DIWALI MUHURAT PICKS

Indian Economy in a Sweet Spot of Growth

Samvat 2079

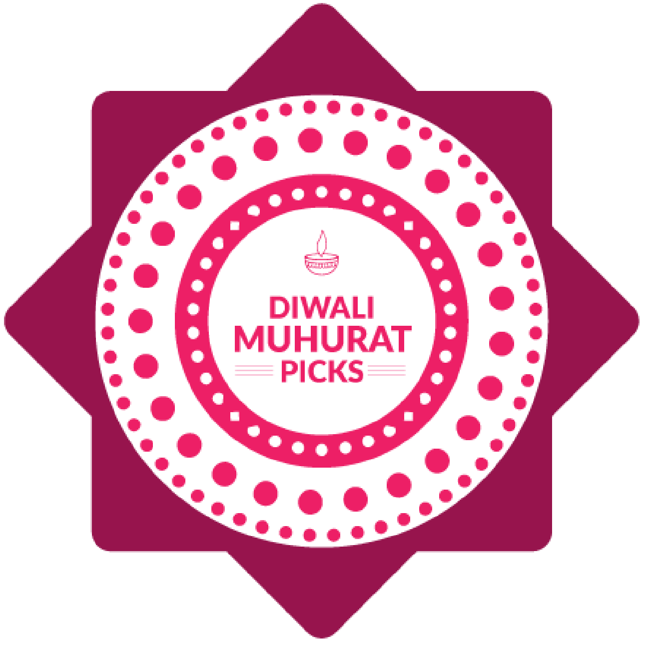
AXIS SECURITIES

*As we turn the final page of Samvat 2078, we welcome Samvat 2079 with great enthusiasm and sincerely wish a **"Happy and Prosperous Diwali"** to all our beloved readers. India is in a sweet spot of growth and we hope this festival would enlighten your wealth and financial well-being. At this juncture, it gives us immense joy to announce our Diwali Muhurat picks for this year and hope it will bolster your investment portfolio further.*

Samvat 2078 was a year of peaks and troughs with a roller-coaster ride in the equity market across the world. Since the last Diwali, the market has witnessed significant volatility led by liquidity reversal, policy tightening, the Russia-Ukraine geopolitical crisis, and rising inflation. While these developments inflicted notable changes in the market regimes, especially with higher commodity prices of base metals and crude oil over the first half of the Samvat, a trend reversal was seen in the second half of the Samvat with the majority of commodity prices cooling off primarily due to the policy tightening and the expectation of a slowdown in global growth. In the last one year, the market experienced quicker rotation in investment style and sector preference and the Value theme dominated the first half of the Samvat which exhibited a rising inflationary period. In the second half, however, the market saw a pickup in the Growth theme, which was led by a) A cool-off in commodity prices, b) Robust domestic demand, and c) Reasonable valuation after the market correction.

Since last Diwali, the Indian market has outperformed other global and emerging markets by a notable margin, thanks to the country's robust economic outlook despite multiple headwinds such as volatile macroeconomic developments, faster regime changes, and volatile FII flows. Since Diwali, our benchmark index Nifty is down by only 5% (till 11th Oct'22) while the S&P500 and the emerging market index are down by a whopping 22% and 29% respectively over the same period. Indian investors have indeed shown a good deal of maturity in the last one year, a pivotal reason for not witnessing adverse panic reactions (such as the steep market correction in 2008 due to continuous FII selling). With continued SIP flows, our DIIs have been continuously supporting the market, thereby counterbalancing the FIIs' selling. Consequently, in this Samvat, the Indian market has emerged from the over-dependence on foreign money and has thus shown remarkable resilience throughout the year.

Furthermore, the investors (domestic + foreign) have proactively shown faith in India's long-term growth story. Moreover, this belief has only strengthened further in the last 3-4 months which is manifested in the market structure shifting to domestic-oriented themes that are well-supported by the country's strength as a domestic consumption economy. We have also seen profitability slowly shifting to commodity consumers from commodity producers in the last one quarter. As a result, domestic-oriented themes such as Banks, Domestic Industrials, FMCG, Auto, Hospitals, and Discretionary consumption have outperformed the cyclical + export-oriented themes since the June bottom. We believe this trend is likely to continue in the upcoming quarters.



Samvat 2079 now looks much brighter and more promising. The Indian economy stands in a sweet spot of growth and remains the land of stability against the backdrop of a volatile global economy. We believe the relative outperformance of the Indian market will likely sustain in Smavat 2079 as well and would be led by favourable macroeconomic factors and better-than-historical fundamentals of Indian corporates. While inflation continues to be a major challenge in the developed world, inflation in the domestic economy seems to be manageable. Good monsoon, higher reservoir levels, cool-off in commodity prices, and healthy job/labour market cumulatively indicate that the domestic economy would accommodate the prevailing inflation rather smoothly. The majority of the high-frequency indicators are trending upwards and the uptick from the pre-Covid levels is visible, indicating the resilience of the Indian economy.

While the country's macro set-up is positive, the fundamentals for Indian corporates have also improved. Profitability across the board has improved significantly. The cumulative and rolling net profit of the NSE 500 universe for the last 4 quarters (till Q1FY23) touched an all-time high of Rs 10 Lc Cr and loss-making sectors, too, have turned positive and contributed notably to the net profitability. Moreover, after a muted performance for several years, ROE for the broader market is improving as well. Asset quality of private as well as PSU banks has improved significantly as compared to the levels seen a couple of years back. Thus, in light of these positive attributes, we firmly believe that the outperformance of Indian equities seems highly sustainable in Samvat 2079.

