



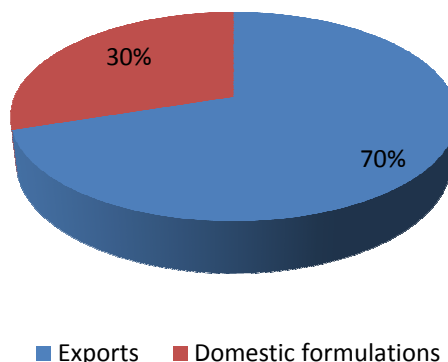
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- ❖ Ajanta Pharma
 - ❖ Alkem Laboratories
 - ❖ Datamatics Global Services
 - ❖ Delta Corp
 - ❖ Havells India
 - ❖ Indian Bank
 - ❖ Indian Railway Catering and Tourism Corporation (IRCTC)
 - ❖ State Bank of India (SBI)
 - ❖ Tata Consultancy Services (TCS)
 - ❖ U GRO Capital

Ajanta Pharma Limited (Ajanta) | "Buy" | Target price: Rs. 1,500 | Upside: 21.49%

CMP: Rs. 1,234.65 | Book value: Rs. 255 | FV: Rs. 2 | Market Cap: Rs. 15,818.97 Crore | FY22 EPS: Rs. 55.63 | P/E: 23.37x | RoE: 22.8% | RoCE: 29.2% | 52 Week High/Low: Rs. 1,569.42 / Rs. 1,062.73 | Bloomberg code: AJP:IN | Promoter holding: 70.48%

Investment Rationale

- 1) Ajanta Pharma is a specialty pharmaceutical formulation company having branded generic business in India and emerging markets, generic business in US and institution business in Africa. Many of the company's products are 1st to market and they are leading in their subtherapeutic segments. Company's state of the art R&D centre is located in Mumbai. Company has 7 world class manufacturing facilities located in India. For last 10 financial years, company has posted healthy performance with its Revenue from Operations growing at 15% CAGR and net profit at 23% CAGR.
- 2) The Company has three focused business segments: Branded Generics in India and Emerging Markets, Generics in the USA, and Institutional business in Africa. During any business cycle, some business segments do better while others face headwinds.
- 3) The Company's Branded Generics segment helped in registering healthy growth despite the headwinds of double-digit price erosion in the US Generics and lower demand for Institutional business in Africa.
- 4) Ajanta holds a unique position having 73% business contribution from Branded Generics, and especially getting it from diversified 30+ countries i.e., India, rest of Asia and Africa. While the Branded Generics business remains sticky by nature, the Company's unique geographical diversification provides it further cushion from country specific market volatility. This has been built diligently over the years with smart product selection, out of which many are 1st to market in respective countries. This has helped the Company create smart product portfolio and achieve leadership positions in various molecules/ sub-therapeutic segments. The Company's robust supply chain ensures product availability every single day across all these markets.
- 5) FY22 Revenue breakup



- 6) In the Exports formulations, Asia accounts for ~35%, Africa accounts for 34% & US accounts for 30%. The company also participates in anti-malarial tenders in Africa (included in Africa)



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- 7) The Company had witnessed decent performance in Q1FY23 quarter. For Q1 FY 2023, India sales stood Rs. 279 Crore as against Rs. 229 Crore in Q1FY23, up by 22 percent on YoY basis. As per IQVIA MAT June 2022, the Company has posted healthy growth of 10% in Cardiology (segment growth of 6%), 21% in Ophthalmology (segment growth of 20%), 20% in Dermatology (segment growth of 5%) and 23% in Pain Management (segment growth of 15%).
- 8) Q1 FY23 total export sales stood at Rs. 665 Crore. (against Rs. 513 Crore in Q1FY22.) posting growth of 30%.
- 9) In US, during Q1 FY 2023, company received 1 ANDA tentative approval and filed 1 ANDA with US FDA. Out of 42 final ANDA approvals, the Company has commercialized 39 products. The Company holds 4 tentative approval and 20 ANDAs are awaiting US FDA approval as on Q1FY23. Company plans to file 10 to 12 ANDAs during FY23.
- 10) However, margin performance was impacted in Q1FY23. Going forward, Management expects around 300 bps improvement from next quarter on back of 100 bps due to price increase and 200 bps impact was one-off.
- 11) Mr. Yogesh Agrawal - Managing Director of the Company in Q1FY23 analyst concall had said " In Asia, during the Q1 FY2023, our sales was Rs.240 Crores against Rs. 165 Crores posting a very healthy growth of 45%. Just a caution the growth appears a bit elevated primarily because of the slightly lower base in the Q1 FY2022, which was impacted because of the second wave of the COVID, which created some destruction at that time. Coming to Africa during the Q1, our sales was Rs. 168 Crores against Rs. 125 Crores, again posting a very healthy growth of 34%. Here also similar caveat that like-to-like in the earlier Q1 that was slightly suppressed because of COVID disruption, which makes this current Q1 looks a bit more elevated. But overall the branded generic business of Asia and Africa contributed to 43% of the total revenue during the Q1 and our exports in these markets were Rs. 408 Crores against Rs. 291 Crores, posting a very healthy growth of 41% of previous year for the same period. We continue to stay little sharp in these markets to identify the gaps and opportunities and we continue to execute very clinically so that we can post superior growth as compared to the markets. During the quarter we launched 10 new products in Asia and Africa across various countries."

On African institution business, he said "This business contributed 8% in the total revenue during Q1, we registered sales of Rs. 77 Crores against Rs. 54 Crores posting a growth of 44% over previous year same period. As I have been mentioning earlier, the institution business remains unpredictable, it depends on the funds availability and the requirements of the procuring agencies."

On the US Generics business he said "US business contributed 19% to the total revenue during the Q1. We registered sales of Rs. 179 Crores against Rs. 168 Crores posting a modest growth of 6%. This modest growth of 6% was despite the severe price erosion, which we have seen in the US market and also in absence of any new product launches. We continue to have 39 products on the shelf. During the quarter we filed one ANDA and also received one tentative approval. At the end of June 2022, we had 20 ANDAs awaiting approval with US FDA. So our filing for the quarter has started on the little slower side, but we have a number of products at the advanced stage of filing. So we will see the accelerated filing in coming quarters in Q2, Q3, Q4 and with that we are still aiming to file 10 to 12 ANDAs in the FY2023.

- 12) The Company incurred capex of Rs. 43 Crores during first quarter of FY2023. Capex including maintenance capex for this year is estimated to be around Rs. 200 Crores.
- 13) The Company has a strong balance sheet, good operating metrics and return ratios.

Key recent development: The Company's formulation facility at Dahej was inspected by US FDA from 5th September 2022 to 9th September 2022. At the end of the inspection, Form 483 was issued to the Company with 2 procedural observations. The Company is in the process of responding to the same within the stipulated time prescribed by US FDA.



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Valuation and Recommendation

At CMP of Rs. 1,234.65 the stock is valued at a P/E of 22.2x at FY22 EPS of 55.6. We recommend a "Buy" with a target price of Rs. 1,500 (P/E of 25x at estimated FY23 EPS of Rs. 60)

One year price movement chart



Source: Moneycontrol

Alkem Laboratories Limited (AIL) | "Buy" | Target price: Rs. 3,766 | Upside: 22%

CMP: Rs. 3,094.70 | Book value: Rs. 722 | FV: Rs. 2 | Market Cap: Rs. 37,001.78 Crore | FY22 EPS: Rs. 137.63 | RoE: 20.7% | RoCE: 18.6% | 52 Week High/Low: Rs.3,855.40/Rs. 2,835.00 | Bloomberg code: ALKEM.IN | Promoter holding: 57.16%

