ICICI direct Research

Muhurat Picks 2019-20

Samvat 2076

Muhurat Pick – 2019

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Dear Customers,

Wishing you all a Happy and Prosperous Diwali !

The pain in Indian equities was reflective as certain key sectors such as Auto witnessed sharp volumes decline, while overall GDP in Q1FY20 dipped to six years low of 5%. Recent drive of reforms from government is likely to be a key enabler of economic recovery, going ahead. Most importantly, the government announcement of reduction in the corporate tax rate from ~34% to 25.2% is a massive trigger for revving up corporate growth. The immediate benefit is increased cash flows to Corporate India that will be either channelised into debt reduction or incremental investments in increasing capacity. Also, taxing new production facilities (that come up by 2023) at 15% will enable attraction of global capital and spur a beleaguered investment cycle.

Going ahead, on the domestic front, we are of the view that with benign interest rate scenario (expect more rate cut of 25-50 bps ahead in FY20) amid controlled inflation and proactive measures of government will boost the affected sectors. This will bring growth recovery back on track. Nifty earnings, given the benefits of tax cuts and improved demand is likely to witness a healthy 20%+ CAGR over the next two years.

Given the scenario, we see value emerging across the market cap spectrum with key filter being quality. We continue to advise investors to utilise equities as a key asset class for long term wealth generation by investing into quality companies with strong earnings growth and visibility, stable cash flows, RoE/RoCE.

Company	Stock Code	Buying Range	CMP	Target Price	Potential Upside	Market Cap	P/E (x)		P/BV (x)		ROE (%)	
		₹	₹	₹	%	₹ crore	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Supreme Industries	SUPIND	1190-1225	1,216	1,420	17	15468	28.1	23.4	6.5	5.6	23.2	23.7
Kansai Nerolac	KANNER	500-535	526	620	18	28266	51.9	41.7	7.3	6.4	15.1	16.6
JK Cement	JKCEME	1020-1080	1,065	1,260	18	8173	16.6	15.3	2.5	2.2	14.9	14.3
United Breweries	UNIBR	1300-1335	1,326	1,620	22	35060	42.8	34.8	8.7	7.0	20.4	20.2
Dabur India	DABIND	440-470	463	550	19	81770	49.8	44.9	13.3	12.0	26.8	26.7
Axis Bank	AXIBAN	685-715	710	865	22	200316	22.2	14.2	2.0	1.8	10.9	13.5
Tech Mahindra	TECMAH	700-745	725	850	17	70070	15.8	14.1	2.8	2.5	17.9	17.8

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Kansai Nerolac (KANNER) — Buying Range (₹ 500-535)

- Kansai is the largest industrial paint company in India with more than 35% market share in industrial paints and third largest player with an overall market share of 14%. With sustainable growth in decorative paints and subdued industrial demand, company has increased its revenue contribution from decorative paints to 55% while rest comes from the Industrial. In order to increase market share, Kansai continues to invest in brands with 4-5% of sales going towards advertisement and promotion. We believe decorative paints would continue to grow at rapid pace with the presence of limited players and strong repainting demand. We expect a revival in industrial paints demand led by a recovery in automotive segments. We expect blended volume CAGR 9% for FY19E-21E led by ~13% volume CAGR in the decorative paints category.
- Kansai's gross margin during Q1FY20 remained flat despite pressure in the industrial paints category. We believe a price hike in the decorative segment helped offset lower profitability from industrial segment. While there was a slowdown in industrial paint demand, we believe margin pressure will ease, going forward, owing to a change in product mix and gradual price hike.
- Increasing urbanisation, higher rural income levels and a brief repainting cycle have been the main reason for sustainable decorative paints demand. This coupled with social schemes such as Housing for All and better monsoons (would help in improving rural income) would be a strong trigger for the paint industry. We believe, strong revenue earning CAGR of 16% and 20% in FY19-21E supported by recent corporate tax rate cut.

