28th October 2020

IDBI capital

DIWALI PICKS 2020

Diwali Picks 2020

Stock	Market Cap (Rs Cr)	CMP* (Rs)	Target (Rs)	Upside Potential
APL APOLLO TUBES	7,681	3,130	3,740	20%
ALEMBIC PHARMA	18,853	963	1,360	41%
BAYER CROPSCIENCE	23,793	5,353	6,850	28%
BHARTI AIRTEL	2,46,345	452	620	37%
JOHNSON CONTROL	6,019	2,191	2,970	36%
NESTLE INDIA	1,65,870	17,119	20,820	22%
SUPREME INDUSTRIES	18,771	1,459	1,765	21%

*: Closing Price as on 28th October 2020

APL Apollo Tubes

CMP: Rs3,130 / TARGET: Rs3,740

APL Apollo was incorporated in 1986. It is India's leading ERW steel tube manufacturer. The Company has 10 manufacturing facilities across the country and has 2.5 mn tonnes of structural steel tube making capacity. Its products including hollow sections, black round pipes, GI and GP pipes find application in construction, infrastructure projects, energy and engineering. The company has pan-India presence with wide and deeply entrenched 3-tier distribution network, comprising more than 800+ distributors.

Key Triggers :

- **APL likely to gain market share:** APL is the largest player in the ERW pipes in India. In the past decade, APL has outperformed industry growth by gaining market share from small and unorganized players. Currently, unorganized players are struggling with working capital, debt issues, etc after the lockdown. Hence, APL Apollo to gain market share over FY20-22E.
- **Strong Balance sheet:** APL has reported sharp fall in net debt to Rs3.7 bn as of June 30, 2020 compared to Rs7.8 bn as of March 31, 2020 as it generated operating cash flows of Rs5 bn in Q1FY21 (FY20 operating cash flows were Rs5 bn). Its working capital days fell to 10-12 days in Q2FY21 (20 days in FY20) as company prefers to sell on spot payments basis. APL is currently focusing on rural areas to improve its volume growth.

Valuation: APL Apollo's management's has a strategy to strengthen balance sheet during the lockdown. We believe steel prices are unlikely fall meaningfully hereon which bodes well for APL's margins. We expect strong recovery in volumes and profitability from H2FY21. APL's stock is trading at an attractive valuation of 17x FY22E P/E given that we forecast its EPS to grow 50% in FY22E.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY17	38,051	3,330	8.8%	1,521	64.5	46.5	23.0	23.9	21.6
FY18	51,561	3,710	7.2%	1,581	66.6	45.0	21.0	20.5	21.2
FY19	68,946	3,928	5.7%	1,482	62.2	48.2	19.9	16.5	18.9
FY20	74,265	4,773	6.4%	2,380	95.7	31.3	17.1	20.5	18.2

Alembic Pharmaceuticals

CMP: Rs963 / TARGET: Rs1,360

The company consisting of domestic formulations, international generics and active pharmaceutical ingredients. The formulations account for 87% of the business while the rest comes from APIs. Company's facilities are located at Vadodara and Baddi in Himachal Pradesh.

Key Triggers :

- **Growth in US business:** US sales (43% of FY20 revenues) grew at ~12% CAGR in FY16-20 to Rs20 bn on the back of consistent product launches including limited competition products. Despite being a late entrant, the company has done reasonably well with a product basket of 198 ANDA filings (67 pending final approval).
- **Weak domestic business:** During Q2FY21 domestic revenue decreased 5.6% YoY (23% of revenue, down 10.5% QoQ) due to industry wide slowdown in Indian Pharma Market (IPM) in the months of April & May, though recovery was seen in the month of June.
- **Improvement in margins:** Company's EBITDA margin improvement of 4bps YoY in FY20 was primarily on account of operating leverage with higher revenue. Fixed costs like other expenses, employee cost are lowered.
- **Upcoming activity:** Company has filed 8 ANDAs during the Q2FY21 and received approvals for 4 ANDAs. Cumulatively, company now has 191 ANDA filings, with 125 approvals & 79 products launched so far. Company launched 3 products in the US in 1QFY21, and will launch 5 products in 2QFY21. For full year FY21, company plans to launch 15-20 new products.

Valuation: The stock is trading at a PER of 17.5x FY21 Bloomberg EPS estimates which looks attractive.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY17	31,340	6,150	19.6%	4,030	21.4	29.3	19.2	20.0	27.0
FY18	31,308	6,431	20.5%	4,126	21.9	25.1	16.9	18.6	18.4
FY19	39,347	8,736	22.2%	5,844	30.9	30.6	21.8	20.8	20.8
FY20	46,058	12,230	26.6%	8,291	42.5	21.9	16.2	21.6	21.6

Bayer CropScience

CMP: Rs5,353 / TARGET: Rs6,850

Bayer Crop Science Ltd. is a part of German based global chemical giant Bayer Crop. The company manufactures insecticides, fungicides and herbicides. It offers crop solutions for various crops such as cotton, fruits, millet, mustard, pulses, rice, soybeans, sugar cane, vegetables etc. It also offers pest management solutions for household.

