



TOP INVESTMENT IDEAS

May 2023

Market makes a smart comeback in Apr'23; midcaps/ smallcaps outperform largecaps



- Nifty, after a weak run in the last four months, bounced back in Apr'23 with 4.1% MoM gain. Notably, the index was extremely volatile and swung around 776 points before closing 705 points higher and reclaiming 18k levels.
- Major sectors ended higher – Real Estate (+15%), PSU Banks (+12%), Automobiles (+8%), Capital Goods (+7%), and Telecom (+7%) were the top gainers, while Technology (-3%) was the only laggard.
- India was among the top-performing markets in Apr'23. however, it has been underperforming the emerging markets and the world indices in CY23YTD amid varied global macro headwinds viz., inflation, interest rates, and currency. While most of the global equity markets are rising 5-20% in CY23YTD, India is flat (in local currency).
- The Nifty Midcap 100 (+5.9% MoM) and Nifty Smallcap 100 (+7.5%) outperformed the Nifty-50 during the month.
- FII flows turned positive for two months in a row; while DII inflows were marginally positive
- Corporate earnings so far have been healthy and in line with the performance of heavyweights, such as Reliance Industries, Axis Bank, ICICI Bank, HDFC Bank, and TCS, driving the aggregate. However, the growth is being led by BFSI, Technology, and O&G, while Metals, Healthcare, and Telecom recorded a YoY earnings decline for the quarter.
- After a flat FY23, Nifty now trades at ~18x one-year forward P/E (~8% discount to LPA of 19.9x), which is a decent drop from the level of 21x seen at the beginning of FY23. Sectors that began the year at elevated valuations – IT, Consumer, and select Private Financials – have seen moderation in the valuation multiples during the year.
- Despite global concerns, the domestic market structure remains positive on the back of healthy macro data, strong earnings, and recent FIIs buying. Even valuations are providing comfort. Thus investors are recommended to buy on dips as growth at reasonable valuations will continue to be the theme to generate returns in FY24.

Top Investment Ideas



Large Cap

- *ICICI Bank*
- *L&T*
- *ITC*
- *HCL Tech*
- *M&M*
- *Ultratech*
- *ONGC*

Mid cap

- *Ashokley Land*
- *Vedant Fashion*
- *Metro Brands*
- *MMFS*
- *APL Apollo*
- *Godrej properties*

Valuation snapshot – Large Cap



Preferred LargeCap stocks	M.Cap	CMP	TP	Upside	52WH Correct from		EPS (INR)		EPS CAGR		PE (x)		PB (x)		RoE (%)	
	(INR b)	(INR)	(INR)	(%)	(INR)	52W high (%)	FY23E	FY24E	FY22-FY24E (%)		FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ICICI Bank	6,434	927	1,150	24.1	958	-3.2	57.6	65.3	19.4		16.1	14.2	3.3	2.8	17.5	17.6
ITC	5,204	429	450	4.9	432	-0.7	17.4	19.7	14.8		24.6	21.8	8.3	7.7	29.4	32.5
L&T	3,335	2,378	N/A	N/A	2,416	-1.6	76.4	97.3	26.2		31.1	24.4	3.7	3.4	N/A	N/A
HCL Tech	2,894	1,055	1,250	18.4	1,157	-8.8	60.6	69.3	12.5		17.4	15.2	4.4	4.4	23.3	25.3
Ultratech	2,161	7,628	8,600	12.7	7,825	-2.5	239.7	281.7	26.7		31.8	27.1	4.1	3.7	9.7	12.1
ONGC	2,066	160	215	34.1	168	-4.8	48.0	48.9	9.6		3.3	3.3	0.7	0.6	19.1	20.1
M&M	1,474	1,213	1,475	21.6	1,396	-13.1	77.7	87.0	18.8		15.6	13.9	3.3	2.8	17.8	19.4