Factoring in all these economic and market developments, we present the following themes for SAMVAT 2079:

- Housing and Banking will be major themes to watch out for in 2023 on account of their improved economic outlook and the pick-up in credit growth. Moreover, affordable housing may even get a further push in the upcoming budget.
- Consumer space is witnessing a strong revival and many categories are normalizing to pre-Covid levels with a structural uptick in multiple sub-segments. QSR space is well-placed to deliver superior returns.
- Demand momentum in the CV segment is likely to sustain and we expect the CV cycle to maintain its momentum, driven by the pick-up in economic activities and the government's focus on infrastructure
- With a pick-up in the real estate and housing demand, the home improvement theme has bolstered and continues to be robust in 2023.
- Travel & Tourism stands to be a more promising theme, which has further gained momentum post a pick-up in the vaccination drive.

Based on these themes, our Diwali picks are:

ITC, Ashok Leyland, Polycab, Sundaram Finance, Indian Hotels, IDFC First bank, Westlife development, NOCIL and Aptus Value Housing

Themes for Samvat 2079

- Consumption
- Housing & Banking
- Home Improvement
- Commercial Vehicle
- Balance sheet Strength
- Travel & Tourism

DIWALI MUHURAT PICKS

Long term stocks ideas

IDFC First Bank Ltd

CMP	Target	Potential Upside (%)
53	70	32%

Westlife Development Ltd

CMP	Target	Potential Upside (%)
713	870	22%

ITC Ltd

CMP	Target	Potential Upside (%)
325	380	17%

Sundaram Finance Ltd

CMP	Target	Potential Upside (%)
2130	2490	17%

Ashok Leyland Ltd

CMP	Target	Potential Upside (%)
149	175	17%

Aptus Value Housing Finance India Ltd

CMP	Target	Potential Upside (%)
303	350	15%

Indian Hotels Company Ltd

CMP	Target	Potential Upside (%)
329	375	14%

NOCIL Ltd

CMP	Target	Potential Upside (%)
263	300	14%

Polycab India Ltd

CMP	Target	Potential Upside (%)
2556	2860	12%

DIWALI MUHURAT PICKS

Note: CMP as of 11th Oct'22

IDFC First Bank Ltd

BFSI

BUY

CMP (Rs)	Target (Rs)	Potential Upside (%)
53	70	32%

Market Data

No. of Shares	622 Cr
Market Cap	Rs. 33,004 Cr
52-week High / Low	55/29
BSE Code	539437
NSE Code	IDFCFIRSTB

Why IDFC First Bank

- ✓ **Strong CASA and deposit base**
- ✓ **Robust growth outlook**
- ✓ **Cost to Income Ratio to improve going forward supporting ROA/ROE expansion**

DIWALI MUHURAT PICKS

About the Company

IDFC First bank (IDFCB) was formed by the merger of erstwhile IDFC bank – promoted by renowned infrastructure financing institution IDFC Ltd. and Capital First – a leading technology NBFC. The bank has a robust balance sheet of Rs 2,00,565 Cr and has provided over 30 Mn loans by far. Currently, it serves customers in over 60,000 villages, cities, and towns across the country. In the short span, the bank has expanded to 651 branches, 235 asset service centers, 807 ATMs, and 602 rural business correspondent centers across the country.

Investment Rationale

A. Successful implementation of loan book de-risking plan: Post the merger, the bank focused on building a strong retail franchise by putting together a strategy to realize a loan book with an objective to derisk, diversify, and enhance margins. This helped the bank to reduce its Infrastructure financing portfolio to 5.2% Mar'22 of total funded assets from 37% in Mar'18. We expect the loan book to report healthy growth of 20-25% over FY23-25E with a key focus on the retail segment, albeit with a slightly stable-to-lower growth in the corporate segment.

B. Granular deposits franchise to support the cost of funds since the merger: Post-merger, the bank had a very low retail deposit of Rs 10,400 Cr against a loan book of Rs 104,660 Cr, resulting in a very high cost of borrowing (to the tune of 13.5% in FY18). With the new management at the helm led by V. Vaidyanathan, the bank focused on building a strong retail deposit base with a high proportion of CASA. Consequently, the bank's cost of borrowing was reduced to 5.1% in FY22. Currently, with a strong CASA ratio of 50.04% (Q1FY23), we believe IDFCFB is in a good position to grow with a reasonably sustainable level of cost of borrowing.

C. Strong growth momentum with ROE expansion: In Q1FY23, the bank's retail book continued to report a broad-based and strong growth momentum of 40% YoY. This was driven by credit cards (+183% YoY), digital and gold loans (+123% YoY), and home loans (+60% YoY). Moreover, the bank has reduced its infrastructure loan book by 32% CAGR over the past 3 years. We believe this will lead to stronger asset quality and eventually lower credit costs. We also believe that the bank's ROA/ROE will further expand with strong operating performance, improving asset quality, and reducing the cost-to-income ratio with operating leverage and lower credit cost.

Outlook & Valuation: With a strong and granular deposit base, IDFCFB is focused on growing its loan portfolio wherein the retail book is expected to drive the same. We believe the stock is poised for re-rating given the continuous improvement in the bank's asset quality, its strategy to improve operating performance with expected operating leverage and superior return ratios over FY23-25E.

