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2019

Diwali Picks  
Samvat 2076

# Top Diwali Picks 2019



Bajaj Auto

CMP	₹3088
TARGET	₹3529



Dabur

CMP	₹473
TARGET	₹495



HDFC Bank

CMP	₹1229
TARGET	₹1370



HUL

CMP	₹2117
TARGET	₹2418



Marico

CMP	₹395
TARGET	₹435



Whirlpool

CMP	₹2191
TARGET	₹2470



SBI Life  
Insurance

CMP	₹989
TARGET	₹1145



Sar utha ke jyo!

HDFC Life  
Insurance

CMP	₹611
TARGET	₹707



ICICI General  
Insurance

CMP	₹1295
TARGET	₹1424

# Bajaj Auto Ltd.

CMP Rs 3088 | Target Rs 3,529 (18.5x FY21E Earnings)

We expect with superior product positioning and a new model launch, couple with smart pricing, Bajaj Auto to report 8% CAGR in its revenues over FY19-21E, while PAT would witness a CAGR of 10% over the same period. EBITDA margin is expected to stabilise around 17-18% level.

- **Continued to perform well in export market over its peers:** During H1FY20 Bajaj Auto's 2W exports stands ~9.3Lakh units up 7.5% last year. The Company exports its bikes to over 70 countries and last year dispatched around 40% of its total production to Africa, Latin America and Middle East markets. We expect the company will perform well in its export market.
- **Well on track for BS-VI and EV transition:** Recently The company has launched electric vehicle "Chetak" and management sees a good traction on that front also it is well on track for BS-VI transition.
- **Earning momentum to continue:** We expect, Bajaj Auto's sales and profits to grow at 8% and 10% CAGR between FY19-21E respectively. This is led from new launches, better product mix and rising share of exports resulting in market share gain. level with upside trigger.

**Valuations:** A We remain positive on Bajaj Auto's future growth prospects, and have a ACCUMULATE rating on the stock. At CMP of Rs 3088, we value BJAUT at a PE of 18.5x + Rs 129 for KTM stock valuation to arrive at a target price of Rs 3,529 with potential upside of ~14%.

## Key Financials

Rs Cr	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)	EV/EBITDA (x)
FY18	6322	1138	815	6.3	18.0	32.0	62.6	44.9
FY19	7334	1281	1118	8.7	17.5	37.3	45.6	39.7
FY20E	8310	1621	1212	9.4	19.5	38.2	42.1	31.4
FY21E	9307	1862	1404	10.9	20.0	39.8	36.3	27.2

# Marico Ltd.

CMP Rs 395 | Target 435 (40x FY21E earnings)

We like Marico over other FMCG peers due to its strong pricing power in its flagship Parachute brand, which makes it relatively insulated from weak demand environment plaguing other FMCG players. Also multiple tailwinds like deflationary copra cycle leading to higher gross margin and revival in Food and Saffola portfolio keep our faith intact on Marico.

- **Impressive volume growth in key segments to drive domestic business growth:** Over FY19-21E, Marico is confident of delivering 8-10% volume growth coupled with healthy market share gains, on the back of increased investment in the core portfolio, aggressive new product launches, distribution expansion & judicious pricing.
- **EBITDA margin to be maintained at 18-19% level with upside trigger:** Marico will continue to drive cost excellence across the organization to extract savings that will be redeployed towards igniting profitable growth. EBITDA margin is expected to be maintained at 18-19% level with upside trigger.

**Valuations:** At CMP of Rs 395, Marico is trading at 42.1x and 36.3x its FY20E and FY21E earnings respectively. We have valued the stock at a target P/E of 40x its FY21E earnings, which yields a target price of Rs 435 per share. **We have a Buy rating on the stock.**

## Key Financials

Rs Cr	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)	EV/EBITDA (x)
FY18	6322	1138	815	6.3	18.0	32.0	62.6	44.9
FY19	7334	1281	1118	8.7	17.5	37.3	45.6	39.7
FY20E	8310	1621	1212	9.4	19.5	38.2	42.1	31.4
FY21E	9307	1862	1404	10.9	20.0	39.8	36.3	27.2

# Whirlpool of India Ltd.

CMP Rs 2191 | Target Rs 2470 (50x FY21E earnings)

Whirlpool (WIL) has shown strong growth traction in last 3-years, with steady revenue growth, sustainable EBITDA margins and improving bottomline. We like Whirlpool due to its impressive return ratios, robust free cash flow, negative working capital cycle and ample cash in its books. With the Home Appliances industry expected to post a healthy CAGR of 13%-15% over the next 5-years, a strong franchisee like Whirlpool will be a key beneficiary and will outperform the industry growth.