*Price data as on 05th May 2023; Source: MOFSL

Valuation snapshot - Midcap



Preferred MidCap stocks	M.Cap	CMP	TP	Upside	52WH Correct from		EPS (INR)		EPS CAGR	PE (x)		PB (x)		RoE (%)	
	(INR b)	(INR)	(INR)	(%)	(INR)	52W high (%)	FY23E	FY24E	FY22-FY24E (%)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Ashok Leyland	427	144	175	21.1	169	-14.7	7.6	9.4	49.8	19.1	15.3	5.3	4.4	16.1	25.2
Godrej Properties	368	1,325	1,575	18.9	1,566	-15.4	33.7	48.1	46.7	39.3	27.5	4.0	3.6	6.9	9.4
MMFS	356	287	320	11.6	289	-0.9	18.5	22.8	19.0	15.5	12.6	2.2	2.0	12.6	13.4
APL Apollo	301	1,190	1,450	21.9	1,337	-11.0	34.5	43.9	36.9	34.4	27.1	11.2	8.8	25.0	28.7
Vedant Fashion	298	1,227	1,435	16.9	1,501	-18.2	21.4	26.2	21.7	57.3	46.9	22.0	18.0	34.6	33.4
Metro Brands	249	922	1,045	13.3	980	-5.9	16.3	20.3	22.8	56.7	45.5	15.4	12.3	25.5	24.6

**Price data as on 05th May 2023; Source: MOFSL*

M&M: *Demand sustains amid macro uncertainties*

Key Rationales

- Demand for both the divisions (Automotive and tractors) remains healthy; however, with multiple industry-wide challenges emerging in foreseeable future, we expect lower volume growth for both the divisions v/s earlier expectations.
- However, MM is not witnessing any signs of demand moderation for its SUVs. Its order book is steady amid uncertain macro environment.
- MM has ambitious plans to grow its nascent farm equipment business by 10x in FY27. It will invest INR10-15b over next few years for: a) acquisitions and, ii) expanding capacities.

Concerns

- Commodity price inflation; Supply side issues escalates again

View

- We expect MM's revenue/ EBITDA/PAT to post 15%/20%/20% CAGR over FY23-25. MM sees scope for margin expansion from 3QFY23 levels in both Auto and FES businesses.
- This coupled with a healthy improvement in RoCE (+200bp over FY23- 25E to 18.2%) and cheap valuations preserves attractiveness of the stock.

Ashok Leyland: *FY24 volumes likely to surpass FY19 peak*

Key Rationales

- For Ashok Leyland, the focus will remain on gaining deeper penetration, growth in better margin products such as LCV/exports/aftermarket and operating leverage
- The order pipeline is robust for EV segment. It has launched a new double-decker EV bus, which has received a positive response. Other planned launches include a V1 bus (early FY24) and Bada Dost EV (3QFY24).
- The stable demand environment and improving pricing power should boost earnings.

Concerns

- loss of road share for freight movement from the upcoming DFCC

View

- AL is on strong footing (lean cost structure & reasonable debt) and is the best play on CV cycle revival, along with market share recovery & expansion of revenue/ profit pools. We expect 61% PAT CAGR over FY23E–25E.

Top Investment Ideas: Cement/Capital Goods



Ultratech: *Strong demand momentum sustains in Apr'23; eyes market share gain.*

Key Rationales

- Cement demand was strong during 4QFY23 and the momentum continues in Apr'23 as well. All the regions contributed to the strong volume growth for the company. Cement demand should grow 7-8% YoY in FY24E. UTCEM is likely to register 400-500bp higher growth than the industry, aided by its capacity expansions
- Cement prices have remained stable in Apr'23 and should sustain going ahead too.
- UTCEM commissioned 12.4mtpa cement capacity and 8.1mtpa clinker capacity (phase-I expansion) in FY23 and balance will be completed by Q1FY24. Work on phase-II expansion plan (22.6 mtpa grinding capacity) has started and commercial production from these new capacities is expected to go on stream in a phased manner by FY25/FY26.

Concerns

- Fuel prices have been softening; however, given the volatility it is difficult to predict the movement.

View

- We estimate UTCEM's consolidated volume to report ~8% CAGR over FY23-25. We estimate its EBITDA/t at INR1,175/INR1,250 in FY24/FY25 v/s EBITDA/t of INR1,005 in FY23.

LT: *Best play on capex theme*

Key Rationales

- LT witnessed an order inflow (OI) of INR 607bn in Q3FY23, with 75% coming in from the domestic market. This took the OB to an all-time high of INR 3.9tn at the end of Dec'22, with infrastructure at 72% constituting a major share of it, followed by energy at 19%.
- L&T will focus on emerging portfolios like green EPC, manufacturing of electrolyzers, battery & cell manufacturing, data centres and platforms (Sufin & Edutech) in next 5 years
- The average ridership for the Hyderabad metro project stood at 394k per day in Q3 (+80.7/11% YoY/QoQ) with the highest single-day ridership inching to 471k on Jan 25, 2023, thus reflecting improving health of the project.

