श्री LAKSHMISHREE

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DIWALI STOCKS PICKS - 2022

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India's Growing Defense Exports

ACCORDING to reports, India would supply the 'Pinaka' multi-rocket launcher system, which can fire a salvo of 12 HE rockets in 44 seconds to Armenia besides anti-tank missiles and a variety of ammunition as part of a package agreement. The complete details of these armaments have not yet been disclosed. Pinaka saw service during the Kargil War, where it was successful in neutralising enemy positions on the mountaintops.

While the deal's value has not been disclosed, the report claims armament worth $250 million or INR 2,000 crores would be sold over the next few months. The deal was signed earlier this month and supplies are to be fast-tracked.

It is not the first time that Armenia has received weapons equipment from India. In 2020, India triumphed over Russia and Poland in a $40 million defence agreement with Armenia providing it with four indigenous 'Swathi' counter-battery radars.

This disclosure comes days after India called on the "aggressor side" in fresh fighting along the Armenia-Azerbaijan border to "immediately cease hostilities" without directly naming Azerbaijan. Latest fighting erupted between the two sides on September 13.

India's Defence Exports

Meanwhile, it seems the Armenian-Azerbaijan conflict has helped India to boost its arms exports. According to reports India recently announced figures for the highest-ever defence export growth that swelled by a staggering 334% over the last five years.

In fact India is chasing an even higher target. In 2020, the Modi government had set a target of Rs 35,000 crore ($ 5 billion) export in aerospace, and defence goods and services in the next five years. This is part of the turnover of Rs 1.75 lakh crore ($ 25 billion) in defence manufacturing by 2025 that the government is aiming to achieve.

India's defence exports touched a record Rs 13,000 crore in 2021-22, "eight times" of what it was around five years ago.

Besides the strategic importance of the deal with Armenia, the export order is a boost for the indigenous defence industry with the Indian government keen to increase the value of Indian arms exports.

India had also signed a contract with the Philippines in January 2022 for the sale of BrahMos missiles.

Currently, India exports defence equipment to 75 countries and these include weapon simulators, tear gas launcher, torpedo loading mechanism, alarm monitoring & control, night vision monocular & binocular, light-weight torpedo & fire control systems, armoured protection vehicle, weapons locating radar, high-frequency radio, coastal surveillance radar among others.

Armenia-Azerbaijan Conflict

The issue of the conclave of Nagorno-Karabakh has always been the bone of contention between Armenia and Azerbaijan ever since the two countries became independent republics, after gaining independence from the erstwhile USSR.

The disputed region of Nagorno-Karabakh lies in Azerbaijan and is inhabited mostly by ethnic Armenians. The conflict escalated into a full-scale war in the early 1990s which later transformed into a low-intensity conflict until four-day escalation in April 2016 and then into another full-scale war in 2020.

A ceasefire signed in 1994 in Bishkek was followed by two decades of relative stability, which significantly deteriorated along with Azerbaijan's increasing frustration with the status quo, at odds with Armenia's efforts to cement it.

Azerbaijan, for one, has received backing from its traditional allies and supporters, Turkey and Israel. During the 2020 skirmish between the two combatants, Baku turned the tide in its favour by overwhelmingly deploying Turkish Bayraktar and Israeli kamikaze drones.

While Armenia has often turned to Russia for support, Moscow's preoccupation with the on-going war against Ukraine has resulted in not a very supportive response, this time.

In the face of rising hostilities and little military aid, the defence deal with India may prove to be a shot in the arm for a beleaguered Armenia.

Azerbaijan-Turkey-Pakistan Relationship

India's military assistance for Armenia comes against the backdrop of its regional rival's bonhomie with Azerbaijan. Pakistan has consistently backed Azerbaijan in the Nagorno-Karabakh conflict and has refused to establish diplomatic ties and legally recognise Armenia as an independent state.

Azerbaijan is seen by many as part of an emerging axis with Turkey and Pakistan. It has used Turkish drones to fight war against Armenia, and is also in talks with Pakistan to buy the JF-17 fighter aircraft.

In 2017, Turkey, Azerbaijan, and Pakistan had signed a Trilateral Ministers Agreement that established security cooperation, and built upon previous bilateral military aid arrangements. These three countries also conducted a joint exercise named 'Three Brothers' last year.