- **Whirlpool to surpass industry growth over next 5-years:** With strong brand name, Whirlpool will surpass industry growth and we expect WIL to clock a revenue CAGR of 16.9% over FY19-21E, while PAT will grow at a CAGR of 22.4% over the same period.
- **EBITDA margin to sustain at 12-13% level with gross margin at 38%:** With better control on input costs, premium product portfolio and benefits of price hikes, we expect WIL's gross margin and EBITDA margin to sustain around 38% and 12.5% levels respectively.
- **Strong FCF, ample cash on books & healthy return ratios make us bullish:** With ample cash on its books (Rs 10,610 mn at FY19 end) and healthy return ratios (ROCE >28%), WIL has all the ingredients to make us bullish on the stock.

**Valuations:** : At CMP of Rs 2191, Whirlpool is trading at a P/E of 54.9x and 44.3x its FY20E and FY21E earnings respectively. We have valued the stock at a target P/E of 50x its FY21E earnings, which yields a target price of Rs 2470 per share. We have a Buy rating on the stock.

## Key Financials

Rs Cr	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	ROE (%)	P/E (x)
FY18	4832	560	351	27.6	11.6	20.0	79.4
FY19E	5398	642	410	32.3	11.9	21.1	67.8
FY20E	6325	778	506	39.9	12.3	21.5	54.9
FY21E	7375	922	627	49.4	12.5	22.3	44.3

# Dabur India Ltd.

CMP Rs 473 | Target Rs 495 (50x FY21E earnings)

Dabur India Ltd. (Dabur) is the fourth largest FMCG Company of the country catering to health care, personal care & food segment. Despite subdued consumer sentiment, domestic business of Dabur registered robust volume growth of 9.6% in Q1FY20, on the back of strong growth in its consumer care business. We remain positive on Dabur from longer-term perspective, and recommend HOLD on the stock.

- **Market leadership in key categories across diverse product portfolio:** Dabur's product portfolio is present across diverse categories. A significant portion of company's product portfolio consists of natural and ayurvedic products. The company enjoys market leadership position in key categories across its diverse product portfolio, which augurs well for the company.
- **Strong Distribution Network:** Dabur has a very strong distribution network, which caters to ~6.3 mn retail outlets. It has direct presence in ~41,000 villages and its sales team covers around 39,000 doctors and 200,000 chemists. It's strong distribution network augurs well for the company's future growth.
- **Steady revenue growth with stable EBITDA margins:** We expect Dabur to clock steady revenue growth of 10-11% over FY20-21E with stable margin of around

**Valuations:** At CMP of Rs 473, Dabur is trading at FY20E and FY21E, P/E multiples of 52.9x and 47.7x respectively. We value the stock at a target P/E of 50x its FY21E earnings, which yields a target price of Rs 495.

## Key Financials

Rs Cr	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)	EV/EBITDA (x)
FY18	7,722	1,617	1,354	7.7	20.9	23.7	61.5	51.8
FY19	8,533	1,740	1,442	8.2	20.4	25.6	57.9	48.1
FY20E	9,454	1,989	1,579	8.9	21.0	23.8	52.9	42.1
FY21E	10,533	2,256	1,750	9.9	21.4	22.6	47.7	36.8

# Hindustan Unilever Ltd. (HUL)

CMP Rs 2117 | Target Rs 2418 (60x FY21E earnings)

HUL was able to clock stable volume growth in the first half of FY20, despite overall weak sentiment in consumer demand. We like HUL due to its diversified portfolio of business and impressive growth in its home & personal care business and healthy gross margin expansion on the back of richer product mix and softer commodity inflation. We have an Accumulate rating on the stock with a target price of Rs 2418.

- **Expected revival in rural demand in H2FY20 to augur well for HUL:** HUL was able to clock decent domestic volume growth at 5% in Q2FY20 despite deceleration in rural growth. We expect rural demand to revive in H2FY20 on the back of good monsoon which augurs well for HUL to sustain its revenue & volume growth.
- **Richer revenue mix and softer commodity prices to aid gross margin:** With richer revenue mix and softer commodity prices, HUL's gross margin expanded by healthy 251bps to 54.5% in Q2FY20. We expect HUL to continue to report healthy gross margin going forward.
- **Corporate tax cut to aid PAT growth:** We expect the reduced corporate tax rate to be a new lever for growth and margin expansion for HUL. The company is working out the benefits of realigning its manufacturing footprint under the new tax structure. gain.