Concerns

- Slowdown in govt thrust on infrastructure

View

- We like L&T, given the record-high order book (OB) of INR 3.9tn, bottoming out of infra margins; and the improving health of the Hyderabad metro project. Management has targeted revenues and order inflow CAGR of 15% and 14%, respectively, over FY21-26 with a consolidated RoE of 18%

ITC: Earnings visibility continues to drive outperformance

Key Rationales

- Healthy cigarette volume growth in the recent quarters is likely to sustain in the near term, leading to the best three-year and four-year average volume growth for over a decade. With no high indirect tax increase in the FY24 budget, the operating environment is far more conducive compared to the punitive regime of the preceding years.
- Unlike staples peers, the company has displayed resilient operating performance of its 'Other FMCG' business in the past few quarters. If wheat costs decline sharply post the Rabi harvest, performance on the segmental margin front can be even better in FY24.
- Hotels business prospects are likely to be buoyant going forward as highlighted in our thematic report on hotels by our mid-cap team.

Concerns

- Levy of any higher tax on cigarettes

View

- We are positive on ITC as a result of (a) better earnings visibility over peers in the next few quarters, (b) inexpensive valuations; and (c) attractive dividend yield.

ICICI Bank: *Another quarter of flawless execution*

Key Rationales

- ICICI Bank reported another strong quarter in 4QFY23, driven by healthy NII/Core PPOP growth and well-managed provisions. The bank is seeing a strong recovery across segments, while asset quality trends remain steady with industry best PCR at ~83%.
- The stable mix of a high-yielding portfolio (Retail/Business Banking) and a low-cost liability franchise is driving steady NII growth, resulting in margin expansion to 4.9%.
- It has identified strong growth opportunities in Retail, SME, and Business Banking in the upcoming fiscal years. Additionally, the corporate segment provides good opportunities in some of the sectors such as NBFCs and real estate.

Concerns

- Economic slowdown can impact loan growth

View

- ICICI Bank is well positioned to deliver steady earnings, supported by pristine asset quality and strong momentum in business growth. We estimate ICICIB to deliver RoA/RoE of 2.2%/17.6% in FY25.

MMFS: *Healthy quarter; conviction on the turnaround getting stronger*

Key Rationales

- MMFS has made good progress toward its Mission 2025 targets across AUM growth, asset quality, NIM and RoA. With process enhancements across sourcing, underwriting and collections, we expect the asset quality improvement to sustain and now model lower credit costs of ~1.7%/1.9% in FY24/FY25.
- The company is aggressively working on leveraging priority sector lending (PSL) eligible loans as a means to reduce its cost of borrowings (CoB).
- The synergies between the parent and MMFS have also played a very crucial role in scripting this potential turnaround.

Concerns

- Higher exposure to rural India will keep MMFS vulnerable

View

- Given its long lineage, strong parentage, and a great liability franchise, MMFS have navigated the stress emanating from the pandemic reasonably well, and is well positioned to deliver on its articulated targets. We expect AUM/ PAT CAGR of 20%/19% over FY23-FY25E.

ONGC: *Strong guidance for production growth*

Key Rationales

- ONGC would start producing its first oil from KG Basin from May'23, which would reverse its declining O&G production. At peak level by FY25, this would add 10%/20% to its domestic O&G production.
- The recent Kirit Parikh recommendations of ceiling price at \$6.5 and float price at \$4 per mmbtu for domestic natural gas, render the much needed respite from low gas prices, as the average gas production cost of ONGC currently stands at ~USD3/mmBtu.

Concerns

- no end to the windfall tax in sight despite decline in oil prices.

View

- ONGC is top pick of 2023 given increased visibility in earnings. Further, dividend payout stood at ~33% over last 3 years and we expect this trend to continue. We expect dividend yield of 13.6%/10.5% for FY23E/FY24E.