Recommendation: We recommend a BUY on the stock with a target price of Rs 70/share, implying an upside of 32% from CMP.

Financial Summary

Y/E March	NII (Rs Cr)	PPOP (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	ROA (%)	ROE (%)	P/ABV (X)
FY22	9,706	3,284	145	0.2	31	0.1	0.7	1.7
FY23E	11,401	4,156	1,896	3.0	34	0.9	8.6	1.5
FY24E	13,257	5,311	2,572	4.1	38	1.1	10.6	1.4
FY25E	15,669	7,207	3,706	6.0	43	1.4	13.6	1.2

Source: Axis Securities

Westlife Development Ltd

Retail

BUY

CMP (Rs)	Target (Rs)	Potential Upside (%)
713	870	22%

Market Data

No. of Shares	16 Cr
Market Cap	Rs. 11119
52-week High / Low	755/ 402
BSE Code	505533
NSE Code	WESTLIFE

Why Westlife Development

- ✓ **Encouraging Growth Opportunities**
- ✓ **More room for margin expansion**

About the Company

Westlife Development Ltd (WLDL), through its 100% subsidiary - Hardcastle Restaurants Pvt Ltd (HRPL) owns and operates McDonald's restaurants in West and South India. McDonald's operates in various formats that include standalone restaurants, delivery, drive-thru's, and On the Go. It also has four brand extensions – McCafe, McBreakfast, McDelivery, and Dessert Kiosks. As on Jun-22, WLDL operates 331 McDonald's restaurants across west and south India.

Investment Rationale

A. Multi-year growth tailwinds in the QSR space – QSR (Quick Service Restaurant) segment comprises 22% of the organised foodservice market and is expected to grow at 23% CAGR over FY20-25E, outpacing all other chain food segments on account of 1) Younger demographics of the country, 2) Increasing participation of women workforce, and 3) Shutdown of over 25% of the restaurants after the pandemic and entering into smaller towns will lead to faster market share gains, and 4) New players entering in the QSR turf which would further expand the market opportunity.

B. WLDL well-placed to capture QSR opportunity – The company is well-placed to capitalize on the growing QSR opportunity on account of a) Driving consistent growth in the SSSG and keeping the innovation funnel on, b) Launching new products that suit the Indian taste palate, c) Entering and quickly scaling up the growing QSR categories – Fried chicken and coffee, d) Pushing affordability through combo meals, and, e) Driving premiumisation through launching premium products to increase overall ticket size (from current Rs 200-250). Moreover, the company continues its sharp focus on driving convenience format – delivery, drive thru's and On The Go format to mitigate the future risk of dine-in while simultaneously providing customers with more touch points that will improve the overall consumer experience.

C. Large headroom for expansion – WLDL has 331 (1QFY23) stores and plans to open over 200 stores in the next 3-4 years, implying an addition of 40-50 stores annually (previously 25-30 stores). Its 70-80% of stores are present in metros and tier 1 cities, implying significant headroom for further expansion into smaller cities/towns.

D. Room for margin expansion – We expect the company's EBITDA margin to be in the range of 14%-15% driven by 1) Improving product mix – entering the fast-growing fried chicken category and scaling up of high margin McCafe business, 2) Operating leverage and cost rationalization – cluster store approach to reduce overall cost and bring supply chain efficiencies, and 3) Economies of scale from operating three categories in one store without incurring major Capex.

Financial Summary

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY22	1,556	189	-2	(0.1)	NA	(0.4)	11.9	58.8
FY23E	2,078	309	64	4.1	NA	12.1	22.5	35.9
FY24E	2,672	398	106	6.8	105.0	16.7	26.6	27.6
FY25E	3,455	514	165	10.6	67.2	20.7	30.2	21.0

Source: Axis Securities

DIWALI MUHURAT PICKS

ITC Ltd

Cigarettes, FMCG

BUY

CMP (Rs)	Target (Rs)	Potential Upside (%)
325	380	17%

Market Data

No. of Shares	1226 Cr
Market Cap	Rs. 403717
52-week High / Low	349/207
BSE Code	500875
NSE Code	ITC

Why ITC Ltd

- ✓ **Attractive Valuations**
- ✓ **Encouraging Growth Opportunities**
- ✓ **Company-specific Triggers**

DIWALI MUHURAT PICKS

About the Company

ITC Limited – an Indian conglomerate company headquartered in Kolkata, has a diversified presence across industries such as Cigarettes, FMCG, Hotels, Packaging &Paperboards, Agribusiness, and Software. The company is the market leader in the domestic cigarette and PPP segments. It is also the second-largest hotel chain by revenue and has a strong distribution reach of over ~7 Mn outlets in the FMCG space.

Investment Rationale

A. Expect stable cigarette volume - We expect overall cigarette volumes to remain stable. At the industry level, the cigarette volumes have surpassed the pre-covid levels and ITC is gaining lost market share from its peers. Moreover, the government's stance on stable taxation and crackdown on the illicit cigarette players has been icing on the cake, especially for the ITC which has been grappling with this issue for the last few years. Over the years, ITC has strengthened its distribution reach in rural and semi-urban regions and expanded its portfolio by launching new products and adopting regional customization. These attributes are likely to bolster ITC's footing among its peers.