**Valuations:** We remain positive on Bajaj Auto's future growth prospects, and have a ACCUMULATE rating on the stock. At CMP of Rs 3088, we value BJAUT at a PE of 18.5x + Rs 129 for KTM stock valuation to arrive at a target price of Rs 3,529 with potential upside of ~14%.

## Key Financials

Rs Cr	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)
FY18	35545	7499	5135	23.8	21.1	73.2	88.9
FY19	39310	8880	6080	28.1	22.6	80.3	75.3
FY20E	42356	10303	7384	33.9	24.3	84.5	62.4
FY21E	50200	12509	9094	40.3	24.9	75.1	52.4

# HDFC Bank Ltd.

CMP Rs 1,229 | Target Rs 1,370 (4.1x FY21E P/ABV)

HDFC Bank Ltd. is India's leading retail focused private sector bank, has well diversified portfolio and strong deposit base. At present, it has strong network with a banking network of 5,314 branches and 13,514 ATMs spread across 2,768 cities and towns.

- **Has well-diversified portfolio:** During H1FY20 Bajaj Auto's 2W exports stands ~9.3Lakh units up 7.5% last year. The Company exports its bikes to over 70 countries and last year dispatched around 40% of its total production to Africa, Latin America and Middle East markets. We expect the company will perform well in its export market.
- **Superior Business Model:** HDFC Bank has one of the best operating performance with superior cost control backed by digitization and usage of technology. The bank enjoys higher NIM of ~4% with lower cost of funds.
- **Impeccable Asset Quality:** The bank is able to maintain its asset quality despite a large base. The bank has strong credit underwriting system and strong management pedigree. In comparison with Pvt. sector banks GNPA, HDFC bank GNPA ratio is at comfortable level.

**Valuations:** We believe HDFC Bank is well-positioned to achieve 18% CAGR growth in its advances and 20% CAGR growth in profit over the period of FY19-21E. The bank has strong margin profile with superior return ratios. Sustainable business momentum with strong credit growth, well maintained asset quality and strong ROA capabilities justifies the premium valuation. We value the stock on P/ABV of 4.1x to its FY21E ABV of Rs 334 per share to arrive at a fair value of Rs 1370 per share. We have a positive outlook on the stock from longer to medium term perspective.

## Key Financials

Rs Cr.	NII	PPOP	PAT	NIM (%)	ROE (%)	RoA (%)	GNPA (%)	P/ABV (x)
FY17A	33,139	25,732	14,550	4.10%	17.90%	1.90%	1.10%	4.2
FY18A	40,095	32,625	17,487	4.40%	17.90%	1.80%	1.30%	4.7
FY19A	48,243	39,750	21,078	4.40%	16.50%	1.80%	1.40%	4.6
FY20E	54,948	45,617	26,256	4.30%	16.50%	2.00%	1.40%	4.1
FY21E	64,289	54,061	30,114	4.30%	16.60%	1.90%	1.40%	3.7



# ICICI Lombard General Insurance Company Ltd

CMP Rs 1295 | Target Rs 1424 (7.1x FY20E BVPS)

ICICI Lombard General Insurance Company Ltd (ICICI GI) is a private sector non-life insurer. The Company's segments include Fire, Engineering, Marine Cargo, Marine Hull, Motor own damage, Motor third party, Workmen's Compensation, Public/Product Liability, Personal Accident, Aviation, Health, Credit Insurance, Crop/Weather Insurance and Others.

- It is the 4th largest non-life insurer and the largest private sector non-life insurer based on GDPI as on FY19. Company has a leadership position among private sector (15.6% market share among Private players) non-life insurers across the segments (motor, health and personal accident, crop/weather, fire, engineering and marine).
- It has strong distribution network with the better underwriting practices. The company has maintained a strong capital position with the solvency ratio well above the minimum regulatory requirement.

**Valuations:** We remain positive on Bajaj Auto's future growth prospects, and have a ACCUMULATE rating on the stock. At CMP of Rs 3088, we value BJAUT at a PE of 18.5x + Rs 129 for KTM stock valuation to arrive at a target price of Rs 3,529 with potential upside of ~14%.

