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2020-21
Diwali picks
Samvat 2077

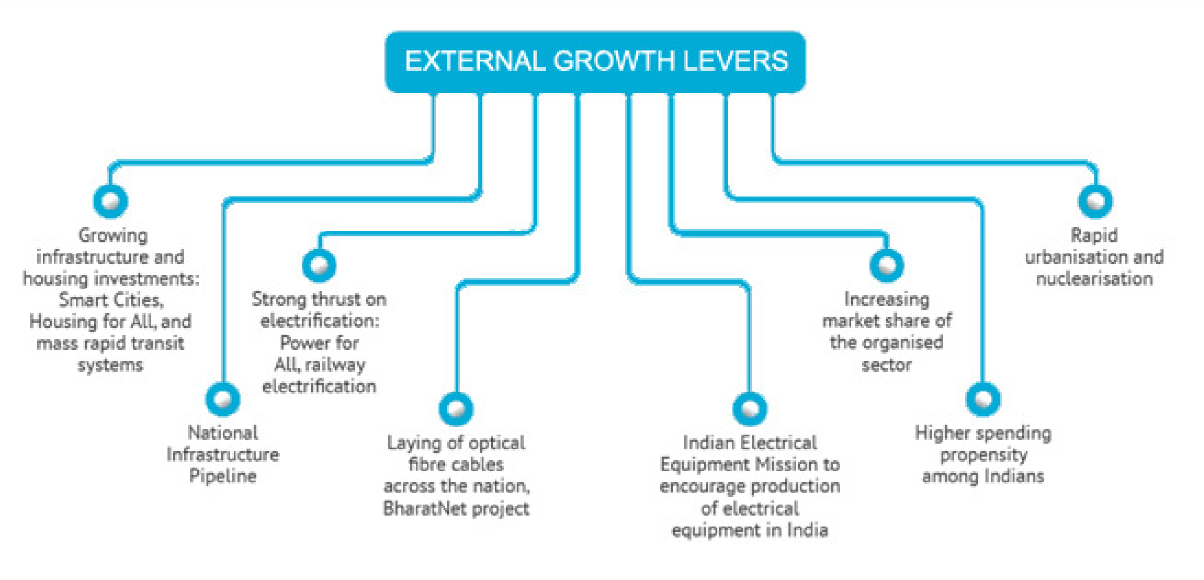
Diwali picks – "Samvat 2077"	November 10, 2020

Polycab Limited – "Robust performance in COVID era; quality play in FMEG space backed by strong and quality management" - "Buy"

CMP: Rs. 929.65, Book value: Rs. 258, Target price: Rs. 1,206, Upside: 29 percent, FV: Rs. 10, Market Capitalization: Rs. 13,825 crores, FY20 EPS: Rs. 51.1, P/E: 18x, 52 week High/Low: Rs. 1,182/Rs. 570

Polycab is India's largest manufacturer and seller of an extensive range of cables and wires, and a fast-growing player in the fast-moving electrical goods (FMEG) industry, along with an established export presence. While incorporated in 1996, the stone of the Company was laid in 1964 with the setting up of a humble electrical store under the name Sind Electric Stores.

The Company is the market leader in the domestic wires and cables segment with over 12% of the overall market share



Extensive portfolio of wires and cables to cater to the needs of their institutional and retail customers in different industries

The Company's products are either (i) made-to-stock, produced based on demand forecasts from customers and/or company sales team, or (ii) made-to-order, where they work closely with their customers to develop customized products th at are in line with their needs.

Marquee clients
L&T Construction and Konkan Railway Corporation Ltd. and other global leading brand companies.

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Exports to 40+ countries and intends to continue to focus on their existing international markets such as the United Kingdom, United States, European Union, United Arab Emirates and Australia.