The rise of Azerbaijan with increased Turkey-Pakistan military cooperation is a direct warning to India. Azerbaijan has acquired many deadly weapons by increasing friendship with Turkey and Pakistan in the name of Islam. Indian fears that other countries may also go along this route in the name of Islamic countries are not unfounded.

However, in spite of these developments, an interesting fact is that India has stronger economic ties with Azerbaijan than with Armenia. Indian company ONGC has also invested heavily in Azerbaijan's gas sector. The Indian bilateral trade with Azerbaijan in 2019 stood at $1093 million, while with Armenia it was only $48 million in 2020.

Broadly, this latest defence deal will place India as one of the emerging global powers with rising defence exports capability. In addition it will also allow it to play a significant role in the central Asian republics and regionally, both.

■ **Salil Shah**
Managing Director
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Research Analysts Note:

Though the short-term outlook remains weak and bearish we are very bullish on the long-term outlook of the markets. The correction that started post Nov 2021 is very organized and is in a clean structure of a falling channel. The current rally has terminated right at the channel top and bulls are trying hard to make a higher low around 16750. Any breakdown below 16750 will immediately head to test the next swing low at 15600 and the channel bottom is placed at 15200. On the contrary, if bulls manage to hold and make a higher low around 16750 then a rally back to the channel high at 17800 is highly likely. There have been 4 tests on the upper end of the channel and just 2 tests on the channel bottom and generally a 3rd test is witnessed before channels are broken. Hence with a short-term bearish view we expect a downside which will be a great opportunity to accumulate fundamentally strong large-cap stocks.

- Anshul Jain

Research Analyst

Past Performance:

STOCK NAME	ENTRY PRICE	HIGH PRICE	RETURNS %
MARATHON NEXTGEN	86	274.4	219.07
MSTC LTD	389	395.3	1.62
RAYMOND LTD	457	1284	180.96
SECUREKLOUD TECH LTD	159	178.5	12.26
SICAL LOGISTICS	15	19.95	33.00
STERLING & WILSON SO LTD	434	458.7	5.69
JAGSONPAL PHARMACE	174	418	140.23

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STOCKS TO WATCH FOR DIWALI 2022

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1. Bajaj Finance Ltd.

Ticking All The Boxes

CMP	Target	Potential Upside	Category	Market Cap (INR Mn)	Recommendation	Sector
INR 7,226	INR 9,033	25%	Large Cap.	INR 43,36,084	BUY	NBFC

Bajaj Finance Ltd (BAF) is the lending arm of Bajaj Finserv Ltd. It has a diverse set of product portfolio which is targeted towards meeting the changing consumer preferences.

Strong growth momentum in AUM: Over the past 15 years, BAF has had a 37.0% CAGR growth in AUM and a 51% CAGR in PAT owing to geographic expansion, a large customer base, and the adoption of digital technology. BAF has continuously focused on diversifying its product portfolio according to the customer's preference. Accordingly, it has launched an auto financing segment that will start benefitting the company from Q2FY23E. BAF has also been expanding its housing loan business through its wholly owned subsidiary, BHFL (Bajaj Housing Finance Ltd), through cross-selling opportunities to its existing and large customer base. Considering India's improving housing market, this could be a significant growth catalyst for the NBFC. BAF expects annual AUM growth of 25.0-28.0% YoY, aided by strong demand traction & further expansion of its customer franchise.

Aggressive focus on customer acquisition to be the key driver for growth: The customer acquisition for Q1FY23 was at an all-time high of 2.7 Mn. The customer franchise as of 30th June 2022 stood at 60.3 Mn. The NBFC is confident of adding 9-10 Mn customers by end of FY23E. BAF has been continuously focusing on customer acquisition which is expected to be the key growth driver for the NBFC.

Well-positioned to capture the industry opportunity: The increasing demand shift towards premium products across the discretionary categories has been sizeable, with the growth of ~47.0% YoY in FY22. This shift is primarily owing to the changing lifestyle of the people. BAF has been a dominant lender for consumer finance. With the changing demographics & focus on innovative credit offerings, BAF is expected to have the edge over its peers to grab the growth opportunity in the credit market.