Background and Investment Rationale

- 1) Established in 1973 and headquartered in Mumbai, Alkem is a leading Indian pharmaceutical company with global operations, engaged in the development, manufacture and sale of pharmaceutical and nutraceutical products. The Company produces branded generics, generic drugs, active pharmaceutical ingredients (APIs) and nutraceuticals, which it markets in India and International markets. With a portfolio of more than 800 brands in India, Alkem is ranked the fifth largest pharmaceutical company in India in terms of domestic sales (Source: IQVIA March 2021). The Company also has presence in more than 40 international markets, with the United States being its key focus market.
- 2) India sales contributed 70.1% to total sales in Q1FY23. In Q1FY23, the Company's India sales declined by 6.7% YoY, recording sales of Rs. 1781.5 Crore as compared to Rs. 1909.7 Crore in Q1FY22. As per secondary sales data by IQVIA for the quarter ended June 30, 2022, the Company sales remained flat YoY compared to Indian Pharmaceutical Market (IPM) de-growth of 1.8% YoY due to huge base effect of last year. This outperformance was mainly driven by acute therapies like anti-infectives, respiratory and gastrointestinal. Pain management and gastrointestinal witnessed a good double digit growth even on huge base of last year. Company's chronic therapies like anti-diabetes and derma significantly outperformed the segment growth rate, thereby gaining market share and improving their market rankings.
- 3) The Company continues to feature amongst the top five companies in the Indian pharmaceutical market and has maintained its leadership position in the anti-infective segment. The company has 18 brands which features among top 300 brands in IPM and have 15 brands with annual sales of over Rs. 1 bn.
- 4) The Company's US Business posted sequential growth of 2.7% on QoQ basis in Q1FY23 as compared to Q4FY22. US sales contributed 21.9% to total sales in Q1FY23.
- 5) In Q1FY23, the Company filed 3 abbreviated new drug applications (ANDAs) with the US FDA and received 4 approvals (including 1 tentative approval). As on June 30, 2022, the Company filed a total of 164 ANDAs and 2 new drug applications (NDA) with the USFDA. Of these, it has received approvals for 124 ANDAs (including 13 tentative approvals) and 2 NDAs.
- 6) The management is confident of achieving 10% YoY sales growth in the US Generic segment for FY23.
- 7) The Company has built sufficient capacity for US generics segment and is not looking to incur meaningful capex over medium term for this segment.
- 8) The Company also has presence in Australia, Europe, South East Asia, Latin America, Africa and CIS. The Company's key markets like Australia, Philippines and Kazakhstan registered healthy growth during Q1FY23. Other International Market sales contributed 8.0% to total sales in Q1FY23.
- 9) Mr. Sandeep Singh - Managing Director of the Company in its Q1FY23 concall said "Our CAGR over the last three years is 13.4% for domestic business. We continued to outperform in the domestic market and as per secondary sales data by IQVIA, the Company sales remained flat year-on-year compared to a decline of 1.8% for the Indian pharma market. This outperformance is driven by a leadership position in acute therapy areas like anti-infective and gastrointestinal. Our chronic business continues to significantly outperform the market and as we are gaining market share and rankings. Our growth rate



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in derma and antidiabetic during the quarter is significantly higher than the market. We have gained four ranks in antidiabetic and one rank in derma therapy. "

On International business he said "US Business reported a sequential growth of 2.7% with year-on-year decline of 7.9%. The performance in U.S. market continues to be impacted by a higher price erosion. During the quarter, we filed three ANDAs with the USFDA and received four approvals including one tentative approval. Apart from US, other international markets delivered a year-on-year growth of 9.6% with good all-round performance from the Australian market. On an analyst query in Q1FY23 concall with regards the Company planning to launch products in the US for FY23 and any meaningful product for FY23-24, he said - "We are expecting to launch about between eight to ten products, probably ten during the fiscal year and meaningful, you know, we don't want to take a shot right now in terms of answering that question. But there are some shared exclusivities that we have already launched and we are looking forward to a few others as well. Time will tell how successful we are in those."

With regards to progress in the Biosimilar segment he added "We have launched three products in domestic market last year, and we are seeing very interesting response on these products. We expect to add a few more products to our basket in the financial year which makes our Biosimilar franchisee very promising in the domestic market. We have also signed deals in the CDMO space with couple of international companies and few Indian players. In coming years, our Biosimilar franchises will be one of the future growth engine for Alkem."

8) The Company has a healthy balance sheet and enjoys good return ratios.

Valuation Recommendation

At CMP of Rs. 3,094.70, the stock is valued at a P/E of 22.5x at FY22 EPS. We recommend a "Buy" with a target price of Rs. 3,766 (P/E of 22x at estimated FY23 EPS of Rs. 171.18)

One year price movement chart



Source: Moneycontrol

Datamatics Global Services Limited | "Buy" | Target price: Rs. 370 | Upside: 21.4%

CMP: Rs. 304.35 | Book value: Rs. 145 per share | FV: Rs. 5 | Market Cap: Rs. 1,795.60 Crore | FY22 EPS: Rs. 26.71 | RoE: 18.3% | RoCE: 22.0% | 52 Week High/Low: Rs. 366.95/Rs.230.10 | Promoter holding: 74.30%

Background and Investment Rationale

- 1) Datamatics provides intelligent solutions for data-driven businesses to increase productivity and enhance the customer experience. With a complete digital approach, Datamatics portfolio spans across Information Technology Services, Business Process Management, Engineering Services and Big Data & Analytics all powered by Artificial Intelligence. It has established products in Robotic Process Automation, Intelligent Document Processing, Business Intelligence and Automated Fare Collection. Datamatics services global customers across Banking, Financial Services, Insurance, Healthcare, Manufacturing, International Organizations, and Media & Publishing. The Company has presence across 4 continents with major delivery centers in the USA, India, and Philippines.
- 2) Commenting on Q1FY23 performance, Mr. Rahul Kanodia the Company's concall said "We have reclassified our business into three segments, Digital Technologies, Digital Operations, and Digital Experiences. Till FY2022, we used to classify them into two segments which are IT services and Business Process Management. The relook at classification is primarily driven by three factors, First, most customers are increasing their deployment of digital technologies and Datamatics has been playing an active role in supporting them in this journey. As legacy technologies are passe, the future market and growth lies in rapid adoption and migration to digital technologies which include cloud, DevOps, low-code no-code (LCNC) and SaaS platforms, digital workplace, analytics, and artificial intelligence.

Second, almost all of our back-office operations are delivered on the back of digital platforms and going forward this would be the mainstay in delivering operations outsourcing. Our digitally augmented suite of technologies powers our operations to deliver process excellence. The suite comprises of smart workflows, mobility, robotic process automation (TruBot), intelligent document processing (TruCap+), AI/ML models (TruAI) and Business Intelligence which is TruBI.

Third, the customer experience has become central to success of all companies. Today, all these companies have a multi-channel engagement model with their customers with technology penetration permeating our lives, it becomes paramount for companies to deliver a seamless digital experience to an increasingly younger customer base. Our expertise in customer management processes and technologies ensure superior and consistent customer experience across the entire customer lifecycle. With all these factors coming together and with Datamatics well entrenched in delivering digital solutions to our customers it becomes imperative for Datamatics to reposition itself to capture market opportunities and more accurately represent our value proposition which enables enterprises to go deep in digital to boost their productivity, customer experience and competitive advantage.

- 3) Key recent development - Datamatics and Scan-Optics, a leader in intelligent data management and digital transformation, announced that they have entered in a partnership to help organizations enhance automation of business operations. Scan-Optics digitizes, classifies, and migrates data – owning the life-cycle of digital data. Datamatics brings Artificial Intelligence and Machine Learning to the world of unstructured document automation and business processes. Aabhas Zaveri, SVP, Intelligent Automation, Datamatics, said, "We believe it's a natural progression for both Scan-Optics' and Datamatics' customers to adopt AI-driven Intelligent Automation solutions to bring efficiencies to manual and document-driven operations. Our combined technologies can help the customers with process automation, document extraction and generate intelligence around their customers, partners, products, and employees, enabling them to deliver better customer and employee experience." Jeff Mitchell, CEO Scan-Optics expressed, "We are happy to partner with Datamatics and are confident in their AI-driven intelligent solutions. It will provide excellent value for companies in automating workflows, improving customer productivity,



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and optimizing employees' time spent on tedious tasks." The combined power of these technologies will allow for increased speed, efficiency, accessibility, productivity, and accuracy of business operations. Datamatics and Scan-Optics will offer enterprises with solutions such as document/digital conversion, intelligent document processing, digital record management and robotic process automation.