Strong focus on backward integration in their manufacturing process:

a) The Company produces a substantial portion of their raw materials and source the remaining from third-party suppliers. In 2016, they entered into a 50:50 joint venture with Trafigura to set up the Ryker Plant that fulfils a substantial part of their demand for copper wire rods.

b) Apart from the Ryker Plant, they also produce in their existing manufacturing facilities other key raw materials that they then use in the manufacturing of their wires and cables and FMEGs. These key raw materials include aluminium rods (for aluminium conductor), higher size of copper rods (for required size of copper conductors for manufacturing cables and wires), various grades of PVC, Rubber, XLPE compounds, GI wire and strip (for armouring).

c) Producing their own raw materials reduces their reliance and risks of procuring raw materials from domestic and international markets by ensuring a consistent and reliable supply of quality raw materials. Such backward integration also helps them to maintain control of the supply chain, lower the costs of operations and sell the products at competitive prices.

Robust performance in Q2FY21 performance in a tough business environment

Commenting on the performance, Inder T. Jaisinghani, chairman and managing director, Polycab India, said: "I'm delighted with our Q2 performance given the context of current challenging business environment. Overall demand trends are encouraging and many of our consumer facing businesses have started seeing growth compared to last year. At the same time, we have tightened our belts to improve profitability without bargaining on long term brand development and innovation initiatives. While we remain optimistic of robust economic potential over mid to long term, government initiatives and reviving consumer sentiment should support demand in months to come. We remain focussed on augmenting our brand positioning in the Electricals space and creating long term shareholder value."

As of 30 September 2020, net cash position increased to Rs.627.6 crore. Return on capital employed (ROCE) stood at 26.6% in Q2FY21. The Company's profitability in Q2 improved sharply despite rising input costs on account of calibrated pricing actions, premiumisation and working capital interventions, it added. Profit before tax (PBT) in Q2 September 2020 stood at Rs 288 crore, up by 25% from Rs 230.30 crore in Q2 September 2019.

Outlook and Valuation

We believe increase in consumer spending, infrastructure growth, and industrial investments to drive electricals industry.

With due consideration to factors like:

a) well Positioned to capture Industry Potential across Wires and Cables and FMEG segments,
b) huge market to be tapped,
c) market leader in wires and cables in India,
d) diverse suite of electrical products with varied applications across a diverse customer base,
e) backward integration by manufacturing of essential raw materials inhouse,
f) strong distribution network (2,800+ Authorized Dealers and Distributors 100,000+ Retail Outlets),
g) strong brand in the electrical industry,
h) proven track record of past financial performance,
i) strong performance in Q2FY21 and expected to continue,
J) expertise in working capital management is a powerful differentiator for Polycab – stringent working capital controls have enabled the Company to generate industry – leading return ratios,
j) ROE of 19.9 percent, negligible debt and strong cash conversion cycle of 64 days in FY20, we recommend a "Buy" with a target price of Rs. 1,200 (18x at FY22 EPS of Rs. 67)

Cadila Healthcare Limited – "Strong business model with good product mix; moving strongly in COVID-19 era" - "Buy"