Key Triggers:

- **Agriculture remains undeterred in India due to external environment:** We believe agrochemicals segment is least affected due to any natural calamity as food cultivation remains at the heart of any activity in the country. So impact of Covid-19 on Bayer crop would be negligible unlike other most of the companies which are struggling during the pandemic. Also, anti-China sentiments may drive shift of manufacturing hub from China to India, which would benefit the company in a longer run.
- **Merger with Monsanto India to drive incremental earnings growth :** Bayer Crop's acquisition of Monsanto India resulted into a bigger entity in agro-chemical and seed. This will unlock the growth potential of Indian agriculture as a global producer and exporter of food, feed and fiber. Further, the merger has resulted in cost efficiencies and revenue synergies and would result in incremental earnings growth for Bayer Crop**.**
- **Strong position in crop protection market:** The company enjoys a unique position in the domestic agrochemical space due to its ability to offer new innovative products. Technologies, processes and services. The company has strengthened its presence by introducing customer centric solutions. These initiatives has helped the company to increase its market share in crop protection market over the years.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY17	28,028	4,837	17.3	2,910	82.2	65.6	26.0	14.1	23.4
FY18	27,491	4,482	16.3	3,001	87.5	61.6	31.2	16.9	21.7
FY19	32,207	5,342	16.6	3,371	98.3	54.8	27.1	15.1	24.4
FY20	36,761	7,924	21.6	4,745	105.7	51.0	18.2	18.4	24.8

Bharti Airtel

CMP: Rs 452 / TARGET: Rs620

Bharti Airtel (BHARTI) leading global telecommunications company with operations in 18 countries across Asia and Africa. It is India's second largest telco. Importantly, the Indian market has only two strong players viz. Jio and BHARTI. In India, BHARTI provides wireless services, mobile commerce, fixed line services, high speed home broadband, DTH, enterprise services including national & international long distance services to carriers. Further, BHARTI has a strong market share in the premium subscribers (postpaid / high pre-paid) which places it well to take advantage of increasing data consumption and expected increase in ARPU.

Key Triggers:

- **Structural improvement in ARPU:** With the reduction in competitive intensity and price hike, BHARTI's domestic wireless ARPU increased to Rs157 in Q1FY21 from Rs129 in Q1FY20. This coupled with BHARTI's cost management resulted in India EBITDA margin improving to 44.3% in Q1FY21 from 39.5% in Q1FY20. This in-turn consolidated EBITDA margin improving to 44.4% in Q1FY21 vs. 41% in Q1FY20. BHARTI expects ARPU to structurally improve from the current levels with augers will for its earnings growth.
- **Regulatory headwinds largely behind:** The Supreme court of India has granted the telcos 10 years for payment of AGR dues. The total AGR payment for BHARTI is Rs440 bn and it has already made payment of Rs180 bn. We believe that BHARTI is well placed to make the balance payment over the stipulated time period.
- **Raising capital has never been an issue:** While 5G rollout would need CAPEX, BHARTI has never faced issues in raising capital. It has raised ~US$5.5 bn through QIP/rights issue, US$2 bn through selling stake in Airtel Africa. Further, it has ~54% stake in Bharti Infratel which can also be used to raise capital.

Valuation: BHARTI is trading at EV/EBITDA of 7x/6.1x and PER of 33x/19x FY22/FY23 based on Bloomberg consensus which we believe provides extremely good risk-reward.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY17	9,54,683	3,53,297	37.0%	44,421	11.1	48.3	9.5	6.6	5.3
FY18	8,26,388	3,00,791	36.4%	10,900	2.7	153.6	13.3	1.4	6.1
FY19	8,07,802	2,58,189	32.0%	(39,778)	(9.5)	-61.4	16.0	(4.9)	2.4
FY20	8,75,390	3,66,095	41.8%	(36,304)	(7.2)	-79.8	10.7	(4.7)	4.5

Johnson Controls

CMP: Rs2,191 / TARGET: 2,970

Johnson Controls- Hitachi Air conditioning India Ltd (JCHAC) is the Indian subsidiary of the joint venture between Jonson Controls, USA and Hitachi Appliances, Japan which was formed in Oct-15. The company is engaged in the business of manufacturing , selling and trading of 'Hitachi' brand of products including room and commercial air conditioners, refrigerators and air purifiers. The company's headquarters is situated in Ahmedabad with its manufacturing unit in Kadi, Gujarat

Key Triggers:

- **Favorable regulatory measures:** The government has taken several initiatives to promote domestic manufacturing of ACs and its components such as Phased manufacturing programme, review of FTA's and Quality Control Order for component imports. These schemes will help in reducing import dependence and promote indigenization through backward integration. JCH-IN stands to gain due to its focus on backward integrated manufacturing units, India specific R&D, technology and product development capabilities.
- **Foray in mass premium segment & expansion of distribution reach to drive growth:** Initially, JCH-IN had a strong presence only in premium category. With the launch of new model 'Kaze' in split and window AC it entered mass premium segment to reach out to more customers. Additionally, it has added a lot of retail touch points in tier 2&3 cities . It has expanded its distribution reach to 10,000 retail touch points (up 150% in 5 years) across 1,350 cities.