## Key Financials

Rs Cr.	GDPI	PAT	EPS (Rs)	RoA (%)	RoAE (%)	Combined Ratio (%)	BVPS	P/BV
FY18	12,357	862	19.01	3.3	20.8	100.2	100.0	13.0
FY19	14,488	1,049	23.11	3.5	21.3	98.5	117.1	11.1

# HDFC Life Insurance Company Ltd

CMP Rs 611 | Target Rs 707 (5.9x FY21E EVPS)

HDFC Life is one of the India's leading private life insurance companies, offers a range of individual and group insurance solutions Products. The company is a JV with HDFC Ltd and Standard Life Aberdeen. It majorly major focus on protection business. Company has a well diversified business with ULIP constituting 55% of total APE, Par business - 18%, Non-Par – 15%, Term insurance – 7% and Annuity – 5%.

- **Better product mix with focus on APE growth and maintaining VNB margins:** HDFC Life is consistently displayed stellar performance on account of APE growth and strong VNB margins (29.8% in Q1FY20) led by better product mix (focus on non-par savings and protection) than lower margin ULIPS.
- **Superior profitability and strong ratios to create strong visibility:** As of FY19, HDFC Life reported VNB margins of 24.6%, which is significantly higher than its peers (SBI Life 17.7% & ICICI PruLife 17%). It has consistently delivered double digit RoEV (Return on embedded value) above 21% in the last 3 years compared to its peers.
- **Earning momentum to continue:** We expect, Bajaj Auto's sales and profits to grow at 8% and 10% CAGR between FY19-21E respectively. This is led from new launches, better product mix and rising share of exports resulting in market share gain.

**Valuations:** As Indian Insurance market is under penetrated So, we expect improving economy would lead to increasing share of life insurance market. HDFC Life is well poised to grab this opportunity as it has strong distribution network and high VNB margin business with improving profitability. We are positive on the stock for long term perspective and have a target price of Rs 707. We value the stock at P/EV multiple of 5.9x to its FY21E embedded vale (EV).

## Key Financials

Rs Cr.	Gross Premium Income	PAT	EPS (Rs)	VNB Margin (%)	RoE (%)	RoEV (%)	P/EV	P/BV
FY18	23,564	1,109	5.5	23.2	26.0	21.5	8.1	25.9
FY19	29,186	1,277	6.3	24.6	24.6	20.1	6.7	21.8

# SBI Life Insurance Company Ltd

CMP Rs 989 | Target Rs 1,145 (3.9x FY21E EVPS)

SBI Life Insurance is the second largest private life insurance company has a market share of 6.4% in overall life insurance industry. Company has a JV between State Bank of India and BNP Paribas Cardif. SBI Life extensively leverages the State Bank Group relationship as a platform for cross-selling insurance products along with its numerous banking product

- **Healthy growth in protection & annuity business to drive growth:** SBI Life has witnessed strong growth in protection & annuity business and in non-par as well during Q2FY20. Company continue to maintain strong margin with high APE growth.
- **Widespread distribution network to increase market share:** The company has largest agency network and is well poised for growth on the back of its strong branch network of its parent bank (SBI). Its associate Bank's Total Branches are ~22,010, total number of agents are 1,84,452 and branch network of 908 which is highest amongst its peers.
- **Improved AUM, solvency ratio, persistency ratio to support growth:** The company has gained private market share based on individual rated premium at 23.1% driven by increased AUM by 23% YoY in H1FY20, healthy solvency ratio of 2.20x and improved persistency ratio across cohorts. This is led from new launches, better product mix and rising share of exports resulting in market share gain.

**Valuations:** We expect SBI life to continue to deliver strong growth in VNB with improving margin and better persistency ratios. Currently, It is trading at 3.3x P/EV for FY21E which is quite attractive considering its growth prospects. We value the stock at P/EV of 3.9x to its FY21E EV and arrive at a target price of Rs 1145, giving a potential upside of 16%. (EVPS = Embedded Value Per Share)

## Key Financials

Rs Cr.	Gross Premium Income	PAT	EPS (Rs)	VNB Margin (%)	RoE (%)	RoEV (%)	P/EV	P/BV
FY18	25,354	1,150	11.5	16.2	19.0	17.9	5.2	15.2
FY19	32,989	1,327	13.3	17.7	18.8	17.4	4.4	17.8

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