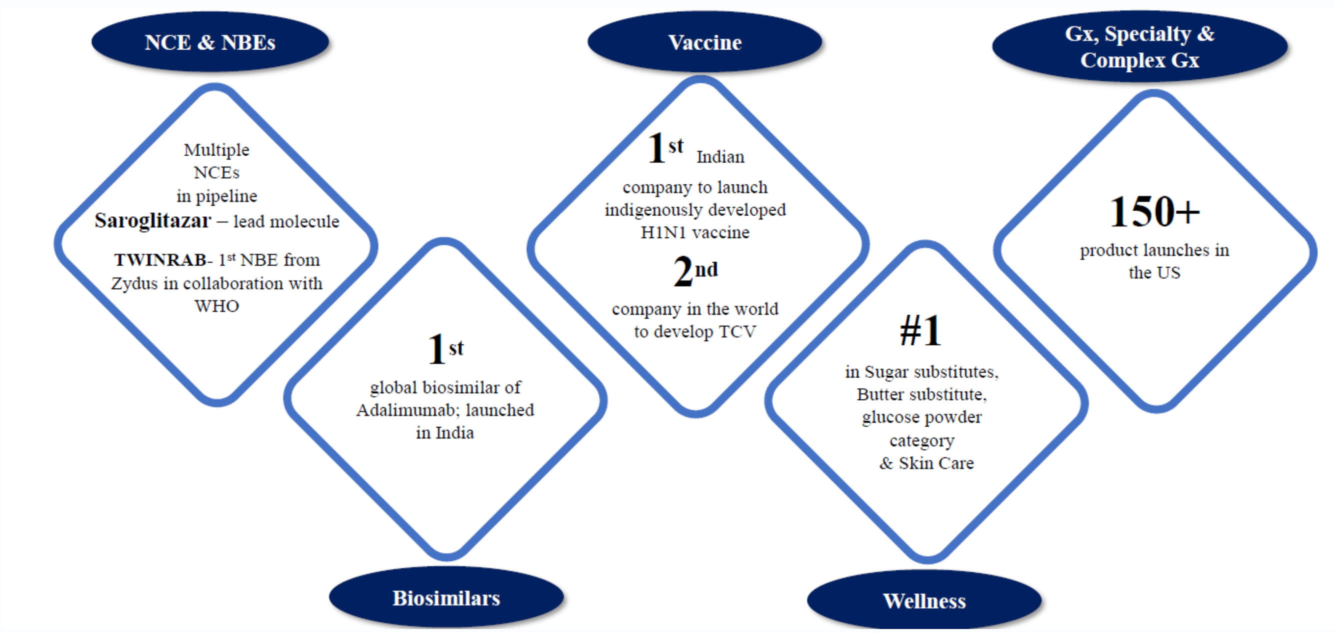
CMP: Rs. 418, Target price: Rs. 520, Upside: 24.4 percent, FV: Re. 1, Market Capitalization: Rs. 41,948 crores, EPS (FY20): Rs. 11, P/E: 38x, 52 week High/Low: Rs. 447.9/Rs. 202

Strong Business Model

a) Cadila Healthcare Limited is one of the leading innovation driven pharmaceutical companies in India with presence across the pharmaceutical value chain of innovating (research & development), manufacturing, marketing and selling of finished dosage human formulations (generics, branded generics and specialty formulations, including biosimilars and vaccines), active pharmaceutical ingredients ("APIs"), animal healthcare products and consumer wellness products.

b) Innovation is the backbone of the Company as it ensures business sustainability through continuous availability of new products for various businesses.

c) The Company's initiatives in the areas of research and development span across the pharmaceuticals value chain, including New Chemical Entities ("NCE"), biologics, vaccines, specialty and complex generic formulations and API process development. The Company has a global presence and sells its products in the United States, India, Europe and emerging markets including countries in Latin America, Asia Pacific region and Africa.



Emerging and strong player in Vaccine space

a) The Company is an emerging player in the Vaccine space with 20 + years of experience. The Company has robust product pipeline coming out of dedicated R&D facilities in India & Europe. Cadila is the second company in the world to develop Typhoid conjugate vaccines.

b) The Company has the capabilities to conduct research from "Concept to First-in-man trials" under one roof across vaccines types.

c) It has dedicated manufacturing capabilities catering to differentiated portfolio. The Company's vaccine innovation comes from two R&D centers (Vaccine Technology Centre (VTC) Ahmedabad, Gujarat, India and Etna Biotech Catania, Italy) focused on developing newer vaccines.

d) According to the Management, the Global Vaccines Market is valued ~ US$ 60 bn. The Company's portfolio of 15 products (4 products marketed in India) has an addressable global market worth ~US$ 14 bn.

The following matrix summarises the Company's vaccine portfolio:

Type	Zydus vaccine portfolio
Pediatric vaccine	DTP, Measles, MR, MMR, TCV, Varicella vaccine
Adult vaccine	Flu, HPV vaccines
Tropical diseases	Malaria and Chikungunya vaccines
Rabies vaccine	Rabies vaccine, TwinRab
Hepatitis vaccines	Hep A, Hep B, Hep E Vaccines

Source: Company

Pioneer in fighting the COVID-19 pandemic and working hard on COVID-19 vaccine

a) To fight COVID-19 pandemic, the Company is developing an experimental COVID-19 vaccine-ZyCoV-D, a plasmid DNA vaccine, is working on increasing its production capacity. The Company has completed enrollment and dosing of 1,000 volunteers in phase-2 clinical trials of its potential Covid-19 vaccine, ZyCoV-D, and plans to submit the data to the Drug Controller General of India (DCGI) this month.