Omni-presence strategy & digital transformation to improve the overall performance: BAF has defined an omnipresence strategy to become a prominent payments and financial services company in India. The NBFC expects to be present in 5,000 locations and 2,00,000 points of sale in the medium-long term, expanding from 3,586 locations and 1,38,900+ distribution points as of 30th June 2022. The omnichannel strategy is expected to improve business velocity, eliminate complexity, reduce operational expenses, and facilitate BAF to serve as a single-point interface for its customers. Technology is expected to be the key driver for the business transformation journey of BAF. It will continue to harness it through new product launches, faster customer acquisition, and simplified operational processes.

Bajaj Finance Ltd is currently trading at 8.5x/6.9x P/ABV multiple for FY23E/FY24E Adjusted Book Value. We assign a P/ABV multiple of 8.0x on FY24E adj. book value of INR 1,040 to arrive at a T.P. of INR 8,317 per share, an upside of 16.1% over CMP. Accordingly, we maintain our "BUY" rating on BAF shares.

Key Financials

Particulars (INR Mn)	FY21	FY22	FY23E	FY24E
NII	1,72,541	2,18,842	2,73,805	3,47,257
PPOP	1,19,609	1,43,072	1,77,406	2,32,180
PAT	44,199	70,282	1,03,715	1,41,298
EPS (INR/Share)	73.5	116.6	171.3	233.4
BVPS (INR/Share)	560.7	615.5	674.6	769.1
NIM (%)	12.0%	12.9%	12.6%	12.7%
Advances Growth YoY (%)	3.8%	30.5%	27.1%	25.0%

Shareholding Pattern

Particulars (%)	Jun-22	Mar-22	Dec-21
Promoters	55.9	55.9	56.0
FIIs	20.0	21.4	22.9
DIIs	12.3	11.6	10.2
Others	11.8	11.2	10.9
Total	100.00	100.00	100.00

2. Nestle India Ltd.

Sustained Growth Momentum And A Higher Focus On Premiumization

CMP	Target	Potential Upside	Category	Market Cap (INR Mn)	Recommendation	Sector
INR 18,725	INR 23,406	25%	Large Cap.	INR 18,28,620	ACCUMULATE	FMCG

Nestlé India (NEST) is the Indian subsidiary of the Swiss MNC Nestlé SA. NEST has a presence across India and manufactures products under internationally famous brand names such as NESCAFÉ, MAGGI, MILKYBAR, KIT KAT, BAR-ONE, MILKMAID and NESTEA. NEST operates in 4 categories- prepared dishes and cooking aids, milk products and nutrition, confectionery, and beverages.

Broad-based sustainable topline growth

NEST has reported sustainable revenue growth in the last 22 quarters, where 17 out of the 22 quarters had double-digit growth, 4 quarters had very high single-digit growth and only 1 quarter, during the pandemic had a growth of 2.6%.

In Q2CY22, NEST reported domestic sales growth of 16.4% YoY, contributed by 8.5% YoY pricing growth and 7.9% YoY volume growth. The revenue growth was broad-based across categories and across geographies, despite the macroeconomic and demand pressures. NEST's growth momentum in megacities and metros was strong, while town class 1, town class 2-6, and villages saw an uptick in growth rates. Despite the pressure in overall rural markets in Q2CY22, Nestle saw a strong 30.7% YoY penetration-driven growth in the rural segment on a small base, indicating acceptance for Nestle's products in rural India.

Increased focus on premiumization

In Q2CY22, NEST announced its foray into 2 separate premiumization opportunities. One was the acquisition of the PET Foods business from Purina Petcare and the second was the launch of the toddler nutrition brand GERBER in India. The premiumization opportunity is big as if the index price is INR 100 for a kg of MAGGI noodles, the average price for pet food is about INR 140, and the price for Gerber is INR 700. With this, NEST is creating new avenues for growth from premiumization and market penetration.

Accelerated investment plan

Nestlé SA has announced an accelerated investment plan for India where the plan is to invest INR 50 bn till 2025. The planned investment is sizable when compared to INR 80 bn invested over the last 60 years. The investment will be for Capex, setting up new plants, acquisitions, and expansion of the product portfolio of the company. Additionally, the company is open to exploring opportunities for mergers and acquisitions. The higher investments will help NEST to accelerate its core business and leverage new opportunities for growth.