(₹ crore)	FY19	FY20E	FY21E	CAGR
Net sales (₹ crore)	5,138.9	5,583.1	6,876.0	15.7%
Growth (%)	12.5	8.6	23.0	-
EBITDA margins (%)	14.3	13.9	14.1	-
PAT (₹ crore)	467.3	544.2	677.2	20.4%
PAT growth (%)	-9.0	16.0	24.0	
P/E (x)	60.4	51.9	41.7	
P/BV (x)	7.6	7.3	6.4	
RoE (%)	13.6	15.1	16.6	
RoCE (%)	20.2	19.9	21.8	

Supreme Industries (SUPIND) — Buying Range (₹ 1190-1225)

- Supreme is one of the largest plastic processor in India with manufacturing capacity of ~ 6 lakhs tonnes. It has four business division namely Plastic piping division, Industrial products, Packaging products and consumer furniture segments. Supreme Industries is one of the largest PVC pipe and consumer furniture companies with organized market share of ~14% and 26% respectively.
- Supreme's plastic piping division (contributes ~58% in topline) grew at CAGR of ~15% during FY11-19 (against Industry growth of ~12%) led by sustained demand of pipes from housing and agriculture sectors. The domestic piping industry would continue to grow at 12%-13% in the wake of various government initiatives to boost construction of affordable housing, establishing sewerage & drainage systems and drinking water system ('Nal se Jal') in the next 5 years. With segment revenue CAGR of 14%, we believe, Supreme would continuously outpace the industry growth due to its market leadership position.
- We believe, company's revenue, earning to grow at a CAGR of 13% and ~20% respectively in FY19-21E led by strong volume traction in the piping segment and rising contribution of value added products in the topline (increased from 24% in FY12 to 35% in FY19). Despite capital intensive business, company D/E remained low at 0.2x due to efficient working capital management (~10% sales) and continue generation of free cashflow (average ₹ 200 crore annually in the last 8 years). This has resulted in average RoE and RoCE of ~26% and ~30% respectively in the last 8 years

(₹ crore)	FY19	FY20E	FY21E	CAGR
Net sales (₹ crore)	5,612.0	6,263.2	7,211.9	13%
Growth (%)	13.0	11.6	15.0	-
EBITDA margins (%)	14.0	14.4	15.0	-
PAT (₹ crore)	448.6	550.5	660.7	21%
PAT growth (%)	4.0	23.0	20.0	-
P/E (x)	34.5	28.1	23.4	-
P/BV (x)	7.2	6.5	5.6	-
RoE (%)	18.7	23.2	23.7	-
RoCE (%)	25.0	27.2	28.4	

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JK Cement (JKCEME) Buying Range (₹ 1020-1080)

- JK Cement is among the top cement manufacturers in the grey cement space and a leader in the white cement market in India. It currently has a capacity of 10.5 MT for grey cement and a 1.3 MT capacity of white cement and wall putty combined. The company operates majorly in the north and southern India markets.
- The company has undertaken capacity expansion (greenfield and brownfield) and would be adding 4.2 MT of grey cement capacity and also white putty capacity of 0.2 MT by FY21E. The grey cement capacities would be commissioned in FY21E and thus will drive the next leg of growth for the company. We expect a revenue CAGR of 13.4% over FY19-21E led by ramping up of additional grinding capacity in FY21E.
- The company has estimated a capital outlay of ~₹ 2000 crore for these projects which would be funded with a mix of equity and debt. In Dec-2018, the company raised ~₹ 511 crore via QIP by issuing 73.4 lakh shares at ₹ 695.8/share. While we expect debt levels to reach ₹ 3100 crore in FY21E from ₹ 2355 crore in FY19, improving Debt/EBITDA coverage from 2.9x to 2.6x and healthy liquidity position soften leverage concerns.
- We derive comfort from the company's leadership in the white cement business which would continue to support realizations and profitability. The company should also be a beneficiary of the corporate tax reduction. With the commissioning of additional capacity, the company is expected to generate an EBITDA of ₹ 1214 crore in FY21E, implying an inexpensive EV/EBITDA multiple of 8x on FY21E earnings.