4) We like the Company because of the following:

- a) Well diversified business - Offers Digital Solutions, IT & BPM services
- b) IP Products - Developed own IP products in high growth markets - TrueCap+, TruBot, iPM, TruBI, TruAI, TruFare
- c) Leading Indian company in AFC - Executed over 30+ marquee projects across the globe incl. New York, London, HK and Dubai
- d) Strong R&D Centre - DataLabs focused on new age technology areas - AI & Cognitive Science, RPA, AR & VR
- e) Solid Cash Flows and resilient margins

Valuation and Recommendation

At CMP of Rs.304.35, the stock is valued at a P/E of 11.4x. We recommend a "Buy" with a target price of Rs. 370(P/E of 12x at estimated FY23 EPS of Rs. 30.83)

One year price movement chart



Source: Moneycontrol

Delta Corp Limited | "Buy" | Target price: Rs. 287 | Upside: 30%

CMP: Rs. 220.40 | Book value: Rs.78.6 | FV: Re. 1 | Market Cap: Rs. 5,894.48 Crore | H1FY22 EPS Rs. 4.69 | F22 EPS: Rs.2.51 | RoE: 3.25% | RoCE: 5.40% | 52 Week High/Low: Rs. 339.50/Rs.162.10 | Promoter holding: 33.31%

Background and Investment Rationale

- 1) Delta Corp founded in 1990, is gaming and hospitality company in India owning and operating casinos. The Company is the only listed company engaged in gaming – live, electronic and online gaming (through its subsidiary). The Company is also the industry's largest organised player.
- 2) The Company has built a foothold in both Goa and Sikkim, the two Indian casino destinations. It owns and operates under both offshore and land-based licences, adding hospitality assets to the casinos. In order to grow its footprint on the global market, the Company expanded its geographical activities by opening a casino in February 2020 at the Hotel Marriott in Kathmandu, Nepal. Over the years, the Company has developed a comprehensive understanding of the behaviour and journey of important demographics and users across industries, enabling it to optimally attract and retain consumers.
- 3) In addition to entering skill-based online gaming in India, the Company has built a strategic presence in the real-money gaming area. It entered the online gaming market in 2017 and strengthened its position in India's gaming business by acquiring Adda52.com, the country's largest online poker site. Online skill-based games such as poker, rummy, and fantasy sports that may be played for real money in the majority of Indian states have been a big source of revenue for the Company. Currently, it owns and operates the online poker and rummy sites 'Adda52.com' and 'Adda52rummy.com'



Source: Company - Q2FY23 result press release

- 4) The Company's Chairman Mr. Jaydev Mody in its FY22 Annual Report said "After being shut for almost seven months in the previous fiscal year, our casinos were forced to close down once again after the second wave, with only partial operations. We restarted our operations in September 2021, albeit with 50% capacity till mid March 2022, post-which our business has resumed as usual. The Omicron wave, coupled with the Goa State Elections in February, led to a substantial decrease in visitations."

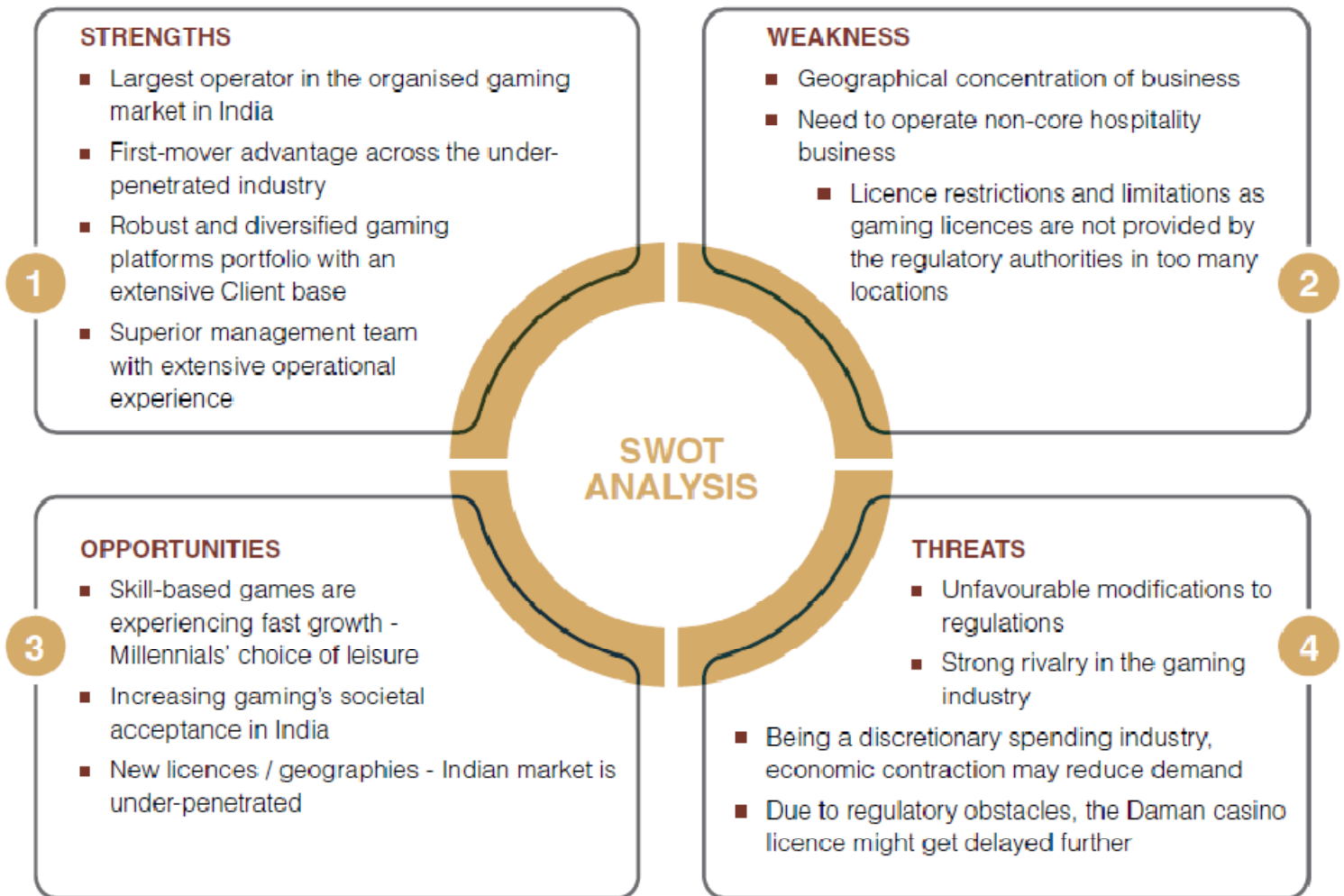
He further said "Delta holds a leading position in the online gaming space. Our subsidiary, Deltatech Gaming Limited, is one of the earliest companies in the realmoney money gaming segment in India, and



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Adda 52.com is India's first online poker platform offering multiple poker variants. Our online gaming business performed well during the year. We are now focussing more on multi-games, having added the poker platform Adda52.com – Rummy to our suite of skill-based games. With nearly 5.55 million cumulative registered gamers on all of Deltatech Gaming's platforms (as on March 31, 2022), Rummy too has been received well and is expected to harvest a sturdier presence. In the last fiscal, Deltatech Gaming acquired Faboom, a multi-gaming platform, later re-branded to 'Adda.games', which has performed as per expectations. We are now poised to translate our success in online poker to other online games too. Further, the year was significant as we filed the DRHP for Deltatech Gaming's ` 550-Crores IPO. This will comprise a fresh issue of ` 300 Crores and an offer for sale of ` 250 Crores. We are planning to utilise the proceeds of this IPO for organic growth and to strengthen our technology infrastructure."



Source: Company's FY22 Annual Report

Strong performance in H1FY23 result

The Company has registered a highest consolidated revenue of Rs. 651.93 Crore and Net Profit of Rs. 125.38 Crore in H1FY23. The EBITDA for H1FY23 stood at Rs. 203.81 Crore. The Company has reported its highest ever revenue for the quarter. The business is very resilient and has bounced back much stronger. The Company has surpassed the pre-covid set of numbers and have registered strong growth.

Mr. Jaydev Mody, Chairman, Delta Corp Limited, said: "The growth can be attributed to the surge in domestic travel. This has enabled the growth and we believe that this trend will continue for a while. In the meantime, other development that is in the pipeline which is the launch of our new vessel is in public domain. This will further the growth momentum and help us achieve desired results."

Mr. Hardik Dhebar, Group CFO said:

"The half year results depict landmark revenue. Our Consolidated revenue for the half year stood at Rs. 651.93 crores and our consolidated EBITDA stood at Rs. 203.81 crores giving a robust growth trajectory. We are pleased with the company's record revenue numbers in this quarter and are focussed on sustained growth initiatives going forward".

Mr. Hardik Debar - Group CFO in the Q2FY23 analyst concall conducted earlier said "With regards to the GST ongoing issue, there is the matter pending with the GST Council. The council hasn't met as the group of registers has been discussing, deliberating upon what methodology and how they should be addressing this concern of the industry given the fact that there was this clarity at the GoM level per se with regards to understanding each of the businesses after they have gone through and the representations made by various industry forums and industry participants, including ourselves.