Outlook and Valuation

We expect Revenue/ EBITDA/ Adj. Net income to grow at a CAGR of 11.2%/ 12.4%/ 12.3%, respectively over CY21- CY24E. The shares are trading at 76.8x/62.5x/54.2x its CY22E/CY23E/CY24E EPS estimates, respectively. **We apply P/E of 61.0x on CY24E EPS of INR 349.7 and arrive at a target price of INR 21,334 per share with an upside potential of 12.5% from the CMP. Accordingly, we maintain our "ACCUMULATE" recommendation on the shares of Nestle India.**

Key Financials

Particulars (INR Mn)	CY21	CY22E	CY23E	CY24E
Revenue	1,47,094	1,65,632	1,84,048	2,02,314
EBITDA	35,915	36,936	44,540	50,983
Adj. PAT	23,814	23,804	29,254	33,720
Adj. EPS (INR)	247.0	246.9	303.4	349.7
EBITDA Margin (%)	24.4%	22.3%	24.2%	25.2%
Adj. NPM (%)	16.2%	14.4%	15.9%	16.7%

Shareholding Pattern (%)

Particulars (%)	Jun-22	Mar-22	Dec-21
Promoters	62.8	62.8	62.8
FIIs	11.7	12.0	12.4
DIIs	9.1	8.6	7.9
Others	16.5	16.6	17.0
Total	100.00	100.00	100.00

3. The Ramco Cements Ltd.

Capacity expansion to drive sales volume and aid revenue growth

CMP	Target	Potential Upside	Category	Market Cap (INR Mn)	Recommendation	Sector
INR 709	INR 886	25%	Mid Cap.	INR 1,75,565	BUY	Cement

The Ramco Cements Ltd. is one of the prominent cement manufacturers in India with a total installed capacity of 21 mtpa. The company has five integrated cement units, six grinding units, one RMC plant, one dry mortar plant and wind farm division.

Fall in crude and other commodity prices to improve margin profile

For the last few quarters, Ramco has faced downward pressure on its margins due to sharp rise in the input cost, especially power & fuel and logistics costs. Ramco’s EBITDA margin stood at 26.6%, 14.7%, 17.2% and 17.0% respectively for Q2F22, Q3FY22, Q4FY22 and Q1FY23. With crude prices now correcting significantly from its peak along with correction in pet coke and coal prices, Ramco is expected to improve its margin profile in the coming quarters.

Capacity expansion to drive sales volume and aid revenue growth

The company is on track with its expansion plans and has recently commissioned its fifth integrated cement plant at Kurnool with a clinker capacity of 2.25 mtpa. The modernisation of RR Nagar plant along with lime-stone beneficiation plant will get commissioned during March-23. Ramco also aims to expand the capacity of its dry mix products in Tamil Nadu, Orissa and Andhra Pradesh to produce high value premium products viz. water proofing, repair products, flooring screeds including liquid products besides other regular dry mix products. The two units in Tamil Nadu will be commissioned in FY23E and the remaining two units in AP & Orissa will be commissioned in FY24E. We believe, all these capacities will help to drive Ramco’s sales volume and aid revenue growth going forward.

Continued focus on sale of premium products to augur well for Ramco

Ramco has strengthened its focus on sale of premium products. In last one year, share of premium products has grown steadily and stood at 24% in Q1FY23 against 19% in Q1FY22. We believe higher share of premium products will boost its revenue in the subsequent quarters.

At CMP of INR 755, the stock trades at 15.0x/11.9x its FY23E/FY24E EV/EBITDA. We apply an EV/EBITDA multiple of 13.4x to FY24E EBITDA, which yields a target price of INR 843 per share, giving an upside of 13.5% over the CMP. Accordingly, we recommend a ‘BUY’ rating on the shares of Ramco Cements.