(₹ crore)	FY19	FY20E	FY21E	CAGR
Net Sales (₹ crore)	4981.3	5525.2	6405.3	13.4%
Growth (%)	8.5	10.9	15.9	
EBITDA margin (%)	16.3	18.9	19.0	
PAT (₹ crore)	324.4	490.4	531.1	28.0%
PAT growth (%)	-5.1	51.2	8.3	
P/E (x)	25.1	16.6	15.3	
EV/EBITDA (x)	10.9	9.2	7.9	
RoNW (%)	11.2	14.9	14.3	
RoCE (%)	12.5	13.4	14.1	

United Breweries (UNIBR) Buying Range (₹ 1300-1335)

- United Breweries (UBL) is the market leader in the Indian beer market with ~52% market share. The company is equipped with a strong portfolio of brands and the largest distribution network in India, which is difficult to emulate for new global brands entering the Indian market.
- The management expects to push its premium brands such as Amstel, Kingfisher Storm, Kingfisher Ultra, Heineken etc, via a national footprint, which would result in a higher contribution of premium portfolio to UB existing portfolio (which is currently dominated by mass brands such as Kingfisher Strong, Mild). Premiumisation, along with price hikes in existing portfolio and a favourable state mix, would also enable the company to negate the rising input costs. We expect EBITDA margins to remain strong at 18-19% for FY20-21. Among new businesses, the launch of craft beer and scaling up of non-alcohol beverage business will provide enough headroom for the growth of topline along with aiding premiumisation.
- We estimate the market share for UBL has remained stable at 51-52% of the beer industry. Further, the management expects FY20 volumes to grow in single digits. We expect volumes to grow at 8.5% CAGR in FY19-21. The company is also a major beneficiary of the recent corporate tax rate cut (FY19 tax rate ~36%) which would improve its profitability and increase the free cash flow generation. UBL's premium valuations are expected to sustain on better earnings visibility (PAT CAGR estimated at 33% to ₹ 996 crore over FY19-21E)

(₹ crore)	FY19	FY20E	FY21E	CAGR
Net Sales (₹ crore)	6475.4	7475.5	8590.5	15.2%
Growth (%)	15.2	15.4	14.9	
EBITDA margin (%)	17.6	18.2	18.5	
PAT (₹ crore)	563.3	809.9	995.5	32.9%
PAT growth (%)	42.7	43.8	22.9	
P/E (x)	61.5	42.8	34.8	
P/BV (x)	10.9	8.7	7.0	
RoNW (%)	17.7	20.4	20.2	
RoCE (%)	26.8	26.5	25.7	

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Dabur India (DABIND) — Buying Range (₹ 440-470)

- Dabur has a well-diversified product portfolio catering to different segments. It has three brands (Real, Vatika, Amla) with turnover of ₹ 1,000 crore+ and 16 brands with turnover of ₹ 100 crore+. Competitive intensity from Patanjali has subsided significantly resulting in double digit growth for Dabur in most categories over the last few quarters. With a wave of demand for ayurvedic & natural products, the company has gained significant market share in ayurvedic brands mainly in toothpaste, shampoos and hair oil categories.
- Dabur derives 40-45% of revenue from rural sales vs. 35% for the industry, which has led the company to grow at 20% sales CAGR over FY09-14. However, a rural slowdown due to GST and demonetisation over last four years has resulted in a tepid topline growth of ~4% in the last five years. Though high base in FY19 and recent rural slackness may impact Dabur's performance in FY20, we stay positive on long term growth prospects for Dabur. We expect good rural demand going forward on the back of above normal monsoons and government's measures to improve farmer income levels,.
- On the back of improved product mix & robust volume growth, there has been a significant improvement in operating margins from erstwhile 16% margins in FY14 to ~20%+ margins levels. We expect EBITDA margins to improve slightly to 20.7% by FY21E. The company is expected to sustain the growth momentum considering consistent improvement in margins & expected strong earnings growth during FY19-21E.

(₹ crore)	FY19	FY20E	FY21E	CAGR
Net Sales (₹ crore)	8533.1	9333.7	10275.1	9.7%
Growth (%)	10.1	9.4	10.1	
EBITDA margin (%)	20.4	20.5	20.7	
PAT (₹ crore)	1446.3	1638.5	1815.8	12.1%
PAT growth (%)	6.5	13.3	10.8	
P/E (x)	56.4	49.8	44.9	
P/BV (x)	14.5	13.3	12.0	
RoNW (%)	25.7	26.8	26.7	
RoCE (%)	29.6	29.9	30.0	

Axis Bank (AXIBAN) — Buying Range (₹ 685-715)

