

SBI

IDFC First
Bank

HDFC
Life
Insurance

JK
Lakshmi
Cement

Arihant's
Diwali

PICKS SAMVAT 2077

HCL
Technology

Dabur

Emami

PolyCab
India

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State Bank of India Ltd.

CMP: ₹ 219 | Target Price: ₹ 295 (0.9x FY22E P/ABV)

SBI is India's largest public sector bank in terms of advances, liability profile and branch network. At present, it has strong connect with a branch network of 22,299 branches and 58,762 ATMs spread across PAN India. As of Sep'20, total advances of the bank stood at Rs 22.9 tn and Deposits at Rs 34.7 tn.

- **Strong liability franchise with improving NIM:** SBI has one of the strong liability profile with CASA ratio at 44%, better than that of some large private banking peers. Multiple cut in deposit rate enabled margin improvement. During Q2FY21, NIM of the bank improved by 10bps QoQ at 3.34%.
- **Asset quality improved consistently:** SBI's GNPA/NNPA ratios have reduced steadily from 11.5%/5.7% in FY18 to 5.3%/1.6% in Q2FY21. It has one of the highest PCR at 88.2%. Management has given strong outlook on asset quality.
- **Subsidiary's performance remains strong:** The bank's subsidiaries are performing even better than the core parent bank with the life insurance subsidiary and the credit cards subsidiary gaining market share. Thus, adding further value in the bank.

Valuation and Outlook

We have a positive outlook on SBI due to 1) Steep valuation discount to some of largest private sector bank; 2) Bank is competing well with other private banks in terms of liability franchises; 3) reasonable capital position; 4) better balance sheet and consistency in operating performance and 5) Strong branch network. We have a Buy rating on the stock with SOTP based target price of Rs 295.

Rs Cr.	NII	PPOP	PAT	NIM (%)	ROE (%)	RoA (%)	GNPA (%)	P/ABV (x)
FY18A	74,854	50,530	-6,547	2.6%	-3.0%	-0.2%	11.5%	1.8
FY19A	88,349	56,181	862	2.7%	0.4%	0.0%	7.9%	1.3
FY20A	98,085	61,917	14,488	2.8%	6.2%	0.4%	5.3%	1.1
FY21E	1,02,549	69,571	17,740	2.8%	7.1%	0.4%	7.4%	1.0
FY22E	1,14,288	78,867	23,628	2.9%	8.7%	0.5%	6.9%	0.9



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IDFC First Bank Ltd.

CMP: ₹ 33 | Target Price: ₹ 41 (1x FY22E P/ABV)

IDFC First Bank was formed from the merger of IDFC Bank & Capital First Ltd effective from Dec 2018. It is one of the largest private bank with funded asset at Rs 1,06,828 cr and Deposits of Rs 75,800 cr as of Sept 2020. It is being headed by V Vaidyanathan, who has a proven track record at Capital First. IDFC First Bank has a pan India presence with 523 branches and 509 ATMs.

- **Retailisation to drive operational performance:** IDFC First Bank's portfolio consisted of a mere 34.6% of assets from retail funded assets by Dec 2018 and increased it to 56% by end of September 2020. The bank's move to shift focus from corporate loans to granular retail loans and to build a strong and sustainable retail liability franchise, which could enable better earnings visibility. CASA ratio of the bank increased rapidly from 13% in FY19 to 40.4% as on September 2020.
- **Increasing spreads for the Bank:** As the bank's income from retail assets grow hand-in-hand with the growth in the size of the retail assets book, the bank will be witnessing its spreads increasing going ahead driven by an increasing overall yield.
- **Lower risk going ahead; asset quality to only improve in future:** The bank's asset quality will be witnessing a gradual & stable improvisation apart from expected Covid impacted stress as it keeps a tab on incremental corporate loans, exits from infrastructure lending and a more reliable and credit conscious retailers start banking with it.

Valuation and Outlook: IDFC First Bank aims to retain its ability to grow retail asset base at healthy pace with an eye on quality and building a strong liability franchise would act as a key catalyst to support valuation.

Rs Cr.	NII	PPOP	PAT	NIM (%)	ROE (%)	RoA (%)	GNPA (%)	P/ABV (x)
FY18A	1,798	1,263	859	3.0%	5.6%	0.7%	3.3%	0.7
FY19A	3,199	-1,749	-1,944	2.3%	-10.7%	-1.2%	2.4%	0.9
FY20A	5,635	1,937	-2,864	3.9%	-18.7%	-1.9%	2.6%	1.1
FY21E	6,710	2,675	489	4.9%	2.7%	0.3%	3.5%	1.1
FY22E	8,288	3,708	914	5.6%	4.9%	0.6%	3.3%	1.1



HDFC Life Insurance Company Ltd

CMP ₹ 623 | Target ₹ 703 (based on 4.9x FY22E EVPS)



HDFC Life is India's one of the leading private life insurance company, which offers a range of individual and group insurance solution products. The company is promoted by HDFC Ltd (50.14% stake). Its focus is majorly on protection business. The company has a well diversified business with ULIP constituting 23% of total APE, Par business 33%, Non-Par 30%, Protection 9% and Annuity 5%.