APL Apollo Tubes: *Robust volume growth drives revenue*

Key Rationales

- APL Apollo has continuously gain market share in the industry and is currently the market leader in the Indian Structural tubes with a market share of ~55% in FY22 v/s 27% in FY17. It is set to capture industry opportunity by adding capacity and expanding applications.
- APAT will require an additional ~INR4b of capex to reach ~5MMT of capacity. Except the upcoming Dubai and Kolkata plant, all incremental capacity will come from debottlenecking of the existing plants.
- The management has guided for sales volume of ~2.3MMT in FY23. It aims to achieve sales volumes of ~3.2MMT for FY24 with EBITDA/MT of ~5,000.

Concerns

- If the product mix deteriorates

View

- The addition of high-margin products from the Raipur unit and growing share of VAP is likely to result in margin improvement. We expect a revenue/EBITDA/PAT CAGR of 17%/24%/31%, respectively, over FY22-25, as the company is expected to maintain its growth trajectory on a strong demand outlook

Godrej Properties: Sharp improvement in OCF driven by healthy collections

Key Rationales

- GPL exited FY23 with the highest ever bookings of INR122b and believes demand traction to continue aided by favorable affordability. Management has good visibility on the launch pipeline and intends to launch ~20msf in FY24E and expects to deliver INR140b of sales bookings in FY24 (up 15% YoY).
- Over the medium term, management expects the sector to witness robust growth backed by under-penetration of home-ownership in India. The branded players such as GPL will be the key beneficiary of this trend.

Concerns

- slowdown in residential absorption and delay in launching new projects impacting sales growth adversely.

View

- On a pre-Covid equity base, the company is not far from its 20% RoE target. GPL has done strong BD in FY23 and if these projects are launched on a timely basis, its RoE profile will improve notably as these projects hit P&L in 3-4 years.

HCL Tech: Defensive portfolio to help navigate macro headwinds

Key Rationales

- Higher exposure to Cloud, which comprises a larger share of non-discretionary spends, offers a better resilience to its portfolio in the current context, with higher demand for Cloud, Network, Security, and Digital workplace services.
- It has delivered good margin improvement over the last few quarters. Management has guided of 18-19% EBIT margin in FY24, despite the prevailing uncertainties and larger share of cost take out deals in pipeline, suggests good cost control measures.
- We expect HCLT to deliver an FY24 EBIT margin of 18.4% and further improve this to 18.8% in FY25.

Concerns

- Weak macro environment.

View

- We continue to view HCLT's defensive business as positive in a demand-constrained environment. We expect USD revenue growth of 10.2% and a corresponding PAT CAGR of 12.5% over FY23-25

Top Investment Ideas: Retail



Vedant Fashion: *Healthy SSSG boosts profitability*

Key Rationales

- Vedant Fashions, with a Pan India presence, has established itself as a strong brand within the underpenetrated ethnic-wear segment (~20% of the total market was branded as of FY20). Further, expanding a) Twamev through up-selling and b) Manthan to capture the value fashion segment could underpin revenue growth moving ahead.
- Emerging brands witnessed good traction in terms of footfalls and conversion ratios. VFL expects to open 8-10 of Twamev and 10-15 stores of Mohey on the pilot basis to monitor the performance for a further scaleup
- It expects SSSG to be in the range of mid-to-high single digits annually. Gross and EBITDA margins are expected to be in the range of 66-67% and 30%, respectively.

Concerns

- slower pickup in new categories, could hurt store productivity and expansion growth.

View

- Strong margins, healthy return profile and franchisee-led expansion model ensure robust cash generation and limited pressure on the balance sheet. We expect revenue/EBITDA CAGRs of 20%/21% over FY23-25 on the back of 15% growth in footprint addition and SSSG of ~5%.

Metro Brands: *Healthy performance in a weak environment*

Key Rationales

- Metro continued to witness healthy growth and, therefore, unlike its peers, Metro did not prepone EOSS. Growth could be attributed to a strong wedding/festive season, easing inflation pressure lately, a shift from unorganized to organized and growing middle-class earnings.
- Management has maintained its target of 260 store additions by the end of FY25, excluding FitFlops's five store opening guidance and FILA. Management has also retained GM guidance of 55-57%.
- The company believes that Tier 2 and Tier 3 cities have a lot of growth potential.

Concerns

- Slowdown in demand

View

- Metro's superlative store economics, healthy portfolio of products and strong balance sheet/FCF productivity warrant a rich valuation. We expect a revenue/PAT CAGR of 23%/21% over FY23-25.

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