Key Financials

Particulars (INR Mn)	FY21	FY22E	FY23E	FY24E
Revenue	52,910	60,037	68,055	77,449
EBITDA	15,573	12,901	13,868	17,456
EBITDA Margin (%)	29.4%	21.5%	20.4%	22.5%
Adj. PAT	7,843	5,741	6,651	9,120
Adj. PAT Margin (%)	14.8%	9.6%	9.8%	11.8%
Adj.EPS (INR)	33.2	24.3	28.1	38.6

Shareholding Pattern

Particulars (%)	Jun-22	Mar-22	Dec-21
Promoters	42.3	42.3	42.5
FIIs	6.9	7.6	8.1
DIIs	36.8	36.0	35.7
Others	14.0	14.1	13.7
Total	100.00	100.00	100.00

4. Sun Pharmaceutical Industries Limited

Strong growth across markets while specialty continues to drive growth

CMP	Target	Potential Upside	Category	Market Cap (INR Mn)	Recommendation	Sector
INR 955	INR 1,194	25%	Large Cap.	INR 22,66,290	BUY	Pharmaceuticals

Sun Pharmaceuticals Industries Limited, is the largest Pharmaceutical company from India (AIOCD AWACS with IPM share of 8.5%, June 22), the 4th largest specialty generic company globally, and the 3rd largest generic pharma company in the US. The company's global specialty products sales (over 12 specialty products) now account for 13.8% of total revenue vs. 11.3% in Q1FY22 and 14.8% in Q4FY22.

Strong growth visible in global specialty revenue: The global specialty revenue was at USD 191.0 mn (INR 14,739 mn, 13.8% of operating revenue), up 29.1% YoY in Q1FY23, driven by Ilumya, Cequa, Odomzo, and Winlevi's performance. Specialty comprises 30.0% of the US revenue now. In the US, patient flow and frequency of MRs to doctors are still not at pre- COVID-19 levels. However, Winlevi is ramping up with 10,000 doctors prescribing it in the US while the generic business continues to grow, driven by new launches, market share gains, and better supply chain management. In Q1FY23, the company launched 2 products in the US.

Strong pipeline of generic and novel products: The Company's generic pipeline comprises of 89 ANDAs and 13 NDAs, awaiting approval as of Q1FY23. The company has 4 molecules in the specialty pipeline. For Q1FY23, the company launched 22 new products in the US vs. 11 new products in India. The company continues to witness growth in chronic and sub-chronic therapy segments in India, as it continues to outperform the IPM growth, leading to market share gains. Expansion of field force is on track in India and the company has attained 90.0% of the target field force expansion, so far. The focus is on market share gain and improving overall productivity in India.

The company has been experiencing healthy traction in the US revenue over the last 4 quarters. Specialty business constitutes 30.0% of the US and 13.8% of the overall revenue for Sun Pharma as of Q1FY23. The specialty revenue growth has been impressive at an average of ~ 30.0% YoY over the last 4 quarters. The company has another 4 NDA molecules undergoing trials. We continue to expect the company to post a 10.6% and 11.2% CAGR growth in its revenue and adjusted net income, respectively, over FY22-FY24E. The stock is currently trading at 27.3x/23.7x of our estimated FY23E/EFY24E EPS. We apply a 28.0x multiple on FY24E EPS of INR 39.8 and arrive at a Target Price (TP) of INR 1,114 and maintain the BUY recommendation, as the upside potential is 18.0% from its CMP of INR 945.

Key Financials

Particulars (INR Mn)	FY21	FY22E	FY23E	FY24E
Revenue	52,910	60,037	68,055	77,449
EBITDA	15,573	12,901	13,868	17,456
EBITDA Margin (%)	29.4%	21.5%	20.4%	22.5%
Adj. PAT	7,843	5,741	6,651	9,120
Adj. PAT Margin (%)	14.8%	9.6%	9.8%	11.8%
Adj.EPS (INR)	33.2	24.3	28.1	38.6

Shareholding Pattern

Particulars (%)	Jun-22	Mar-22	Dec-21
Promoters	42.3	42.3	42.5
FIIs	6.9	7.6	8.1
DIIs	36.8	36.0	35.7
Others	14.0	14.1	13.7
Total	100.00	100.00	100.00

5. Tech Mahindra Limited

Strong operating performance but with supply side pressure to impact the margin in the near term

CMP	Target	Potential Upside	Category	Market Cap (INR Mn)	Recommendation	Sector
INR 1,015	INR 1,269	25%	Large Cap.	INR 977,587	BUY	Internet Software & Services

Tech Mahindra (TechM) is a Pune-based Indian multinational corporation, specializing in technology-based transformation. Company showed prowess in Network Services, Engineering Services, Platform based solution, Security, Digital Marketing, CX, BPS, IT and robust innovation strategy for driving innovation culture. With over 1,21,000 employees across 90+ countries, company is serving the needs of 1,000+ clients including several Fortune 500 companies.