B. FMCG has reached its inflexion point – ITC delivered 7.7% FMCG EBIT margins in FY22 which is likely to inch up further due to the initiatives such as 1) Launching new products (110 products in FY22) and driving premiumisation agenda, 2) Effectively implementing WIMI strategy to drive regionalization strategy, 3) Leveraging technology to identity demand trend and rapidly scaling up "Unnati" and "VIRU" platform across retailers (3 Lc outlets) for direct ordering, and 4) Limited impact of RM inflation compared to its peers which will strengthen the company's margin story.

C. Other business - With the pandemic behind us, the hospitality segment is expected to register strong revenue growth and margin recovery with leisure and business travel improving the overall occupancy rate. Furthermore, a revival in the end-user industries and exports is expected to drive Paperboard sales moving forward. FMCG Others (~6% of FY21 EBIT), however, is expected to witness near-term challenges on account of rural slowdown and inflation in key raw materials.

D. Attractive valuation - The stock is currently trading at 18x FY25E EPS, 4-5% dividend yield provides a huge margin of safety compared to its peers. Moreover, the recovery in the cigarette business and uptick in Agri, Hotels, and Paperboard in the near term makes ITC a better play in the entire FMCG pack where valuations are high.

Financial Summary

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY22	55,697	18,934	15,058	12.3	26.5	24.5	24.2	20.2
FY23E	67,703	23,141	18,393	15.0	21.7	28.5	28.3	16.6
FY24E	72,655	25,577	20,464	16.7	19.5	29.9	29.9	14.9
FY25E	78,036	27,475	21,998	17.9	18.1	30.0	30.2	13.8

Source: Axis Securities

Sundaram Finance Ltd

BFSI

BUY

CMP (Rs)	Target (Rs)	Potential Upside (%)
2130	2490	17%

Market Data

No. of Shares	11.1 Cr
Market Cap	Rs. 23,664 Cr
52-week High / Low	2582/1555
BSE Code	590071
NSE Code	SUNDARMFIN

Why Sundaram Finance

- ✓ **Broad based recovery in CV cycle**
- ✓ **Robust disbursement growth**
- ✓ **Strong Asset Quality**

About the Company

Sundaram Finance (SUF), established in 1954, is one of the most trusted and diversified financial services groups in India providing financing for commercial vehicles, cars & utility vehicles, tractors & farm equipment, construction equipment, and SME finance including working capital products. The company also offers diversified financial services such as home finance, loan against property, mutual funds, and investment management solutions through its subsidiaries and group companies. It has a nationwide presence of over 600 branches, nearly 1.2 Lc depositors and over 4 Lc lending customers.

Investment Rationale

A. Robust growth in disbursement: For Q1FY23, the company's disbursements stood at 4,895 Cr, reporting a robust growth of 138% YoY and 31% QoQ. While the lower Q1FY22 base elevated the headline growth rate, Q1FY23 disbursements were the highest-ever Q1 levels. Adjusted for ECLGS, the company's core business disbursement growth stood at 141% YoY. We expect the disbursement to remain strong, thereby supporting NIMs even with a rising interest rate scenario in the coming quarters.

B. Broad-based recovery to aid in growth : The management remained positive about the growth prospects of the commercial vehicle market going into FY23 and beyond. It expects broad-based recovery across all segments in the upcoming quarters and recovery to normalcy which will enable a pick-up in the credit offtake. The management's growth prospects for SUF's segments of Construction Equipment, Tractor & Farm Equipment as well as Commercial Lending continue to remain bright. Demand for passenger vehicles remains strong. We believe with this broad-based recovery, SUF has all the right levers to grow its profitably over FY23-24E.

C. Diversified borrowings to support NIMs in the rising interest rate scenario: The borrowing profile for SUF remains well-diversified. The share of NCDs is ~46.3% and the bank borrowings at ~23.9% in Q1FY23. The share of deposits was 14.9%. Among Auto and NBFCs, SUF is AAA rated (CRISIL rating) enabling the bank to raise funds at relatively lower rates. Furthermore, the management indicated that higher interest rates will be passed on to the customers by second quarter and thus remains confident to maintain NIM at reasonable levels.

Outlook & Valuation: SUF has been conservative in building its loan book during uncertain times and we believe this approach has helped SUF in controlling asset quality stress. Despite the ups and downs in the CV cycle, the management's prudence in lending has led to otherwise consistent performance in the past, resulting in strong return ratios (ROA of +2.5%). We believe SUF's well-diversified secured loan mix with strong underwriting practices and comfortable capital position (CAR +24.1%) will support operating performance in the current broad-based recovery in the CV space.

Recommendation: We recommend a BUY on the stock with a target price of Rs 2,490/share, implying an upside of 17% from CMP.