He further added "We have been able to achieve a success in form of the fact that they have now realized the differences between the methodology in how each of these businesses, whether it's also in online gaming and casinos operate, and therefore, to use the same yardstick and measure for levying of tax on each of these businesses would not be ideal, and therefore, each of them needs to be looked at separately, which we believe we have been able to communicate and convey to the GoM who seems to have taken it positively. We are now waiting for the final GoM recommendations and the GST Council to come out with the law. We are very, very positive and hopeful that it's all going to settle the matter once and for all."

Key developments in FY22

- 1) In FY22, a key development was the formal kick-starting of casino operations at Zuri White Sands in Goa, rebranded as 'Deltin Zuri'. This has been its first venture in South Goa and is currently the only luxury onshore casino in that location. With this, the Company now operates a total of five casinos in Goa. This places the Company in a unique position as Deltin Zuri, spread across 1,180 sq. ft., with over 40 gaming positions, occupies a prime location in South Goa. This is now its 4th land-based casino after Deltin Suites, Goa; Deltin Denzong, Gangtok; and Deltin Casino International, Kathmandu. Today, it holds three of the six offshore gaming licenses in Goa – Deltin Royale, Deltin JAQK and Kings Casino (erstwhile Deltin Caravela). The Company has 2,100+ gaming positions in aggregate, a number that is expected to grow further in the coming years.
- 2) In FY22, the Company's Board had approved the scheme of amalgamation of wholly owned subsidiary companies Daman Hospitality and Daman Entertainment with Delta Corp. This will allow the Company to pool resources, creating better synergies, optimal utilisation of assets and greater economies of scale, as it derives operating efficiencies from the adoption of existing technology enabled processes.

Company's plans for FY23

- 1) The Company is looking forward to a fantastic year and full-fledged performance. Given the increasing tourist arrivals leading to strong occupancy in hotels and continued traction for online gaming, the Company's long-term outlook continues to be very positive.
- 2) The Company is making some bold and transformative moves to realise future growth opportunities. The Company hopes to develop new, cutting-edge assets at a responsible pace and expand its current footprint to delight the customer and set new industry benchmarks. Among other plans, it is working on creating a multi-game platform to offer other skill games, including fantasy sports and rummy.
- 3) The Company is setting up an integrated resort of over 3 million sq. ft. at Pernem in Goa and has already acquired 100 acres of land near Mopa Airport. This will be a one-stop destination for all family members. The modern layout will provide world-class facilities, including electronic casinos, a shopping mall, gaming zones, a convention centre, a multiplex cinema, themed hotels, luxury suites, gourmet restaurants, water parks, multiple banqueting facilities, a children's entertainment area and other recreational activities. With the state government having approved the proposal for this integrated



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entertainment and casino complex, the Company's endeavour to start work as soon as possible, becoming a dominant operator in Goa's casino business.

Valuation and Recommendation

At CMP of Rs. 220.40, the stock is valued at a P/E of 23.49x at H1FY23 annualized EPS of Rs. 9.38. We recommend a "Buy" with a target price of Rs. 287 (P/E of 24x at estimated FY24 EPS of Rs. 11.95)

One year price movement chart



Source: Moneycontrol

Havells India Limited | "Buy" | Target price: Rs. 1,400 | Upside: 20%

CMP: Rs. 1,165.95 | Book value: Rs. 98.5 | FV: Re. 1 | Market Cap: Rs. 73,091.56 Crore | FY22 EPS: Rs. 19.10 | RoE: 21.4% | RoCE: 27.6% | 52 Week High/Low: Rs. 1,433.90 / Rs. 1,037.40 | Promoter holding: 59.45%

Investment Rationale

Impressive background

The Company has well entrenched brands (Mass premium, National presence, 5 brands addressing markets and channels



(Source: Company)

The Company is self reliant with more than 90 percent in house manufacturing and high level of automation and integration

It has the widest product portfolio - 21 product verticals, ~USD 15 bn addressable market

Growth pillars

- Local manufacturing - Sourcing indigenized, in house manufacturing of AC
- Channel expansion - Display at all the large retail chains, enhance numeric reach across India
- Comprehensive CD portfolio - Introduction of REF now completes the basket
- Brand salience - Celebrity engagement, high decibel promotion, mass to mass premium

Key milestones

- Commodity to branded
- Single to Multi product
- Large scale manufacturing to drive efficiency and quality
- Mass to "mass premium"
- Pan India brand and uniform pricing,
- Acquisition of Sylvania and pragmatic exit
- Lloyd Acquisition - Entry into high potential Consumer Durables, aligned with "Deeper into homes"
- Expanding consumer touch point, Omni customer, Omni Havells

Strong outlook for the future

- Havells taps into a vast, high priority electrical products in home construction, improvement and convenience segment
- With improvement in per capita income, there will be a greater discretionary spend towards premiumisation, brand affinity and comfort.
- Distribution penetration, its universality, product digitisation, and business efficiency through technology will be key focus
- Native business acumen, market connect and ethics remain core values

Decent performance in Q2FY23 result

- Q2 revenue growth was 14% against 3-year average of 18%.
- According to the Company, there has been a reasonable demand environment with real estate upcycle and infrastructure investment
- Consumer demand is slightly sluggish, though stable
- Margin in Q2 impacted owing to full absorption of high-cost inventory against falling RM /sales prices
- The impact was pronounced in Cables and Lloyd
- Despite lower margins, the Company persisted with long term investment in brand and people
- The Company believes that margin have hit the trough. Sequential margins from Q1 are stable and will improve from this quarter.



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Valuation and Recommendation

At CMP of Rs. 1,165.95, the stock is valued at a P/E of 61x. We recommend a "Buy" with a target price of Rs. 1,400 (61x at estimated FY24 EPS of Rs. 22.95).

One year price movement chart



Source: Moneycontrol

Indian Bank Limited| "Buy"| Target price: Rs. 280| Upside: 23.81%

CMP: Rs. 226.15|FV: Rs.10| Book value: Rs.279.63 per share| Market Cap: Rs. 28,165.65 Crore|C/D ratio: 72.78%|NIM: 3.10%|Cost/Income: 41.94%|PCR: 88.08%| Gross NPA:8.13%| Net NPA:2.12%|Credit cost: 2.02%|Slippage ratio (annualised): 3.03%|RoA: 0.73%|RoNW: 14.18%|52 Week High/Low: Rs. 236/Rs. 130.15|Promoter holding: 79.86%

Investment Rationale

"Good overall performance witnessed in Q1FY23; traction in credit growth instills confidence"

- a) Commenting on Q1FY23 result, the Bank said "Indian Bank has envisioned tiered approach to achieve consistent business growth, starting with building of capabilities, streamlining operations to deliver exceptional customer experience and driving business value for stakeholders. Bank's approach has shifted from conventional to digital banking to save time & resources and enrich customer satisfaction. As the economy opens up after the pandemic, the demand for credit has risen & there is an indication of green shoots of the domestic economy. The Bank is well equipped to meet the market expectations and the thrust is on corporates as well as the retail customers. We are also keeping a watch on the economy due to volatile global conditions and calibrating our actions in response to the rising inflation and measures being taken by the RBI as well as the Government."
- b) The Bank's operating profit increased by 30 percent on QoQ basis to Rs. 3,564 Crore in Q1FY23 due to increase in spread & other income as against Rs. 2,738 Crore in Q4FY22 (mainly due to provisioning for entire Family Pension Liability). On YoY basis, it witnessed a growth of 4 percent.
- c) Net Interest Income increased by 13 percent on YoY basis and increased by 7 percent on QoQ basis to Rs. 4,534 Crore in Q1FY23.
- d) Domestic Net Interest Margin (NIM) increased by 25 bps on YoY basis to 3.10 percent in Q1FY23 as against 2.85 percent in Q1FY23. On a QoQ basis, it improved by 23 bps.
- e) The Bank's non-interest income increased by 2 percent on QoQ basis to Rs. 1,604 Crore in Q1FY23 as against Rs. 1,573 Crore in Q4FY22. Fee based income declined by 23 percent to Rs. 627 Crore in Q1FY23 as against Rs. 813 Crore in Q4FY22. Recovery of bad debts increased by 109 percent on QoQ basis to Rs. 413 Crore. Forex income increased by 30 percent on QoQ basis to Rs. 357 Crore. PSLC commission grew by 89 percent on sequential basis to Rs. 287 Crore. Loss on Revaluation of investments increased to Rs. 236 Crore in Q1FY23 as against Rs. 165 Crore in Q4FY22. Profit on sale of investments declined from Rs. 249 Crore in Q4FY22 to Rs. 105 Crore in Q1FY23.
- f) The Bank's Cost/Income ratio stood at 41.94 percent in Q1FY23 as against 53.03 percent in Q4FY22. It may be noted that Figures of earlier period have been regrouped wherever necessary to confirm the current year classification - In the light of RBI Master Direction on Financial Statements – Presentation and Disclosures dated 30.08.21.).
- g) Net Profit increased by 23 percent on QoQ basis to Rs. 1,213 Crore in Q1FY23 as against Rs. 984 Crore in Q4FY22. On YoY basis, the growth stood at 3 percent.
- h) Domestic RAM witnessed a growth of 12 percent on QoQ basis to touch Rs. 2,44,247 Crore. RAM contribution to domestic advances is 61.2 percent.
- i) Domestic Gross advances grew by 0.93 percent on QoQ basis to Rs. 3,99,360 Crore in Q1FY23 as against Rs. 3,95,698 Crore in Q4FY22. Domestic Corporate Advances declined by 2 percent on QoQ basis to Rs. 1,55,113 Crore.