Investment Rationale

Communication and enterprise businesses to drive growth

Technology/retail/manufacturing verticals registered healthy growth of +6.3/+5.7/+4.3% QoQ, while BFSI declined by -2.7% QoQ due to currency headwind. Americas grew 4% QoQ while Europe grew 3.9% in CC. Revenue from top 5 declined 5.8% QoQ in dollar terms. Top 10-20 barely grew at 0.6% QoQ because many clients (from Non-US geos) were impacted by the cross- currency headwinds. Growth was primarily driven by smaller accounts. BPO grew 2%/28.7% QoQ/YoY in USD terms, comfortably outgrowing IT services (1.4%/16.5% QoQ/YoY). **Demand environment continues to be healthy; TCV on track**

TechM reported net-new TCV at USD 802mn in Q1 (6 consecutive quarter of TCV >USD 700mn) and higher focus on organic growth will improve FCF generation. CME vertical showed strength with multiple deal wins (broad-based across geographies) and Capex guidance maintained by AT&T and Verizon. Despite the positive commentary on 5G spend, we believe that the growth is likely to continue for medium term on the account of growth/monetization uncertainty on the telco side.

Margins to improve in the coming quarter

In Q1FY23, EBITM stood at 11%, declined by 220bps QoQ due to a partial wage revision, lower utilization, and a normalization in SG&A spend. TechM has guided for 100-150 bps EBIT margin increase to 12-12.5% in Q2FY22E. In spite of lower headwind from visa costs & removal of Comviva seasonality, benefit from rising contract pricing and higher utilization rate are likely to aid to the margin.

We have assigned a P/E multiple of 15.5x to the FY24E estimated EPS of INR 76.2 to arrive at a target price of INR 1,181, with an upside of 17.6%. Accordingly, we maintain our rating to a "BUY" to the stock.

Key Financials

Particulars (INR Mn)	FY21	FY22E	FY23E	FY24E
Net Sales	3,78,551	4,46,460	5,29,702	6,00,212
EBIT	53,893	64,996	73,629	88,431
PAT	44,280	55,633	56,195	67,207
EPS	50.2	63.1	63.7	76.2
EBIT Margin (%)	14.2%	14.6%	13.9%	14.7%
NPM (%)	11.7%	12.5%	10.6%	11.2%

Shareholding Pattern

Particulars (%)	Jun-22	Mar-22	Dec-21
Promoters	35.2	35.3	35.7
FIIs	30.4	34.3	35.4
DIIs	20.9	18.2	17.2
Others	12.3	12.3	11.8
Total	100.00	100.00	100.00

Ongoing capex to provide revenue visibility

CMP	Target	Potential Upside	Category	Market Cap (INR Mn)	Recommendation	Sector
INR 1,975	INR 2,469	25%	Mid Cap.	INR 2,12,738	ACCUMULATE	Specialty Chemicals

Vinati Organics Ltd(VOL) is a leading manufacturer of specialty chemical and organic intermediaries with a sustained market presence spanning over 35 countries in the world. Since its inception the company has evolved from being a single product manufacturer to having an integrated business model, offering a wide range of products to some of the largest industrial and chemical companies across US, Europe and Asia. VOL is the global market leader in manufacturing of ATBS and IBB, with a dominant market share of 65%. and leading manufacturer of IB and Butyl Phenols in India. The company has two manufacturing plants in Maharashtra.

Demand from end user industry to push ATBS sales:

VOL's delivered sharp uptrend in its consolidated revenues in the previous quarter mainly led by higher volumes coming in due to increasing demand for high purity grades of ATBS. The growth will also be supported by Butyl phenol business. Its entry into Antioxidants (AO) which is operating at 25% capacity is also seeing a huge demand from domestic market and is expected to touch 50% capacity in next year. Overall we expect the combined revenue of BP+Veeral to clock a CAGR of 88.88% over FY21-FY24E and contribute substantially to VOL's overall revenue stream.