Financial Summary

Y/E March	NII (Rs Cr)	PPOP (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	ROA (%)	ROE (%)	P/ABV (X)
FY21	1,726	1,372	809	72.8	405.2	2.4	13.8	5.3
FY22	1,974	1,495	903	81.3	468.8	2.6	13.8	4.5
FY23E	2,072	1,540	1,035	93.2	543.5	2.8	14.2	3.9
FY24E	2,371	1,706	1,178	106.0	629.3	2.9	14.5	3.4

Source: Axis Securities

DIWALI MUHURAT PICKS

Ashok Leyland Ltd

Auto

BUY

CMP (Rs)	Target (Rs)	Potential Upside (%)
149	175	17%

Market Data

No. of Shares	294 Cr
Market Cap	Rs. 43,798
52-week High / Low	169/ 93
BSE Code	500477
NSE Code	ASHOKLEY

Why Ashok Leyland

- ✓ **Volume growth led by CV up cycle.**
- ✓ **Market Share Gains.**
- ✓ **Margin improvement going forward.**

About the Company

Ashok Leyland (AL) - a flagship company of Hinduja Group, is the third-largest commercial vehicle manufacturer in India. AL's key products comprise buses, trucks, engines, defence, and special vehicles. The company has 6 manufacturing plants across 4 locations in India - Ennore (Tamil Nadu), Hosur (Tamil Nadu), Alwar (Rajasthan), Bhandara (Maharashtra,) and Pantnagar (Uttaranchal) with a capacity of 164k units for Medium & Heavy Commercial Vehicles (M&HCV) and 72k units for Light Commercial Vehicles (LCVs). It focuses on the M&HCV segment and has a significant presence in the bus segment. It has also established a separate EV mobility business with headquarters in the UK under the name - Switch Mobility.

Investment Rationale

A. Beneficiary of the CV upcycle: As per the ICRA report, MHCV truck volumes are expected to grow by 15-20% in FY23, led by the government spending on Infra along with the pick-up in the Construction & Mining sectors. The MHCV passenger segment is expected to grow by 30-35% as demand continues to improve gradually with the opening up of educational institutes and offices. The LCV segment is expected to grow by 8-10% in FY23. We expect the CV up-cycle to sustain beyond F23, thanks to the economic recovery and the pick-up in the Capex cycle. We model a total sales volume CAGR of 22% over FY22-25E.

B. Margins to improve: We expect the company's EBITDA margins to improve in Q2FY23 on a QoQ basis led by higher operating leverage and lower RM input costs due to a fall in steel prices. With rising volumes, an increase in net realizations (price hikes/lower discounts) and the benefit from lower commodity prices, we expect the company's EBITDA margins to recover from 4.6% in FY22 to 7.8% and 11% in FY23E and FY24E respectively.

C. SWITCH Mobility: Switch Mobility continues to bag EV orders from STUs under the GCC contract. AL has ~600 bus orders in SWITCH India, spread across BMTC and BEST and a couple of private orders. The company is doing well and the product is getting well accepted. SWITCH strategy – AL is not participating in low-margin bids. On SWITCH Mobility fund raining – the company was waiting for the right valuation and right partner. However, the finalisation of investors is expected to happen soon.

D. Hinduja Leyland Finance (HLFL): HLFL has a diverse portfolio across 2W, 3W, Tractors, and CV segments. Consequently, the risk is well-spread across segments. HLFL consolidated AUM in Q1FY23 stood at Rs 30,720 Cr, disbursement at Rs 3,484Cr, PAT at Rs 97 Cr, GNPA at 3.7%, and NPA at 2.3%.

Outlook & Valuation: AL remains well-positioned to benefit from the cyclical recovery, especially in buses and higher tonnage trucks where it has a higher market share. Demand recovery and gradual price increases are expected to drive improvement in the longer run. The RM cost pressures are likely to subside leading to margin improvement in the upcoming quarters. We value AL at 19x its FY24E EPS and arrive at our TP of 175, implying an upside of 17% from the CMP.

Recommendation: We recommend a BUY on AL with a target price of Rs 175/share, implying an upside of 17% from the CMP

Financial Summary

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY22	21,688	995	17	0.1	1,997.3	0.2	2.9	37.1
FY23E	31,528	2,460	1,170	4.0	37.4	14.8	11.7	18.7
FY24E	39,914	4,391	2,696	9.2	16.2	28.2	22.2	10.4
FY25E	44,345	4,960	3,058	10.4	14.3	57.6	47.1	8.8

Source: Axis Securities

DIWALI MUHURAT PICKS

Aptus Value Housing Finance India Ltd

Housing Finance

BUY

CMP (Rs)	Target (Rs)	Potential Upside (%)
303	350	15%

Market Data

No. of Shares	49.7 Cr
Market Cap	Rs. 15,112
52-week High / Low	395/221
BSE Code	543335
NSE Code	APTUS

Why Aptus Value Housing Finance

- ✓ **Long growth runway with presence in high growth markets**
- ✓ **Niche Lender commanding pricing power**
- ✓ **Best-in-class Return Ratios**

About the Company

Aptus Value Housing Finance India Ltd. (Aptus) is a retail-focused housing finance company primarily serving low and middle-income self-employed customers in the rural and semi-urban markets of India (primarily Tier III and Tier IV cities). The company is predominantly present in the southern states of Tamil Nadu, Andhra Pradesh, Telangana, and Karnataka with operations mainly concentrated in Tamil Nadu and Andhra Pradesh, which collectively contribute ~79% of the AUM.

Investment Rationale

A. Long growth runway: We expect Aptus to deliver a robust AUM growth of ~26% CAGR over the medium term on account of the huge unmet demand in the key markets, gradually improving contribution from the new geographies (Chhattisgarh and Odisha), and the company's focus on the underserved self-employed customers, wherein opportunity remains fairly large.