- **Strong player in the Insurance industry:** Over FY15-20, the Insurance industry recorded 18% CAGR in new business APE with market share of top 5 players within private insurance increased by 1050bps to 68%. HDFC Life has strengthened its position in the industry with an Individual APE based market share of ~17.5% as on H1FY21 amongst private insurers. (vs. 8% in FY10.)
- **Better product mix with focus on APE growth and maintaining VNB margins:** During Q2FY21, HDFC Life has reported improvement in new business APE. VNB margins of the company improved to 25.6% vs. 24.3% in Q1FY21, on the back of improvement in product mix cost control measures. Company has a strong solvency ratio of 203% as on H1FY21.

Valuations: As Indian Insurance industry is still under penetrated, the economic growth would lead to increasing share of life insurance market. HDFC Life remains a strong compounding story in insurance industry due to its strong brand image, balanced product mix, strong distribution network, experienced management, quality underwriting and robust persistency ratios. We are positive on the stock from a long term perspective and have a target price of Rs 703. We value the stock at P/EV multiple of 4.9x to its FY22E embedded vale (EV).

Rs Cr.	Gross Premium Income	PAT	EPS (Rs)	VNB Margin (%)	RoE (%)	RoEV (%)	P/EV
FY18	23,564	1,109	5.5	23.2	25.8	22	8.3
FY19	29,186	1,277	6.3	24.6	24.5	20.3	6.9
FY20	32,707	1,295	6.4	25.9	20.8	12.9	6.1



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JK Lakshmi Cement

CMP ₹ 290 | Target ₹ 330 (6x FY22E EBIDTA)

JK Lakshmi Cement Limited is a holding company. The Company is a manufacturer of cement. The Company is engaged in providing cementations materials. The Company offers its products under the JK Lakshmi plast brand. Its subsidiaries include Hansdeep Industries and Trading Company Limited and Udaipur Cement Works Limited.

- **Diversified market presence to drive revenue and profitability** Company has a very diversified presence in northern, western and eastern India. Thus diversification helps the company to sell it's products at various levels. With higher capacity utilization going forward, a significant boost to revenue and profitability is expected.
- **Strong brand image added by experienced promoter** JK Lakshmi Cement promoters have a very good experience in the cement sector. With strong brands in the product portfolio and through extensive branding & promotional activities, it has created an unbeatable image in the industry.
- **Pickup in demand & price hike to benefit** - Demand is expected to be strong led by rural market and infra is witnessing pick up. JKLC guided for volume growth of 6-7% for FY21E. After a seasonal fall in cement prices in Q2FY21, Q3FY21 is witnessing minor price hikes

Valuations and Outlook

We remain positive on company's future growth prospects. We value the stock at a EV/EBIDTA multiple of 6 x to its FY 22E EBIDTA of Rs 8471 mn to arrive at a target price of Rs 330 representing an upside potential of 13.7% from current market price.

Rs mn	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)	EV/EBITDA (x)
FY19	43163	5050	407	3.5	11.7	2.7	83.9	9.9
FY20	43640	8422	2529	21.5	19.3	15.9	13.5	5.7
FY21E	43233	7543	2534	21.5	17.4	13.0	13.5	5.3
FY22E	48747	8471	3267	27.8	17.4	14.4	10.4	5.7



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HCL Technologies Ltd.

CMP ₹ 855 | Target ₹1006 (20x FY22E earnings)



HCL Technologies Limited is engaged in providing a range of software development services, business process outsourcing services and information technology (IT) infrastructure services. The Company's segments include software services, infrastructure management services and business process outsourcing services.

- **Healthy deal pipeline, cloud to drive growth:** We believe growing opportunities in cloud, automation and cyber security is a sweet spot for HCL Tech. The company's expertise in IMS and app modernisation (~70% of revenues) can witness phenomenal growth led by integrated deals in cloud. In Q2FY21 HCL Tech also witnessed healthy traction in deal TCv (up 35% QoQ) and deal pipeline. Further, the company expects ER&D revenues to improve QoQ with product revenues expected to be positive YoY.
- **Cost rationalisation to keep margins elevated:** The company has various margin levers in terms of higher utilisation, lower subcontracting cost, lower travel and lower discretionary spend. While we believe that some of the cost benefits will reduce, some structural changes may stay. Further, a gradual improvement in mode 2 business will also benefit margins.

Valuation and Outlook

At CMP of Rs 855, HCL technologies is trading at FY21E and FY22E, P/E multiples of 18.9x and 17x respectively. We value the stock at a target P/E of 20x its FY22E earnings, which yields a target price of Rs 1006. representing an upside potential of 17.6%

Rs Cr	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)
FY19	604270	139680	101220	37.3	23.1	24.5	22.9
FY20	706780	166940	110620	40.8	23.6	21.6	21.0
FY21E	749030	192570	122929	45.3	25.7	20.5	18.9
FY22E	832876	209952	136498	50.3	25.2	20.1	17.0



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Dabur India Ltd.