b) "At present the immunogenicity evaluation is going on," said Sharvil Patel, Managing Director of Zydus Cadila, in company's earnings call. Immunogenicity refers to the ability of the vaccine to provoke an immune response in the human body. "We will have a readout (of phase 2) by the end of November, and immediately we will apply for phase-3 permission," Patel added.

c) The Company is planning to hire contract manufacturers for 50-70 million doses of its vaccine, which is an addition to its own capacity of 100 million, Managing Director Sharvil Patel. "The Management is waiting for phase II to push that part of the process. The Company has received a lot of interest from people who want to use it for other countries and Cadila will license it out for other markets and countries so we can have more manufacturing beyond India. The government plans to vaccinate 20-25 crore by July 2021, Union Minister Harsh Vardhan said on October 4, 2020.

d) The Management said it is not worried about delivery and cold-chain storage bottlenecks since inoculation will initially be restricted to high-risk areas.

e) The Management said the company is making conscious efforts to collaborate with multinational companies to manufacture and distribute their Covid-19 vaccines in India and emerging markets. The Management added that it takes about 4-6 months to scale up a vaccine from pilot scale to commercial manufacturing. The Company also manufactures Remdesivir, an anti-viral medicine used to treat COVID-19 patients.

Aims to be a global player in the evolving Biosimilars space

a) The Company aims. It has more than 18 years of experience in biosimilars development with a team of 300+ scientists in R&D and Manufacturing.

b) The Company has a portfolio of 10 + commercial biosimilars in Indian market.

c) The Company has robust infrastructure for biosimilars with one of the largest installed and running state-of-the art biologics manufacturing plant in Asia for monoclonal antibodies.

d) The Company has end to end biosimilar development capabilities. In the last few years, the Company has launched a number of leading biosimilar brands in the Indian market which have leading position in therapy areas like oncology, rheumatology. The Global Biologics Market is valued ~US$ 255 bn. The Company's portfolio targets 21 products worth ~ US$ 65 Bn Sales in 2019.

The Company's ongoing investments in product portfolio offer additional growth opportunities in US generics business over long term time-horizon.

Particulars	Oral IR	Complex Generic	Injectable/Device Inj.	Topical/Transdermal/Nasal	Oncology
Product under development	65	41	31	13	17
Addressable market size	US$35,064 mn	US$12,208 mn	US$18,099 mn	US$1,444 mn	US$12,004
Filing target	To file over next 3-4 years	To file by 2022	To file over next 3-4 years	To file over next 3 - 4 years	To file over next 3-4 years
Products approved/ under approval	218	95	47	36	42
Addressable market size	US$71,015 mn	US$24,318 mn	US$5,293 mn	US$2,170 mn	US$16,414 mn
Revenue generation to start from	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing

Source: Company

The Company's Balance Sheet has improved as it has reduced debt worth Rs. 2,700 crores in H1FY21 on the back of proceeds from Wellness QIP and internal free cash generation.

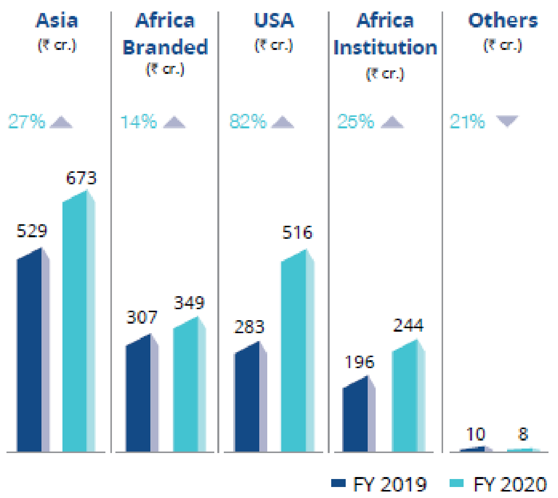
We like the Company owing to factors like
a) Company's focused approach towards continuous innovation and successfully launching its products,
b) great amount of transformation has place in its product portfolio which would reap benefits in the long term, c) the Company has responded well to COVID-19 crisis and has a multipronged approach to fight the COVID-19 pandemic,
d) product launches in US would drive grwoth,
f) strong Balance Sheet with favourable net debt/equity of 0.68:1,
e) expected strong Q2FY21 result as it has launched various products to fight COVID-19,
f) healthy return ratios - RoNW which was affected in FY20 is expected to improve in FY21 and FY22.