B. Asset Quality snag to ease-off: Aptus witnessed a sharp spike in GNPA (1.53% vs. sub-1% GNPA historically) and 30+dpd pool primarily owing to COVID 2.0 related stress and the RBI circular on NPA recognition. However, while the 30+ dpd pool declined sharply by 340bps QoQ in Q1FY23, GNPA continued to remain elevated owing to higher slippages. With an unabated focus on collections, Aptus is likely to witness an improvement in the 0-60dpd pool and will be moving to ~95% of its portfolio with 'Nil' overdue over the coming quarters. A gradual improvement in asset quality would be visible backed by possible write-offs from the sticky pool as Aptus will look to exit FY23 with GNPA/NNPA of 1.3/0.9% vs. 1.75/1.3% in Q1FY23 and the 1+ dpd book at ~5% vs. 9% currently.

C. Best-in-class RoA: Aptus is able to deliver strong RoA due to the pricing power the company commands owing to its dominant presence, lower competition in high-growth rural markets, and its lean cost structure. NIM compression is likely over the medium term owing to the higher fixed-rate loans and shift in the portfolio mix towards housing loans to comply with the RBI regulations. However, the downside remains fairly insulated with the rating upgrade supporting CoF and the existence of a 're-pricing clause' enabling Aptus to pass on the interest rate hikes on fixed-rate loans in case of a sharp spike in systemic rates. Thus, superior NIMs (despite moderation), lean cost structure, and moderating credit costs will help Aptus to continue to deliver best-in-class RoAs over the medium term.

Outlook & Valuation: Aptus remains well-placed in the high-growth market that exhibits lower competition due to the expertise required to cater to the un/underserved self-employed customers. While NIM compression over the medium term is imminent, stable Opex, and gradually improving credit costs with asset quality stress receding will support strong RoAs, thereby justifying premium valuations.

Recommendation: We recommend a BUY on the stock with a target price of Rs 350/share, implying an upside of 15% from CMP.

Financial Summary

Y/E March	NII (Rs Cr)	PPOP (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
FY22	583	514	370	7.4	57.8	5.3	7.3	0.9
FY23E	734	635	444	8.9	67.6	4.6	6.9	0.9
FY24E	871	744	526	10.6	78.2	3.9	6.5	0.7
FY25E	1,046	886	628	12.6	90.9	3.4	6.3	0.7

Source: Axis Securities

DIWALI MUHURAT PICKS

Indian Hotels Company Ltd

BUY

Hotels

CMP (Rs)	Target (Rs)	Potential Upside (%)
329	375	14%

Market Data

No. of Shares	142.04 Cr
Market Cap	Rs. 46,700
52-week High / Low	438/ 181
BSE Code	500850
NSE Code	INDHOTEL

Why Indian Hotels

- ✓ **Strong luxury brand in industry**
- ✓ **Strong growth outlook**
- ✓ **Margin improvement going forward**

About the Company

The Indian Hotels Company Limited (IHCL) and its subsidiaries include Taj – the iconic brand for the most discerning travelers, SeleQtions – a named collection of hotels, Vivanta – sophisticated upscale hotels, and Ginger – which is revolutionizing the lean luxe segment. IHCL has a portfolio of 242 hotels including 63 under development globally across 4 continents, 11 countries, and in over 100 locations. Its pipeline comprises 60+ hotels consisting of 7,500+ rooms across brands. It has devised a new strategy called 'AHVAAN 2025' which is a roadmap for profitable growth by FY25/26.

Investment Rationale

A. Indian Hospitality & Tourism industry: Indian Hotel Industry is pegged to report ARR CAGR 11.2% and occupancy improvement by 400 bps to 70% during the period CY22E-CY24E (Source: Hotelivate, HVS Anarock). The said growth will be driven by 1) Easing supply-side constraints that would improve Rev PAR and occupancies, 2) The release of pent-up demand in domestic leisure travel, extended stays, weddings, and social events, 3) Government delegations, and 4) Spiritual and Medical tourism. Furthermore, the opening and increase in international travel could improve occupancies in the upcoming quarters.

B. Strategic initiatives : IHCL's Hotel and F&B segments contribute the majority of standalone revenue (70%) to business. While it is cyclical in nature, the company enjoys healthy EBITDA margins of ~25% during peak business season. Moreover, IHCL has successfully developed new businesses such as Management fees, The Chambers, Qmin, and Ama, among others where it enjoys much higher EBITDA margins which stand in the range of ~70%-80%. We expect these less-cyclical new businesses to add 40%-50% of the company's absolute EBITDA in the next two years. We expect IHCL to post standalone revenue growth of 25.7% CAGR over FY22-FY25E.

C. Strong Cash flow generation constituting ~50%-60% of operating profit: We expect IHCL to generate Consolidated FCFF of Rs 1,000-1,500 Cr per year after incurring a minimal Capex of Rs 400 Cr per year over the next 3 years. The company is expected to incur a Capex on maintenance, Ginger Santa Cruz, and the Kevadia which would be 10% of the overall Capex. We expect IHCL's Consolidated RoIC to improve to ~13.2% (Standalone RoIC 24%) in FY24E.

Outlook & Valuation: Indian Hotel Industry is pegged to report ARR growth and occupancy improvement by 400 bps over the period CY22E-CY24E. Therefore, we expect significant improvement in the company's realizations and occupancies, which in turn, would be further augmented by the strong operating leverage it enjoys among the industry peers.

Recommendation: We recommend a BUY on the stock with a target price of Rs 375/share, implying an upside of 14% from CMP.