- j) With regards to Corporate Credit growth Shri. Shanti Lal Jain, MD and CEO said that it has received proposals from sectors like Cement, Road, Power, Textiles, NBFCs. He said that during the quarter the Bank had sanctioned term loan worth Rs. 19,000 Crore and Working Capital utilised limit was Rs. 44,000 Crore. He further added that Bank is margin conscious before lending. He said that Yield on advances has increased on QoQ basis in a sizeable manner (7.16 percent in Q1FY23 as against 7 percent in Q4FY22).
- k) Total Deposits grew by 8 percent on YoY basis and declined by 2 percent on QoQ basis to Rs. 5,84,251 Crore in Q1FY23.
- l) The Bank's C/D ratio stood at 72.78 percent in Q1FY23 as against 70.02 percent in Q4FY22.
- m) In terms of asset quality, Gross NPA in percentage has improved by 34 bps on QoQ basis from 8.47 percent in Q4FY22 to 8.13 percent in Q1FY23. Net NPA improved by 15 bps on QoQ basis to 2.12 percent in Q1FY23 from 2.27 percent in Q4FY22. MD and CEO said that "by the end of FY23, Gross NPA would be below 7 percent and Net NPA would be below 2 percent".
- n) Fresh slippages stood at Rs. 2,885 Crore in Q1FY23 (Retail: Rs. 527 Crore, Agriculture: Rs. 264 Crore, MSME: Rs. 1,317 Crore and Corporate: Rs. 777 Crore) as against Rs.3,298 Crore in Q4FY22 (Retail: Rs. 477 Crore, Agriculture: Rs. 417 Crore, MSME: Rs. 1,431 Crore, Corporate: Rs. 973 Crore). The Bank's slippage ratio declined from 3.63 percent in Q4FY22 to 3.03 percent in Q1FY23.
- o) Total Cash recovery in Q1FY23 stood at Rs.1,452 Crore in Q1FY23 as against Rs. 1,433 Crore in Q4FY22. Total Cash recovery and upgradation stood at Rs. 2,100 Crore in Q1FY23 as against Rs. 2,809 Crore in Q4FY22.
- p) Provision Coverage Ratio (PCR) improved to 88.08 percent in Q1FY23 from 87.38 percent in Q4FY22. On a YoY basis, PCR improved by 608 bps YoY to 88.08 percent from 82 percent in Q1FY22. The management in its Q4FY22 concall had said that going forward provisioning requirement would be less.
- q) Credit cost stood at 2.02 percent in Q1FY23 as against 2.15 percent in Q4FY22.
- r) Overall Collection efficiency in Q1FY23 stood at 94 percent (Retail: 96%, Agriculture: 90%, MSME: 90%, Corporate: 99%) as against 95 percent in Q4FY22 (Retail: 95%, Agriculture: 90%, MSME: 95%, Corporate: 99%).
- s) The total outstanding COVID-19 restructuring book stood at Rs. 16,580 Crore in Q1FY23. In the restructured book, the Bank management said that Retail and agriculture are doing well. The Bank further added that in Corporate restructured book only 2-3 accounts have slipped and there is stress in MSME book.
- t) With regards to NARCL, the Bank has identified 34 accounts worth Rs. 5,385 Crore. In Phase I of transfer, the Bank had identified 8 accounts worth Rs. 1,910 Crore. (3 accounts were resolved and balance in 5 accounts at Rs. 1,241 Crore. The Management had earlier stated that majority of these accounts are written off and whatever the Bank will receive will be income. The Bank has also invested Rs. 139.49 Crore as equity in NARCL.
- u) The Bank's CRAR stood at 16.51 percent in Q1FY23 as against 16.53 percent in Q4FY22.
- v) The Bank's Return on Assets (RoA) increased by 11 bps to 0.73 percent in Q1FY23 as against 0.62 percent in Q4FY22. In Q1FY23, the Bank's Return on Equity (RoE) improved to 14.18 percent as against 11.70 percent in Q4FY22.

Ajcon's view

- a) The Bank has witnessed good growth in operating profit growth on QoQ basis. We like the fact that the Bank's treasury performance has been good as compared to other peer PSU Banks.
- b) There are other positives like improvement on asset quality, decent cash recoveries, well provided for Stressed Book (PCR-including TWO at 88.08%), strong capital adequacy, no major stress estimated, overall collection efficiency of 94 percent, strong RoE and RoA, operational efficiency to improve led by synergies after merger with Allahabad Bank and good growth outlook for future driven by retail, agriculture, MSME's and Corporates.
- c) The Bank has given guidance of 10 percent growth in advances in FY23 which gives confidence.
- d) We draw comfort from the fact that Bank has a good quality Corporate book with AAA, AA, A rated accounting for 71 percent of the total rated Standard Domestic Credit Exposure as on Q1FY23. In addition, 98 percent of exposure to NBFCs as on Q1FY23 is rated A and above.
- e) Credit cost of above 2 percent and is a cause for concern and may come down with less requirement of provisioning in the future.
- f) The Bank's management has provided an optimistic scenario for the future with good progress on digital front and new initiatives.
- g) We expect the Bank to deliver strong performance in Q2FY23 as well.

Valuation and Recommendation

At CMP of Rs. 226.15, the Bank is valued at a P/BV of 0.81x and deserves premium considering its good performance in the last few quarters. We recommend a "Buy" with a target price of Rs. 280 (P/BV of 1x at Book value of Rs. 279.63 as on Q1FY23).

One year price movement chart



Source: Moneycontrol

State Bank of India | "Buy" | Target price: Rs. 673 | Upside: 20%

CMP: Rs. 560.80 | FV: Re.1 | Book value: Rs. 326.47 per share | Market Cap: Rs. 5,00,492.23 Crore | C/D ratio: 71.69% | NIM: 3.23% | Cost/Income: 61.94% | PCR: 90.14% | Gross NPA: 3.91% | Net NPA: 1% | Credit cost: 0.61% | Slippage ratio (annualised): 1.38% | RoA: 0.48% | RoE: 10.09% | 52 week High/Low: Rs. 578.65 / Rs. 425 | Promoter holding: 57.57%

Investment Rationale

"Bank performance has been good in last the few quarters; good traction and guidance on credit growth"

1) In Q1FY23, Operating profit witnessed a decline of 32.79 percent on YoY basis and decline of 35.31 percent on QoQ basis to Rs. 12,753 Crore in Q1FY23 (Rs. 18,975 Crore) as against Rs. 19,717 Crore impacted by MTM Losses on investment book. Excluding Trading Income and MTM, Core Operating Profit increased by 14.39% YoY, from Rs. 16,873 crores in Q1FY22 to Rs. 19,302 crores in Q1FY23. The MTM hit also had an adverse impact on bank's ROA and ROE, which stand at 0.48% and 10.09% respectively.

2) NII increased by 12.87 percent on YoY basis and marginally slipped by 0.01 percent on QoQ basis to Rs. 31,196 Crore in Q1FY23 (Rs. 27,638 Crore) as against Rs. 31,198 Crore in Q4FY22.

3) NIMs improved by 8 bps on YoY basis and declined by 17 bps on QoQ basis to 3.23 percent in Q1FY23 as against 3.40 percent in Q4FY22. The decline on NIMs on QoQ basis should be viewed in light of interest on income tax refund which was there in Q4FY22. The Management said that sequential performance of NIMs should not be considered in Q1 as there yield enhancers in the fourth quarter. Earlier, in Q4FY22 concall, the Bank's management had said that NIMs are expected to improve as in a rising interest rate scenario, loans get repriced from time to time, but when it comes to deposits, they always go up with a lag which augurs well for the Bank.