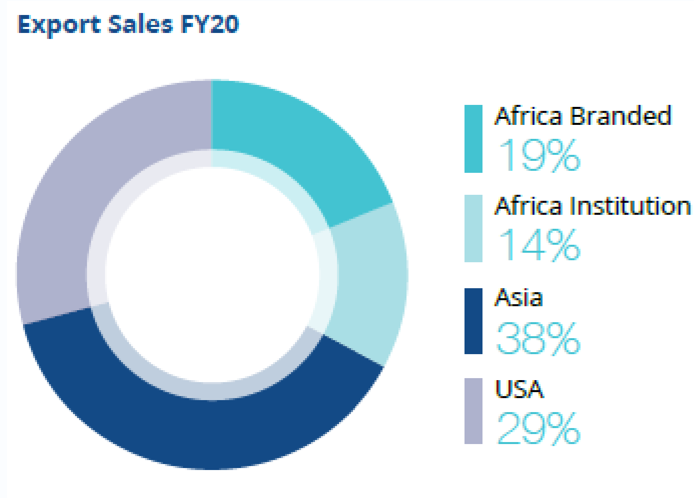
At CMP of Rs. 418 (Face Value: Re. 1), the stock is valued at a P/E of 38x at reported FY20 EPS of Rs. 11. We expect an upside of 27 percent for investors with a horizon of 12 months with a target of Rs. 520(23x at estimated FY22 EPS of Rs. 22.6).

Ajanta Pharma Limited – "De-risked business model helping the Company to post strong business performance", - "Accumulate"

CMP: Rs. 1,553, Book value: Rs. 334, Target price: Rs. 1,900, Upside: 22 percent, FV: Rs. 2, Market Capitalization: Rs. 13,336 crores, EPS (TTM): Rs. 61.62, EPS (FY20): Rs. 54, P/E: 26x, 52 week High/Low: Rs. 1,759/Rs. 942.25

Ajanta Pharma is a specialty pharmaceutical formulation company engaged in the development, manufacture and marketing of quality finished dosages. The Company has a well-diversified and de-risked business model with over 70% of business coming from a wide range of branded generic products in over 30 countries in Asia (including India) and Africa. The balance 30% is contributed by generics business in USA and anti-malaria institutional business in Africa.