Continuous investment to aid growth:

VOL intends to expand its ATBS capacity from present 40,000MT to 60,000MT. The announced capex is going to be a brownfield expansion to the tune of INR 3,000 Mn which will be funded through internal accruals and is expected to get commissioned by December 2023. Also, with that it plans to expand its product portfolio through Veeral Organics Pvt Ltd (its fully owned subsidiary) by introducing products like MEHQ & Guaiacol (2,000 MT) and Iso Amylene (30,000 MT). It will be a sole manufacturer of Iso Amylene in India which finds application in pesticides, medicines, flavours, and polymerization inhibitors. September 2023 is the projected completion date. While this will be a greenfield expansion the total capex is approximately INR 2,800 Mn.

We anticipate that VOL's capacity expansion plans in the ATBS segment will significantly boost the company's current growth pace. Its emphasis on growing its Butyl Phenol business and forays into new ones via its wholly owned subsidiary Veeral Organics Pvt Ltd will bode well for the company. At a CMP of INR 2,085 VOL is trading at P/E valuation of 49.6x/38.0x on its FY23E/24E earnings. We provide 'ACCUMULATE' rating and apply P/E multiple of 43.5x to its FY24E earnings, with the target price of INR 2,370 per share.

Key Financials

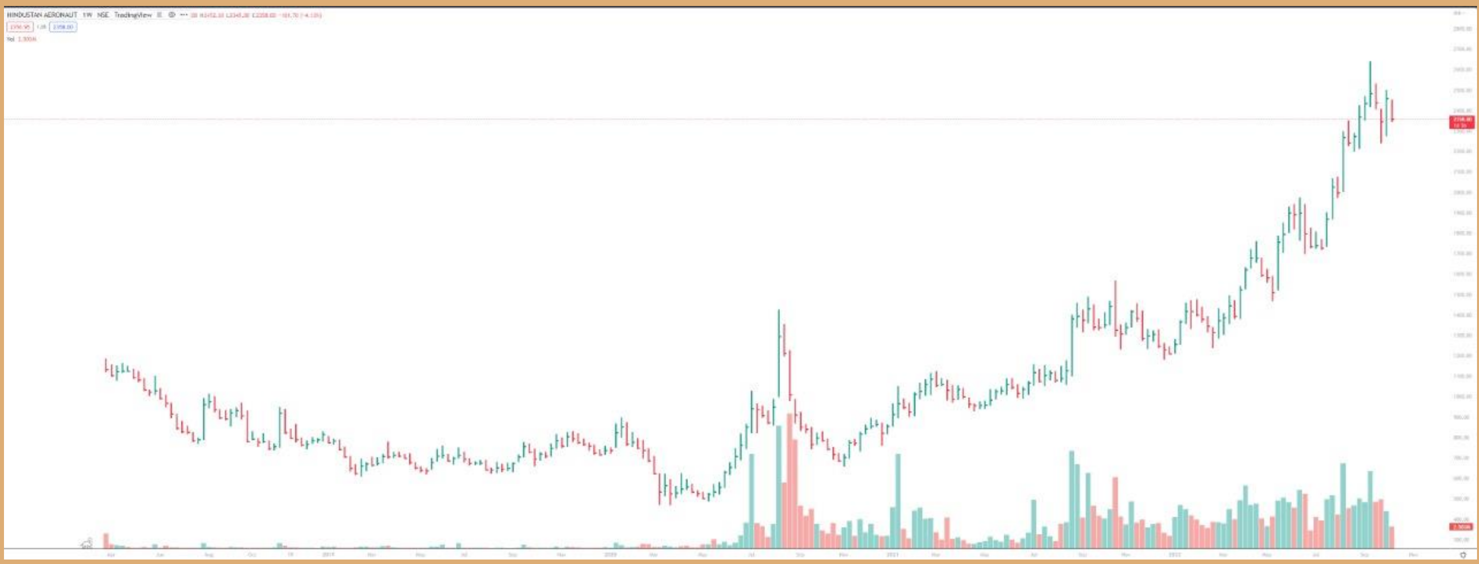
Particulars (INR Mn)	FY21	FY22	FY23E	FY24E
Revenue	9,543	16,155	19,622	25,508
EBITDA	3,525	4,399	5,435	7,142
PAT	2,693	3,524	4,288	5,601
PAT Margin (%)	28.2%	21.8%	21.9%	22.0%
EPS	26.20	33.72	41.72	54.49