4) Total Non Interest income declined from Rs. 11,880 Crore in Q4FY22 to Rs. 2,312 Crore in Q1FY23. Fee income declined on sequential basis by 20.58 percent to Rs. 6,372 Crore in Q1FY23 from Rs. 8,023 Crore in Q4FY22. Loss on Sale/Revaluation of Investments stood at Rs. 6,549 Crore in Q1FY23 as against Profit of Rs. 178 Crore in Q4FY22. With regards to MTM losses, Chairman Shri. Dinesh Kumar Khara informed that it is not an actual loss and will get reversed as yields decline. On an analyst query with regards to treasury performance outlook considering the rate hikes by RBI, the Chairman replied that the Bank is cushioned for 10 year yield going upto 7.45 percent.

5) Forex income increased by 32.42 percent to Rs. 2,014 Crore in Q1FY23 from Rs. 1,521 Crore in Q4FY22 (On an analyst query in Q4FY22, with regards to sustainability of growth in forex income, the Bank management replied that there is no one off and it is broad based. The Management also added that its focus on forex business from retail outlets helped its forex income to grow).

6) Cost/Income ratio increased by 771 bps from 54.23 percent in Q4FY22 to 61.94 percent in Q1FY23. The Bank's focus continues on improving income streams with control on costs. Excluding treasury income, Cost to Income Ratio is showing continuous decline.

7) The Bank's Net Profit declined by 33.42 percent on QoQ basis and fell by 6.70 percent on YoY basis to Rs. 6,068 Crore in Q1FY23 (Rs. 6,504 Crore in Q4FY22) as against Net Profit of Rs. 9,114 Crore in Q4FY22.

Ajcon Global's view

1) In Q1FY23 result, Operating profit and Net Profit declined both on QoQ and YoY basis led by MTM losses. However, excluding the MTM losses, the Bank has generated good operating profit. It was heartening to see Bank's Balance Sheet size crossing Rs. 50 Lakh Crore. Overall, the Bank has witnessed stellar performance (in



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line with our expectations) with good growth in retail credit and corporate credit on YoY basis, comfortable credit cost, all major legacy issues over with no major stress estimated, improvement in asset quality, well provided for Stressed Book (PCR-including AUCA at 90.14%), strong capital adequacy and high RoE and RoA. Digitally, the Bank has really transformed itself and reached new heights. The Bank's digital strategy is on track and its application YONO continues to do well in getting business for the bank. 65 percent of Savings Bank accounts and 38 percent of retail asset accounts acquired digitally through YONO. The share of Alternate Channels in total transactions increased from 95.1 percent in Q1FY22 to 96.6 percent in Q1FY23

2) SBI has been delivering good overall performance in last several quarters and one subdued quarter due to external factors should not be a criterion to judge its potential . We expect the Bank to do well in the coming quarters. We believe that the crown jewel of the Indian Banking sector is well prepared to meet uncertainties of the future considering difficult macro-economic environment.

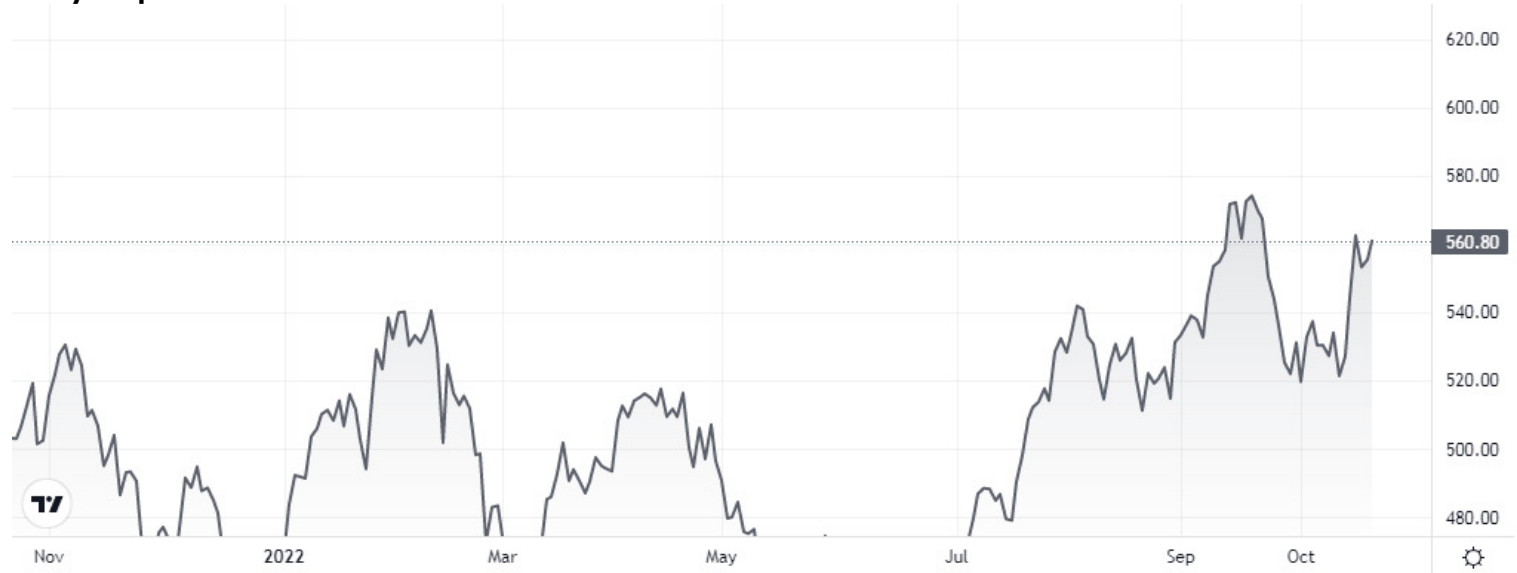
3) According to us, the Bank is on track to reach the next level and expect the robust performance to continue in FY23. Corporate advances growth has also shown signs of improvement and is expected to gain acceleration in coming quarters. The CD Ratio stands at 71.69 percent as on Q1FY23 which provides headroom for credit growth.

4) We believe that amongst the PSU Banks, it is the best bank to remain invested. We believe the Bank under the Chairmanship of Mr. Khara, well experienced MDs, DMDs and a strong team of higher management duly supported by dedicated workforce will continue to do well.

Valuation and Recommendation

At CMP, the stock is trading at a P/BV of 1.72x. We recommend a "Buy" with a target price of Rs. 673 (P/BV of 1.8x at estimated FY23E Book value).

One year price movement chart



Source: Moneycontrol

Tata Consultancy Services Limited | "Buy" | Target price: Rs. 3,924 | Upside: 25%

CMP: Rs. 3,139.40 | FV: Re. 1 | Market Cap: Rs. 11,48,722.59 Crore | FY22 EPS: Rs. 103.62 | RoE: 43.6% | RoCE: 54.9% | 52 Week High/Low: Rs. 4,045.50 / Rs. 2,926 | Promoter holding: 72.30%

Investment Rationale

Strong performance in Q2FY23 result

- 1) Tata Consultancy Services Limited (TCS) witnessed good performance in its Q2FY23 result. The Company's Q2FY23 Revenue stood at Rs. 55,309 crore, growth of 18% YoY (4.8% QoQ) in rupee terms. The Constant Currency (CC) revenue was up by 15.4% YoY (4% QoQ). The growth was broad-based across verticals, led by Retail (+22.9% CC) and CMI (+18.7% CC) - Major markets shine: North America (+17.6% CC), UK (+14.8% CC) & Europe (+14.1% CC) - Operating Margin at 24%; Net Margin at 18.9% - Net Profit Crossed Rs. 10,000 crore mark. The Company's Order Book stood at \$8.1 billion in Q2FY23. Book to Bill ratio at 1.2 in Q2FY23. Attrition rate stood at 21.5% in Q2FY23 as against 19.7% in Q1FY23.
- 2) Rajesh Gopinathan, Chief Executive Officer and Managing Director, said: "Demand for our services continues to be very strong. We registered strong, profitable growth across all our industry verticals and in all our major markets. Our order book is holding up well, with a healthy mix of growth and transformation initiatives, cloud migration and outsourcing engagements. As clients prepare for a more challenging environment ahead, technologies like cloud that have been embraced now have to be fully leveraged to realize the promised value. TCS has the combination of contextual knowledge, technology expertise and execution rigor to deliver on this imperative."
- 3) N Ganapathy Subramaniam, Chief Operating Officer and Executive Director, said: "This was another quarter of excellent execution that saw us delivering several transformational projects like the largest migration of 2.3 million policies to our TCS Insurance platform in one go in the UK, or the trading platform at the Gift City. Our delivery leadership congregated during the quarter and are raising the bar further on execution excellence with frameworks like Rigor in Transformation. We are pleased that our office facilities are becoming once again the place of buzz with more and more of our employees and clients celebrating togetherness to realize their full potential."
- 4) Samir Seksaria, Chief Financial Officer, said: "We are steadily making our way towards achieving our operating margin priority for the year, aided by leverage from good growth, the flattening of the workforce pyramid, steadily improving productivity and currency support. Very importantly, the headwinds from the supply-side challenges are abating, so that sets us up well for the seasonally weak second half of the year."
- 5) Milind Lakkad, Chief HR Officer, said: "Reflecting our culture of being committed to our employees, we have honored all the job offers we had made. Our investments in capacity building and organic talent development have allowed us to substantially grow our business ahead of headcount addition this quarter. We believe our quarterly annualized attrition has peaked in Q2 and should see it taper down from this point, while compensation expectations of experienced professionals moderate."