Valuation: The stock is trading at 30x PE at FY23E Bloomberg estimates.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY17	20,985	1677	7.9	813.3	29.9	73.2	28.5	24.0	24.1
FY18	22,582	1989	8.8	1001.5	36.8	59.5	32.8	29.0	29.3
FY19	22,413	1,638	7.3	859.4	31.6	69.3	32.0	14.0	15.2
FY20E	21,974	1,718	7.8	835.3	30.7	71.3	33.2	12.1	13.9

Nestle India

CMP: Rs17,119 / TARGET: Rs20,820

Nestle (India) is subsidiary of Nestle S.A. and is 3rd largest FMCG company in terms of revenue. The key business segments include milk products and nutrition (46% of revenue), prepared dishes and cooking aid (29% of revenue), powdered and liquid beverage (12% of revenue) and confectionary (13% of revenue). Nescafe, Maggi, Milky Bar, Milo, Kit Kat, Bar One, Milkmaid and Nestea are some of the key brands of the company. NEST has 8 manufacturing units, 29 distribution centers and distribution reach to 4.6mn retail outlets across India.

Key Triggers:

- **Essential products dominate revenue mix; less vulnerable to COVID 19**. NEST will be least impacted by disruption from COVID 19 as 90% of its product portfolio falls under essential category. In packaged food category, industry tailwinds to be positive in Milk Products and Maggi segment (c.75% of NEST's revenue). NEST being category leader in 85% of its product portfolio, to continue gain market share driven by differentiated brand positioning and superior distribution network.
- **Pricing power and innovation edge; key catalysts to drive growth :** NEST enjoys superior pricing power. Despite price hike of c.4% in Milk Product and Nutrition segment, NEST gained market share in its largest segment i.e. Infant Milk Formula. Post Maggi fiasco in CY15, NEST has also been very aggressive on product launches. It launched 70 products during CY16-19. This is largely supported by R&D of parent company.
- **Aggressive CAPEX guidance** :The management has guided for Rs26Bn capex (equivalent to total CAPEX done over last 8-9 years) over next 3-4 years to (i) develop new factory in Sanand, Gujarat and (ii) enhance existing capacities.

Valuation: We forecast Net Sales/EBITDA/PAT to grow at a CAGR of 11%/14%/15% over CY19-22E.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
CY17	1,01,922	20,965	20.6	12,252	24.1	127.1	72.9	36.6	31.0
CY18	1,12,923	26,177	23.3	16.069	30.7	166.7	58.3	45.3	37.7
CY19	1.23,689	28,795	23.3	19,691	37.0	204.2	53.1	70.3	45.8
CY20E	1,34,510	32,485	24.2	22,279	41.3	231.1	46.7	91.4	53.2

Supreme Industries

CMP: Rs1,459 / TARGET: Rs1,765

Supreme Industries Ltd. (SIL) is one of the largest player in Indian PVC pipes segment with ~10% market share. Also, it is second largest plastic furniture manufacturer with ~13% market share in the domestic market. SIL, with a strong product portfolio and competitive edge over the peers, is favourably placed to capitalize on the incremental growth in industry demand. With capex of Rs2.4bn, SI has increased its capacity to 636,000 TPA in FY20 and plans to take it to 700,000 TPA by FY22E. The management is focused on increasing share of value added products in total sales, which has increased from 25% in FY10 to 38% in FY20.

Key Triggers:

- **Strong positioning in domestic PVC pipes segment:** Currently 63% of revenue contribution is from PVC pipes segment. SIL boasts of over 8,000SKUs in pipes segment which is used in ~38 applications. The company is present across all pipes categories and has pan India reach with its extensive 3,300 distributors network. Over the years, the company has maintained its leadership position with ~10% revenue share in the domestic pipes market.
- **On capacity addition spree to maintain growth momentum :** SIL plans to spend Rs350 crs on capacity expansion, particularly on pipes segment to capture incremental growth. The management has guided that total capacity will increase to 700,000 TPA and new plants would be operational by FY22E end. We believe the company's strategy to increase sales by focusing on sales volume bodes well for long term shareholder value creation.
- **Focus on increasing share of value added products to support margin expansion**: The management focus on both volume as well value to increase its share of value added products in total sales. This has resulted in improving share of value added products in total sales to 38% , a robust growth of 1,300bps over FY10-FY20.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY17	44,623	7,619	17.1	4,304	34.0	42.1	23.9	28.6	32.9
FY18	49,701	7,871	15.8	4,317	34.0	42.1	23.2	24.0	28.9
FY19	56,120	7,846	14.0	3,814	30.0	47.8	23.2	18.8	25.7
FY20	55,115	8,346	15.1	4,674	36.8	38.9	21.8	21.2	23.8

Happy Diwali

Disclosures and Analyst Information

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