- Axis Bank, third largest private bank in terms of advances, offers entire spectrum of financial services to customers covering large and mid-corporates, MSME, agriculture and retail businesses. The long term focus is on higher return on risk-weighted lending and tight cost control to enhance return ratios..
- Advances growth remained healthy at 17% CAGR in FY14-19, above industry. Retail segment grew at higher pace of 23% CAGR, taking proportion of retail from 38% in FY14 to 52% in Q1FY20. Strategy to strengthen retail & SME loan book is expected to drive future earnings. Expect advances growth at 17% CAGR for FY19-21E at ₹ 677280 crore
- Led by superior network of 4050 branches, the bank has build strong retail liability franchise. Banks deposit grew by 14% CAGR in FY14-19 with CASA stable at 44% as of FY19. Going ahead, we expect deposit growth healthy at 16.5% CAGR for FY19-21E at ₹ 744690 crore
- Post increase in GNPA, led by power & steel sector, now asset quality has improved with GNPA at 5.25% as of Q1FY20. Exposure to recently cropped stressed corporates and BB and below book stands at ~₹ 19704 crore. Recognition of substantial stressed account is seen to keep slippages moderate ahead. Given contingent provision & anticipated recovery in large stressed NCLT cases, we expect GNPA ratio to improve to ~4% by FY21E. On the valuation front, at the CMP, it trades at ~2x FY21E ABV which is an attractive level.

(₹ crore)	FY19	FY20E	FY21E	CAGR
NII (₹ crore)	21,707	24,615	29,278	16.1%
PPP (₹ crore)	19004	23024	28676	22.8%
PAT (₹ crore)	5,697	8,994	14,064	57.1%
EPS (₹)	22.2	31.7	49.6	49.7%
P/E (x)	31.6	22.1	14.1	
BV (₹)	263.2	345.4	391.5	22.0%
P/BV (x)	2.7	2.0	1.8	
RoA (%)	0.8	1.0	1.4	
RoE (%)	8.7	10.9	13.5	

Muhurat Pick

Tech Mahindra (TECMAH) **Buying Range (₹ 700-745)**

- Tech Mahindra (TechM) (an IT services company) generates 42% of it's topline from telecom segment, 19.4% from manufacturing, 12.8% from BFSI and rest from retail, transport and technology. Geography wise the company generates 47.6% from Americas, 27.6% from Europe and 24.8% from rest of the world.
- TechM is most likely to benefit from increasing momentum in product innovation specifically related to 5G and IoT solutions. This segment is expected to grow in double digits over the next few years. Recently, Tech Mahindra has secured a multiyear contract from AT&T communications (with a consideration of ~$1 billion). Apart from this multi million dollar deals the company has seen revival in large deals, as companies move towards bigger transformation projects and it is likely to continue. Tech M having the highest exposure to telecom (communication) segment with 42% of revenue is expected to see robust growth in coming quarters.
- With conversion of large deals in enterprise & communication segment, the company's focus on 50 major customers within the company and outside will be key triggers for revenue growth. In addition, considering most margin headwinds being absorbed in FY20E, we believe FY21E could witness EBIT margin expansion to 13.8%. Hence, we revise the target price to 850/share and maintain our BUY recommendation.

(₹ crore)	FY19	FY20E	FY21E	CAGR
Net Sales (₹ crore)	34,742.1	36,349.3	39,267.2	6.3%
Growth (%)	12.9	4.6	8.0	
EBITDA margin (%)	18.2	17.0	17.5	
PAT (₹ crore)	4,297.5	4,126.8	4,651.7	4.0%
PAT growth (%)	13.1	-4.0	12.7	
P/E (x)	15.2	15.8	14.1	
P/BV (x)	3.2	2.8	2.5	
RoNW (%)	21.2	17.9	17.8	
RoCE (%)	23.6	21.1	21.2	

Performance of 2018 Muhurat Picks

Company	Reco Price (₹)	Target Price (₹)	Return (%)	Status
Aurobindo Pharma	770	915	-22.7	Call Closed at ₹ 595
Divis Lab	1486	1700	14.4	Target Achieved
SBI	270	340	25.9	Target Achieved
Axis Bank	560	725	29.5	Target Achieved
Titan	825	950	15.2	Target Achieved
Trent	322	410	27.3	Target Achieved
EIH	163	205	25.8	Target Achieved

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