growth in India branded business (F&B):

- The packaged tea market in India is estimated at ₹270bn with unbranded players accounting ~30% of the overall market in value terms. TCPL is the 2nd largest with ~22% market share and together both accounts nearly half of the branded market.

New strategies at work to revive international business:

- TCPL has been undertaking reorganization strategies for the international business which primarily constitutes of US Coffee and International Tea businesses.

Leveraging robust distribution network:

- The company was able to expand its S&D network to 1.3m outlets in direct reach, and also deployed a dedicated sales force to the premium portfolio. TCPL expanded its distribution footprint to increase its direct distribution reach to ~2x, led by efficient planning.



Last year's Diwali Portfolio Performance

Sr. No	Company	Reco Price (₹)	TP (₹)	CMP (₹)	Returns
1	Dollar Industries	462	569	498	44%
2	Vishnu Chemicals	810	1,513	1,904	168%
3	RPSG Ventures	770	2,842	477	31%
4	ICICI Bank	804	942	872	16%
5	State Bank of India	516	624	527	12%
6	Gokaldas Exports	226	357	384	129%
7	Hero MotoCorp	2,681	3,156	2,535	10%
8	Ambuja Cement	410	449	501	42%
9	Sun TV Network	590	675	535	4%
10	Infosys	1,700	1,932	1,474	15%
11	Tata Motors DVR	252	304	191	18%
12	Zee Entertainment Enterprise	311	398	270	21%

* Return based on 52 week High prices

Benchmark (Nifty 50) return since last Diwali -5%

Arihant's Diwali Stock Picks Samvat 2079

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