Financial Summary

Y/E March (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	PER (x)	EV/EBIDTA (x)	ROE (%)
FY21	-362	-880	-7	(44.5)	(177.6)	(123.0)	(24.1)
FY22	405	-263	-2	(177.6)	76.2	122.1	(3.7)
FY23E	1,183	613	4	76.2	49.1	41.3	8.1
FY24E	1,535	952	7	49.1	36.1	31.2	11.2

Source: Axis Securities

DIWALI MUHURAT PICKS

NOCIL Ltd

Specialty Chemicals

BUY

CMP (Rs)	Target (Rs)	Potential Upside (%)
263	300	14%

Market Data

No. of Shares	16.7 Cr
Market Cap	Rs. 4,375
52-week High / Low	321/ 191
BSE Code	500730
NSE Code	NOCIL

Why NOCIL

- ✓ **Strong sustained growth in key user industries.**
- ✓ **Operational Leverage play**
- ✓ **Capex to drive future growth**

About the Company

NOCIL Ltd. is engaged in the manufacturing of rubber chemicals which are used by the tyre industry and other rubber processing industries. The company is the largest rubber chemicals manufacturer in India with state-of-the-art technology for rubber chemicals. NOCIL's brands PILFLEX® (Antidegradants), PILNOX® (Antioxidants), PILCURE® (Accelerators, Post Vulcanization Stabilizer), and PILGARD® (Pre Vulcanization Inhibitor) are well recognized in both domestic as well as international markets.

Investment Rationale

A. Strong growth in key customer industries: In Q1FY23, NOCIL witnessed strong growth and reported the highest-ever revenue and production volumes as it benefited from the China+1 alternative theme and NOCIL being one of the only major global non-China players. The company witnessed strong demand in the replacement tire market in domestic as well as international markets and showed a strong pick-up despite a challenging environment of inflation and Forex fluctuations. While the international market may see some slowdown in the upcoming quarter, we expect the domestic OEM manufacturers to support growth with their strong production and sales numbers MOM. Rubber chemicals form 3-3.5% of the overall rubber consumption which is reaching new all-time highs. The company is expecting 10% growth in the top line in H1FY23.

B. Operational Leverage Play: The company's current capacity utilization stands at 75% as of Q1FY23. We expect a steady increase in utilization levels as the company's key end-user industries grow at high rates moving forward. Multiple levers in the domestic Auto sector are boosting demand for tire manufacturers with strong demand for PV and 2W segments leading the growth. We believe the Indian Capex upcycle growth story is yet to play out to its full scale which would increase the demand for CVs, which will foster the next leg of growth.

C. Plans to increase capacity: The management plans to increase the existing capacities by the de-bottlenecking project which would take 10-12 months and would increase capacities by another 20% (not numerically mentioned) which would cater to the expected growth in future.

Outlook & Valuation: NOCIL stands to be the key beneficiary of the China alternative theme in the niche rubber chemical space in India. The company is witnessing strong demand tailwinds and reducing pressure from raw materials. Furthermore, the operational leverage will boost its margin profile in the coming quarters. The stock is currently trading at 13.5x FY24E of 19.3/share. Given the expected 24% CAGR over the next two years, we expect the stock to trade at 16x (20% discount to TTM PE of 20x), valuing it at Rs 300/share.

Recommendation: We recommend a BUY on the stock with a target price of Rs 300/share, implying an upside of 14% from CMP.

Financial Summary

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY22	3,031	253	83	24.7	87.8	7.2	10.7	29.1
FY23E	4,206	309	111	33.0	63.2	9.2	12.4	24.2
FY24E	5,849	429	171	50.6	42.9	12.3	16.4	17.6
FY25E	7,244	567	273	81.0	27.0	16.9	20.4	13.1

Source: Axis Securities

DIWALI MUHURAT PICKS

Polycab India Ltd

Consumer Durables

BUY

CMP (Rs)	Target (Rs)	Potential Upside (%)
2,556	2,860	12%

Market Data

No. of Shares	14.96 Cr
Market Cap	Rs. 38,864
52-week High / Low	2,820/ 2,045
BSE Code	542652
NSE Code	POLYCAB

Why Polycab India

- ✓ **Leading manufacturer of cables & wires**
- ✓ **Margin improvement going forward**
- ✓ **Healthy demand outlook**

About the Company

Polycab India is a leading manufacturer of Cables & Wires with a market share of ~22-24% in the organised market. It boasts a large distribution reach spanning over 4200+ dealers and distributors covering over 2 Lc retail outlets. In 2009, the company diversified into the EPC business to strategically cater to the Cables & Wires requirement of large infrastructure EPC projects. In 2014, the company also entered into the high-growth FMEG segment and started manufacturing fans, switches & switchgear, LED lighting, solar products, and accessories. Currently, Polycab has 25 manufacturing units across Maharashtra, Gujarat, Uttarakhand, and Daman & Diu.

Investment Rationale

A. Strong performance across segments: In the previous quarter, the company demonstrated strong growth led by industry-leading volumice hikes in both Wires & Cables (W&C) and FMEG segments. While the near-term demand in the C&W segment is expected to be moderate, the medium to long-term prospects remains healthy post-correction in commodity prices. Moreover, festive demand is expected to boost immediate demand for the FMEG segment.

B. Margins improvement expected in the medium term: The Company's margins have been impacted by the increase in RM prices and a lag in passing on the input cost increases. However, the management is confident of recovery in the margins to ~13% in the medium term as copper prices stabilize and operating leverage and cost optimisation measures kick in.