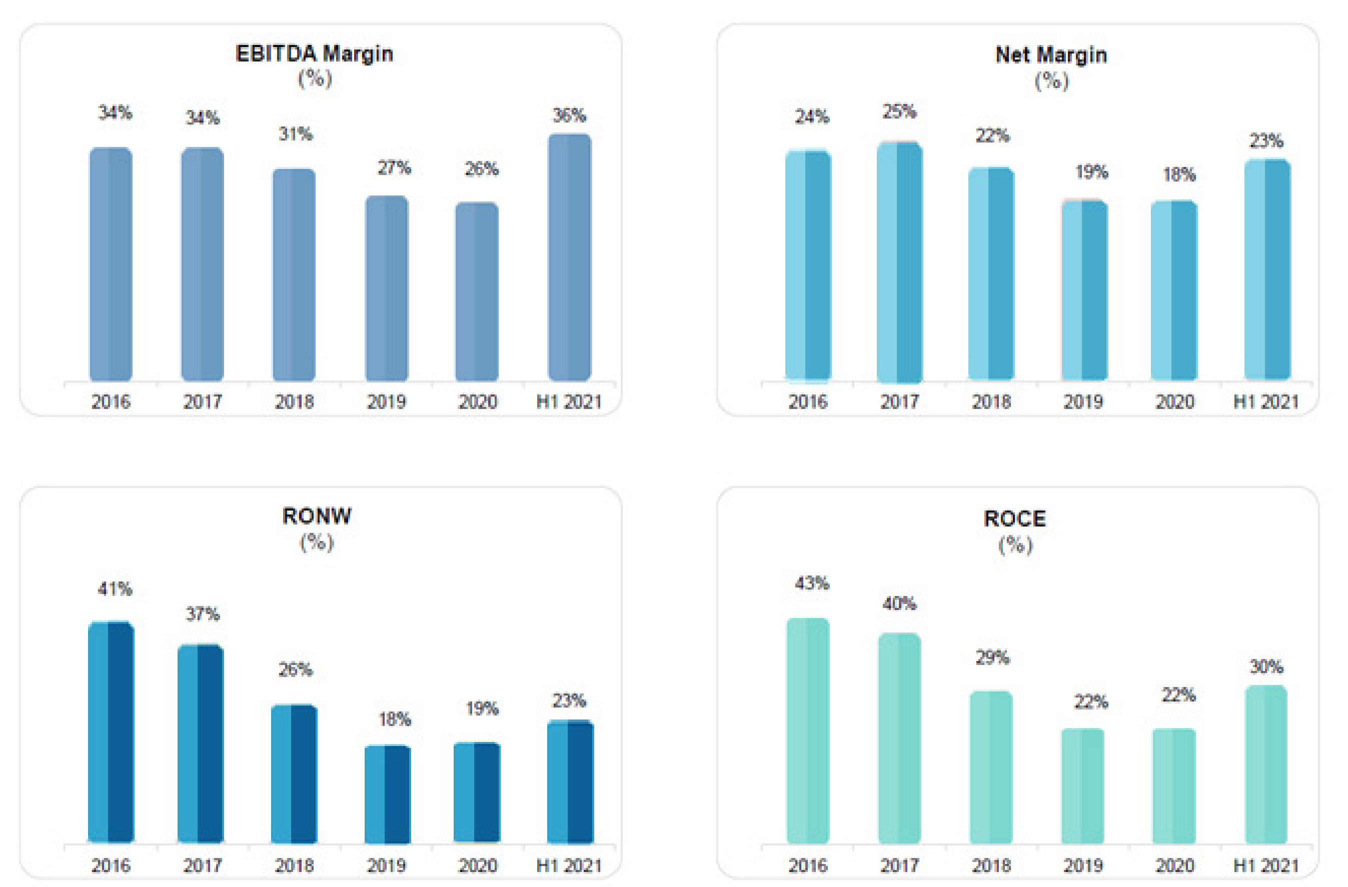
Source: Company

Robust infrastructure: Three green-field manufacturing facilities in addition to earlier 5 facilities would enable it to meet the growth demand for the next 5 years. All these facilities are state of the art, equipped with most advanced machines, capable of complying with the most stringent regulatory requirements. As the utilisation levels of the green-field plants improve, the Company will benefit from operating leverage and tax benefit kicking in and its return ratios improving.

Business strategy paying off: The Company's strategy to invest in different markets and geographies in a sustained manner has made its business model quite resilient. The Company has also built competitive edge in each of the markets by identifying unmet needs and offering customized products. It is this edge that provides us continuous growth.

Business performance remains strong: In FY20, the Company's conviction for a selective play in the US market proved right with 82 percent growth in the business for FY 2020. This growth was achieved on the back of 7 new product launches and market share gained by its existing products. US has played key role in the resilience Company displayed amidst adversity. In Q2FY21, US business witnessed good performance on the back of launches in last 9 months. The Company targets 4-5 launches in H2FY21.

Ajanta Pharma's India business continued to perform well steered by strong focus on high growth specialty segments. As per IMS MAT March 2020, the Company outgrew Indian Pharmaceutical Market (IPM) recording 13 percent growth compared to 11 percent for the industry, maintaining its healthy track record for last 5 years. The Company continues to strengthen product portfolio through new launches, many of them being first-tomarket products, offering significant patient benefits. Apart from new launches, many of the Company's existing products continue to grow their market share.