Valuation and Recommendation

At CMP of Rs. 3,139.40, the stock is trading at a P/E of 30x at FY22 EPS. We recommend a "Buy" with a target price of Rs. 3,924 (P/E of 30x at estimated FY23EPS of Rs. 130.8).



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One year price movement chart



Source: Moneycontrol

Indian Railway Catering and Tourism Corporation Limited (IRCTC), "Buy", Target price: Rs. 928, Upside: 25%

CMP: Rs. 742.75 | Book value: Rs.23.6 | FV: Rs. 2 | Market Cap: Rs. 59,420 Crore | EPS (FY22): Rs. 8.30 | RoE: 39.9% | RoCE: 51.3% | 52 Week High/Low: Rs. 983.60 / Rs. 557 | Promoter holding: 67.40%

Investment Rationale

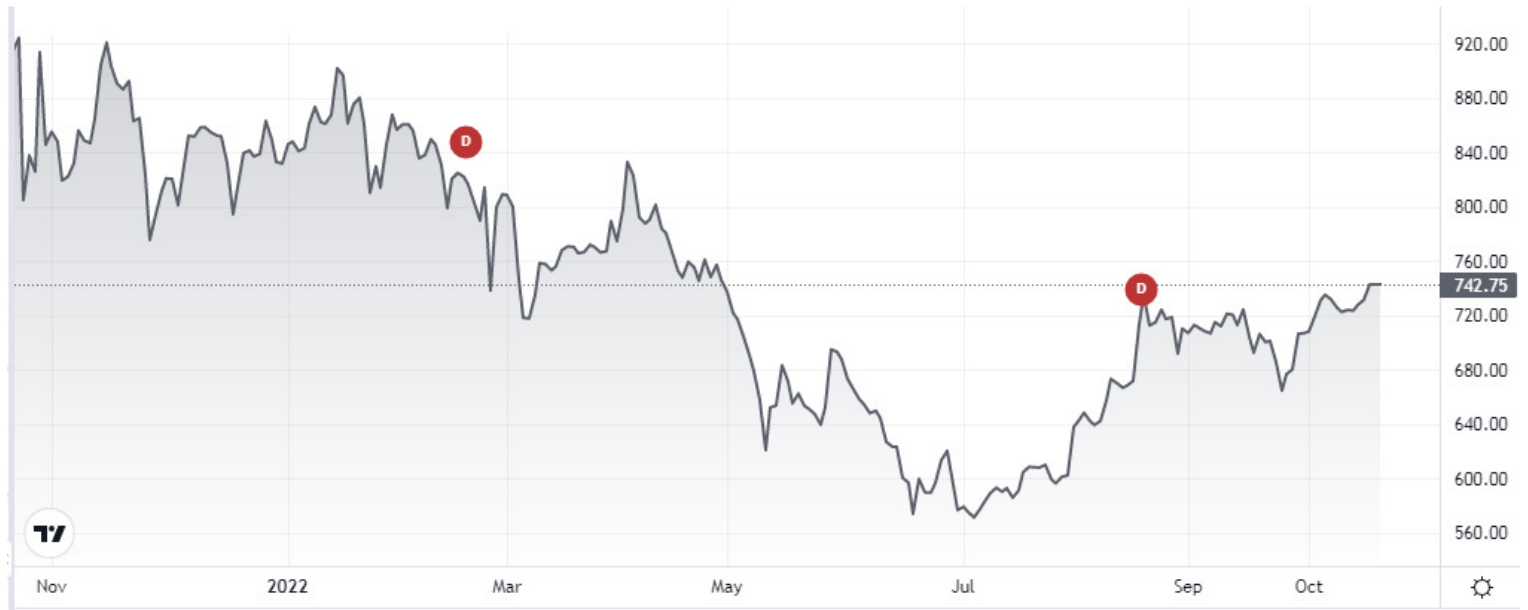
- 1) Indian Railway Catering and Tourism Corporation Ltd (IRCTC), a Mini Ratna (Category-1 Central Public Sector Enterprise), is the only entity that is authorised by the Indian government to provide online railway tickets, catering services to railways and packaged drinking water at railway stations and trains in India.
- 2) Comprehensive tourism and hospitality service provider in India.
- 3) Exclusively authorized for manufacturing and supplying packaged drinking water at railway station and trains. IRCTC manufactures and distribute packaged drinking water under brand "Rail Neer". In FY23, two Rail Neer plants with 0.2mn litre will be commissioned which will increase the total capacity to 1.68mn litres. In addition, 3 plants with 0.3mn litres will be commissioned in FY24E.
- 4) Robust operating system and internal control.
- 5) In terms of financial performance, the Company's topline has witnessed a CAGR of 6.31 percent between FY18 to FY22. On the other hand, the Company's PAT witnessed a CAGR of 31.86 percent between FY18 to FY22.
- 6) The Company has a strong balance sheet and a Debt free Company.
- 7) Enjoying monopoly as there is zero competition
- 8) The Company had witnessed strong overall performance in Q1FY23.
- 9) Commenting on Q1FY23 performance of the Company - Mrs. Rajni Hasija, Chairperson and Managing Director of the Company in the Company's Q1FY23 concall conducted earlier said "First quarter of this financial year, the revenue has reached at Rs.853 Crores and we saw a strong growth of 23% quarter over quarter and more than 2.5 times on the year over year given that the base quarter had the impact of pandemic, so if you compare with the previous quarter there is a 23% growth. Importantly, the revenue for the first quarter of the FY2023 has not only surpassed preCOVID level but it is at all time high as regards the quarter run rate is concerned."

She further added " In the last quarter of the last financial year, the catering segment has been the main driver of the quarter over quarter revenue growth and the revenue for the segment has also touched a new high. Similarly Rail Neer segment has also surpassed its peak revenue of the prepandemic period and also shown a better capacity utilization of all the plants. As you would be aware about the difference in the profitability of our business segment, the change in the business mix resulted in EBIT-DA margin coming to 37.6% versus 45.8% year over year and 41.1% quarter over quarter."

Valuation and Recommendation

At CMP of Rs. 742.75, the stock is trading at a P/E of 89x at FY22 EPS. We recommend a "Buy" with a target price of Rs. 928 (P/E of 89x at estimated FY23EPS of Rs. 10.43).

One year price movement chart



Source: Moneycontrol

UGRO Capital, "Buy", Target price: Rs. 276, Upside: 57.08%

CMP: Rs. 175.70 Book value per share as on Q1FY23: Rs. 138.19|FV: Rs. 10|Market Cap: Rs. 1,237.96 Crore|AUM as on Q2FY23: Rs. 4,378 Crore| Cost/Income ratio (Q1FY23): 72.1%|Gross NPA/Net NPA as on Q1FY23: 1.7%/1.2% (Total AUM)|Credit cost(Q1FY23): 1.4%| FY22 RoE: 1.5%| CRAR as on Q1FY23: 28%|52 Week High/Low: Rs. 229 /Rs. 130.90

Investment Rationale

- 1) The Company's business is primarily driven by analytics, data - centric approach enabling customer offerings faster disbursals thereby reducing operating cost and containing risk. The Company's business model blends the traditional branch-based approach with modern Fin Tech based Lending by bringing in sector, geographical and product specialisation and combining that with new age technology platform.
- 2) Technology underpins every aspect of UGRO's lending process, from API integrations, sectoral and subsectoral statistical scorecards, state-of-the-art AI/ML credit underwriting engine combining bank, bureau and GST statement analyzers, automated policy approvals, and machine learning OCR technology. Company's GRO Extreme platform empowers fintech and other institutional platforms to deepen their distribution reach through a plug and play API driven seamless integration with U GRO. The company has developed full tech stack to fully automate the complete life cycle of a loan right from origination to collection during the entire customer journey.
- 3) UGRO Capital lends exclusively to MSMEs and caters to all the borrowing needs through its diverse range of product offerings like Term Loan (Secured and Unsecured), Supply Chain Financing, Machinery Loan and Short- Term financing through its multiple FinTech and NBFC Partners.