Shareholding Pattern

Particulars (%)	Jun-22	Mar-22	Dec-21
Promoters	74.1	74.1	74.1
FIIs	4.7	4.6	4.5
DIIs	8.1	7.9	7.5
Others	13.2	13.5	13.9
Total	100.00	100.00	100.00

7. Hindustan Aeronautics Limited

CMP	Target	Potential Upside	Category	Market Cap (INR Cr)	Recommendation	Sector
INR 2,360	INR 2,950	25%	Large Cap.	INR 37,675	BUY	Aerospace/Defense



Our Take

Hindustan Aeronautics Ltd. (HAL) is the largest Defence Public Sector Unit (DPSU). It has been conferred with "Navratna" status by the Government of India (GOI) in June 2007. HAL is of strategic importance to the Indian defence forces on account of it being sole domestic supplier of aircrafts, helicopters, engines, avionics and other accessories. Both military and commercial aerospace sectors have good growth potential in India and the defence budget allocation has been continuously increasing over the years.

The GoI's increased focus on indigenisation with the Make in India and Atama Nirbhar Bharat policies augur well for the company's future growth. HAL has a robust order book of Rs. 80,640 crore which translates into ~3.5x FY21 revenues. The declining order book trend reversed on the back of newly awarded 83 LCA (Tejas) in Feb 2021. The company anticipates new order for 12 Sukhoi Su30 in the near term.

As a part of Modi government vision for "USD 5 trillion GDP by 2025", India should begin producing its own military aircraft. The successfully won new order of LCA, Make in India program, and deficit of aircraft & helicopter in Indian forces provides multiples years of opportunity worth US$93bn to HAL.

Valuation and recommendation

With monopoly in Indian aerospace, HAL is ready to take off to capture the multi decade opportunity. After decades of R&D, the company recently won the country's biggest order in February-2021 which not only opened bigger pipeline but also reversed its declining order book. We estimate long term Revenue /EBITDA/ PAT will grow at CAGR 13%/14%/14% on account of the robust order book, decades of opportunity, and control over operating costs. HAL could be clear beneficiary of a shift from imports to domestic production. The real growth story should start in FY25, when its newly-won LCA Mk1A contract, which accounts for 45% of its current order book, begins to contribute materially i.e. ->10% of revenues.The stock is currently trading at PE 10.2x FY23E EPS.

Given strong balance sheet, robust order book and execution capabilities, we feel investor can buy stock on LTP and add more on dips to Rs. 900-920 band (8.5x FY23E EPS) for the base target of Rs. 1300 (12x FY23E EPS) and bull case target of 1461 (13.5x FY23E EPS) over the next four quarters. HAL operates in an industry with high-entry barriers, enabling it to deliver high ROE. HAL is not involved in controversial weapons.

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Income from operations	20,008	21,438	22,755	23,892	25,326
Material Cost	8,835	9,387	11,044	11,349	11,928
Employee Cost	4,311	4,778	4,305	4,540	4,812
Other expenses	2,319	2,377	2,056	2,341	2,533
Total expenses	15,465	16,542	17,405	18,230	19,273
EBITDA	4,543	4,896	5,349	5,662	6,053
Depreciation	1,025	999	1,178	1,369	1,542
EBIT	3,894	4,192	4,529	4,652	4,840
Other Income	376	294	358	358	329
Interest	170	348	259	1	1
Profit before tax	3,724	3,962	4,272	4,651	4,839
Tax Expenses	1,396	1,096	1,038	1,172	1,220
Profit After Tax	2,328	2,866	3,234	3,479	3,620
Adj. PAT	2,328	2,873	3,239	3,479	3,620
EPS	69.6	85.9	96.9	104.0	108.3

Shareholding Pattern

Particulars (%)	Jun-21
Promoters	44.07
Institutions	14.98
Non-Institutions	40.23
Total	100.00

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