C. Initiatives to augment growth: Polycab has embarked on initiatives such as a) Project Leap with a target of over Rs 20,000 Cr revenue by FY25, b) Project Udaan – Cost initiatives to aid in improving margins going forward, and c) To strengthen the company's engagement with key retailers, electricians and small contractors. These initiatives are expected to augment profitable growth across segments going forward.

D. Healthy demand outlook : The demand sustained during the quarter with recovery in the B2B and B2C segments. With softening of the prices of RM, especially copper, the channel inventory maintained by the distributors was lower. However, with the expected stability in RM prices, the inventory built-up is expected to start in H2FY23 and onwards.

Outlook & Valuation: Polycab has maintained a leadership position in the organized C&W segment with a market share of over 24%. Moreover, with superior financial strength, expansion of distribution network into tier-2, and tier-3 cities, and strong brand recall, it is poised to gain market share from unorganised players in both Wires and FMEG segments. We believe the growth will be driven by demand recovery, new product launches, product premiumization, and increasing contribution of exports over the long run.

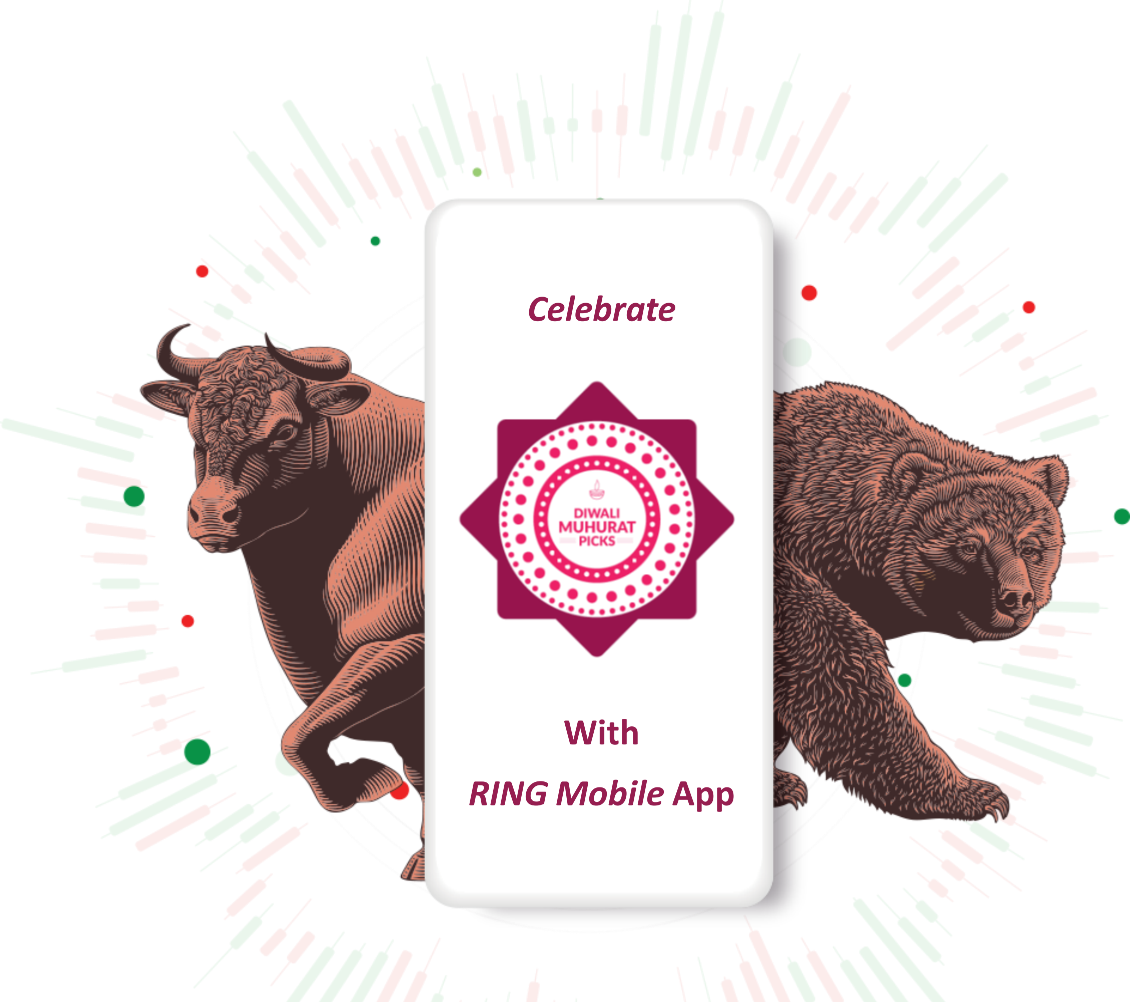
Recommendation: We recommend a BUY rating on the stock with a target price of Rs 2,860/share, implying an upside of 12% from the CMP.

Financial Summary

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (X)	ROE (%)	ROCE (%)	EV/EBITDA (X)
FY21	8,792	1,111	841	56.4	43.0	21.0	23.6	34.5
FY22	12,204	1,265	848	62.4	38.5	17.6	21.6	27.6
FY23E	14,003	1,528	1081	79.5	32.7	17.8	23.9	22.8
FY24E	15,891	1,944	1405	103.4	25.1	19.6	26.4	17.5

Source: Axis Securities

DIWALI MUHURAT PICKS



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