Specialised MSME Lenders like UGRO are better positioned to bridge the MSME Credit Gap

Particulars	Specialized MSME Lenders	Traditional NBFCs	Banks
Product	Customised products based on the nature of business, non-financial parameters, end use, payment capacity/frequency of underlying customer	Loans against property, supply chain financing, unsecured loans	Loans against property, supply chain financing
Distribution	Omnichannel, Ecosystem based lending	Branch/DSA led	Branch/DSA led
Credit Appraisal	Sector specific approach, Cash Flow based, Automated Review	One size fits all Collateral/Bureau score	One size fits all Collateral/Bureau score
Turnaround time	4-5 days Combining traditional and non-traditional sources. Use of information available in public and private domains. Digital document submission	15-20 days	30-45 days

GRO Score 2.0, a superior underwriting framework developed by U GRO to make the selection sharper

GRO 2.0 combines credit bureau and banking data into one model

Credit bureau	Banking
Pace of borrowing	Transaction intensity
Product mix	Turnover
Overdues	Purchases
Frequency of default	Counterparties & relative strengths
Nature of past borrowers	Payment cycles
History of raising costly debt	Balances and utilisation
Default with prime lenders	Cash withdrawals and deposits
Business activity under individual	Cheque bounces and bank charges
Credit card usage	Ecommerce
NBFC/PSU relative contribution	Utility payments

Lending focused on selected sectors

Healthcare	
Key sub sectors	General nursing homes, eye clinics, dental clinics, diagnostic labs, radiology/pathology labs, pharma retailers
Key clusters	NCR, Mumbai, Bengaluru, Hyderabad and Chennai
Education	
Key sub sectors	K-12 schools, play schools
Key clusters	NCR, Mumbai, Coimbatore, Chennai, Hyderabad and Pune
Chemicals	
Key sub sectors	Dyes and pigments, bulk and polymers, agrochemicals
Key clusters	Mumbai, NCR, Ahmedabad, Vadodara and Surat
Hospitality	
Key sub sectors	Fine dining (standalone), QSRs, fine dining chains, manpower agencies, boutique hotels, guest houses
Key clusters	NA
Electrical Equipment and Components	
Key sub sectors	B2B, B2C
Key clusters	NCR, Pune, Bengaluru, Chennai, Aurangabad and Rajkot
Microenterprises	
Key sub sectors	Kirana stores, family run businesses, first generation entrepreneurs
Key clusters	Mumbai, Kolkata, NCR, Hyderabad, Bengaluru and numerous Tier II and Tier III locations
Food processing/FMCG	
Key sub sectors	Dairy and dairy products, non-alcoholic beverages, consumer foods, poultry, sea food, food and beverage traders
Key clusters	NCR, Mumbai, Chennai, Hyderabad and Pune
Auto & Light Engineering	
Key sub sectors	Casting and forging, medical equipment and devices, engine parts, drive transmission etc.
Key clusters	NCR, Chennai, Pune, Kolkata, Ludhiana, Bengaluru, Ahmedabad, Rajkot

Strong outlook for the future

- 1) UGRO Capital aspires to serve one million small businesses with an asset book of 1% of outstanding MSME credit of India as its first milestone.

- 2) The Company has a strong aspiration and aggressive AUM target of Rs. 20,000 Crore with RoE (Avg.) of 18.8 percent and RoTA (Avg.) of 4.2 percent by FY25.
- 3) The Company's AUM stood at Rs. 4,378 Crores (70% Secured and 30% Unsecured) in Q2FY23 (Rs. 1,933 Crore in Q2FY22 - 126% YoY growth) as against Rs. 3,656 Crore in Q1FY23 (20% QoQ growth).
- 4) Gross loans originated/disbursed stood Rs. 3,011 Crores during H1FY23 (+50% over H2FY22) and Rs. 1,653 Crores during Q2FY23 (22% QoQ growth and 110% YoY growth)
- 5) Total liabilities: Rs. 2,721 Crores (excluding Direct Assignment) as of 30th September, 2022
- 6) Lending as a Service ('LaaS'): 29% Off book AUM proportion as on 30th September, 2022 (visa- vis 21% as on 30th June, 2022)

Valuation and Recommendation

At CMP of Rs. 175.70, the stock is valued at a P/BV of 1.27x (Book Value per share as on Q1FY23 - Rs. 138.19). We recommend a "Buy" with a target price of Rs. 276 (P/BV multiple of 2x at Q1FY23 Book Value). The RoE is low at 1.5 percent as the Company is expansion phase and recent capital infusion. We believe the Company deserves a premium in valuations due to the following factors:

- 1) U GRO Capital is Tech focused Small Business Lending Platform
- 2) Company's business model is well suited to the new age
- 3) Specialized lenders like U GRO Capital are better positioned to bridge the MSME Credit gap
- 4) The Company has a sectoral based lending approach by shortlisting 8 core sectors of MSMEs and further added 'Micro Enterprises' as the 9th sector post careful filtration of 180+ sectors
- 5) Evolved to a Data tech Company within 3 years of inception - Leading NBFC transition to "Lending as a service" and Faster customer TAT and credit decisioning
- 6) Lending as a service is a highly profitable model
- 7) Underwriting in MSME space is moving from collateral based to cashflow based
- 8) The Company's distribution and liability strategies are both powered by proprietary technology modules
- 9) U GRO's distribution model is geared towards catering MSMEs across all geographies and ticket sizes
- 10) Well diversified and granular portfolio
- 11) Company is backed by Marquee Institutions and lenders. Majority of the Company's shareholding is institutionally owned which instills confidence. The Company's key shareholders include ADV Partners, NEWQUEST Capital Partners, PAG, SAMENA Capital and PNB Metlife
- 12) The Company has raised ~Rs. 3,000 crore of equity & debt capital from marquee Private Equity Investors, Family Offices, Banks and other Financial Institution over last 3 years
- 13) Active lenders: 67 as on 30th September, 2022 (added 6 new lenders during Q2FY23)
- 14) The Company has developed Data driven proprietary scoring model powered by AI/ML Models - superior underwriting framework - GRO 2.0 (combines credit bureau and banking data into one model) and GRO 3.0 (combines credit bureau data, banking data and GST)

- 15) Risk management through "Expert Scorecards" for all Sub-sectors
- 16) Credit process enabled by Integrated technology and a paperless, seamless customer onboarding & underwriting process supplemented by physical underwriting.
- 17) Collection efficiency continues to remain robust at 93.2 percent in September 2022.
- 18) Good performance in Q1FY23 result with strong outlook for the future and good performance expected in the coming quarters.
- 19) Over period of last five to six quarters, U GRO Capital has become a company which services the need of an SME or MSME customer right from a small Rs. 1-lakh loan to Rs. 5-crores of credit in different format

One year price movement chart of UGRO Capital



Source: Moneycontrol



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Disclosure under SEBI Research Analyst Regulations 2014:

Disclosure for Companies discussed in this research report:

- 1) Ajanta Pharma Limited
- 2) Alkem Laboratories Limited
- 3) Datamatics Global Services Limited
- 4) Delta Corp Limited
- 5) Havells India Limited
- 6) Indian Bank
- 7) Indian Railway Catering and Tourism Corporation Limited
- 8) State Bank of India
- 9) Tata Consultancy Services Limited
- 10) U GRO Capital Limited

Sr.no.	Particulars	Yes/No
1)	Research Analyst or his/her relative's or Ajcon Global Services Limited financial interest in the subject company(ies):	No
2)	Research Analyst or his/her relative or Ajcon Global Services Limited actual/beneficial ownership of 1% or more securities of the subject company (ies) at the end of the month immediately preceding the date of publication of the Research report	No
3)	Research Analyst or his/her relative or Ajcon Global Services Limited has any other material conflict of interest at the time of publication of the Research Report	No
4)	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5)	Ajcon Global Services Limited has received any compensation from the subject company in the past twelve months	No
6)	Ajcon Global Services Limited has received any compensation for investment banking, or merchant banking, or brokerage services from the subject company in the past twelve months	No
7)	Ajcon Global Services Limited has received any compensation for products or services other than investment banking, or merchant banking, or brokerage services from the subject company in the past twelve months	No
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Accumulate – Absolute return between 15% and above

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