CMP ₹ 527 | Target ₹ 589 (62x FY22E earnings)

Dabur India Limited is a fast moving consumer goods (FMCG) company. The Company operates in various product categories, such as hair care, oral care, healthcare, skin care, home care and foods. Its business units include Consumer Care Business, Foods Business and International Business.

- **New products to get marketing support-** Dabur has launched many new products in the last 6 months across categories. The company is looking to increase its cost of marketing from current 8% to 12% of sales. The increase in marketing cost would be neutralized by cost rationalization which would be sufficient for uptick in operating margins
- **Robust demand in health, immunity products:** During the quarter, sales of health supplements, OTC, ethical saw 70.8%, 56.1% & 26.4% growth, respectively. Further, oral care & shampoo also witnessed 24.2% & 17.8% growth, respectively. The company continues to strengthen its market share in Chyawanprash, toothpaste and shampoo. We believe growth in health & immunity products is far more structural compared to hygiene or instant food products. The penetration levels of Chyawanprash & honey is ~4% & ~25%, respectively which poses immense growth opportunity in both these categories

Valuations and Outlook

At CMP of Rs 527, Dabur is trading at FY21E and FY22E, P/E multiples of 62x and 55.5x respectively. We value the stock at a target P/E of 62x its FY22E earnings, which yields a target price of Rs 589. representing an upside potential of 11.7%

Rs Cr	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)
FY19	85330	17400	14450	8.2	20.4	25.7	64.3
FY20	87040	17920	14480	8.2	20.6	21.9	64.3
FY21E	88030	17770	14940	8.5	20.2	18.9	62.0
FY22E	92700	20160	16790	9.5	21.7	18.3	55.5



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#ShubhLabhKeShare Emami Ltd.

CMP ₹ 371 | Target ₹ 425 (32x FY22E earnings)



Emami is one of the leading FMCG companies that manufactures and markets personal care and healthcare products. With over 300 diverse products Emami has a wide distribution reach in over 4.5 million retail outlets through 3,200 distributors. The company has a strong international presence in over 60 countries in Europe, Africa, Middle East, and SAARC regions.

- **Demand for personal hygiene and healthcare products remained strong:** Strong recovery was seen in demand for consumer goods post opening up of economy. Healthcare products and personal hygiene products registered strong demand due to spread of Coronavirus in India. The AYUSH (Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homeopathy) market currently stands at ~ Rs. 760 billion and is projected to see strong growth with the support of the government. Which is likely to benefit the company going ahead
- **Strong operational performance :** Net sales jumped 11.3% YoY to Rs 7300 mn in Q2FY21 backed by 10% volume growth YoY. Benign RM prices, decline in employee A&P spends other expense resulted 570bps increase in EBITDA margin to 35.0% YoY. EBITDA increased 33.2% YoY to Rs 2600 mn PAT increased 23.3% YoY to Rs 1200 mn.

Valuation and Outlook

At CMP of Rs 371, Emami is trading at a P/E of 31.1x and 27.7x its FY21E and FY22E earnings respectively. We have valued the stock at a target P/E of 32x its FY22E earnings, which yields a target price of Rs 425 per share. Representing upside potential of 14.5%

Rs mn	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)
FY19	26946	7599	3047	6.7	28.2	14.9	55.1
FY20	26548	7486	3083	6.8	28.2	15.8	54.5
FY21E	27063	7771	5403	11.9	28.7	26.9	31.1
FY22E	29747	8470	6059	13.4	28.5	27.2	27.7



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Polycab India Limited

CMP ₹ 926 | Target ₹ 1083 (19x FY22E earnings)

Polycab India Limited is an India-based company, which is engaged in the business of manufacturing and selling wires and cables, and fast moving electrical goods (FMEG) under the POLYCAB brand. The Company operates through three segments: Wires & Cables, Fast moving electrical goods (FMEG) and others.

- **Market leader in wires and cable business-** Polycab is the India's largest manufacturer and supplier of wires and cables, with a market share of 18%. Polycab has continuously invested in innovation and expansion of its wires and cable business which has also helped them to earn a competitive advantage. Also, with the whole concept of using Indian brands amidst coronavirus, will benefit the company in turn to grow
- **Strong distribution network and brand value-** Polycab has expanded its business across India and caters to 3500+ distributors and 125000+ retailers, which is evenly spread across northern, southern, eastern and western India. Along with an extensive network, it has also gained a significant brand value through aggressive advertising and promotional campaigns.

Valuations and Outlook

At CMP of Rs 928, Polycab is trading at a P/E of 20.1x and 16.2x its FY21E and FY22E earnings respectively. We have valued the stock at a target P/E of 19x its FY22E earnings, which yields a target price of Rs 1083 per share. Representing upside potential of 16.9%

Rs Cr	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	ROE (%)	P/E (x)
FY19	79856	9528	5002	33.6	12.0	19.3	27.6
FY20	88300	11350	7657	51.5	12.9	22.9	18.0
FY21E	79688	9769	6876	46.2	12.3	15.5%	20.1
FY22E	96949	12587	8506	57.1	13.0	16.4%	16.2



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