Source: Company

Outlook and recommendation

In Q2FY21, the Company witnessed strong yoy growth of 46 percent in its net profit to touch Rs. 170 crores in Q2FY21. Meanwhile, revenue from operations increased by 11 percent on YoY basis to Rs. 716 crores. The Company's board approved the buyback plan during the announcement of its financial performance for September 2020 (Q2FY21) quarter. According to the regulatory filing, the company's board have approved buyback of 7,35,000 equity shares having a face value of Rs. 2 each. A floor price of Rs. 1,850 per equity share has been announced on the buyback plan.

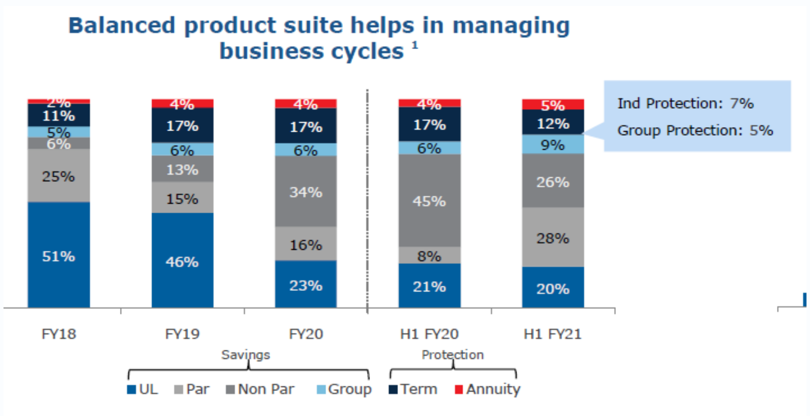
The Company has a strong Balance Sheet and enjoys good return ratios. The Company's Return on Net Worth saw an improvement of 100 basis points at 19 percent in FY20 as against 18 percent in FY19. With due consideration to above factors, we recommend a "Buy" with a target price of Rs. 1,900 (26x at estimated FY22 EPS of Rs. 73.07)

HDFC Life Insurance Company Limited – "Robust play in Life Insurance space and major beneficiary of COVID-19 crisis" - "Buy"

CMP: Rs. 623.35, Indian Embedded Value (EV): 23,300 crores, RoEV: 17.6 percent, Market Capitalization: Rs. 1,19,903 crores, Target price: Rs. 750, Upside: 20 percent, FV: Rs. 10, 52 week High/Low: Rs. 647.60/Rs. 340

a) We like Insurance companies as their business model would not be disrupted in COVID-19 crisis although underwriting profits may be affected due to increase in claims. Earlier, HDFC Life replaced Vedanta in Nifty50 index from July 31, 2020.

b) The Company has built most of its tech surrounding the product & service tenets of mortality, morbidity, longevity and covering risk on interest rates and enables it to innovate to the core. Many of the initiatives are already playing out well on cost efficiencies, drive business mix changes and other ratios.

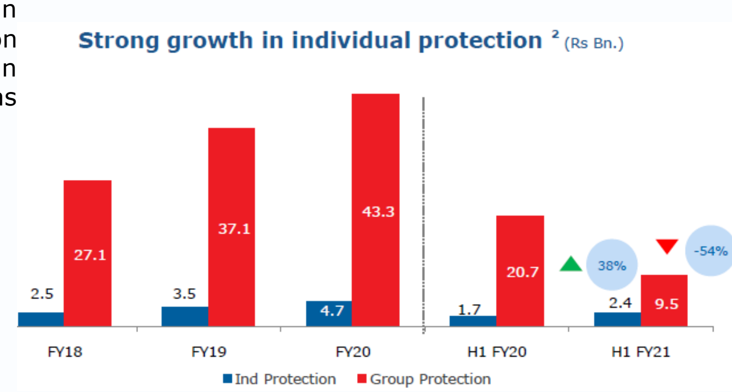


Source: Company

c) In Q2FY21, the Company witnessed a strong performance and is expected to continue post good result in coming quarters. HDFC Life's gross premium witnessed a rise of 35 percent on YoY basis to Rs. 10,183 crore in Q2FY21, LED by increased traction in retail business, backed by a marginal uplift in household income and spends.

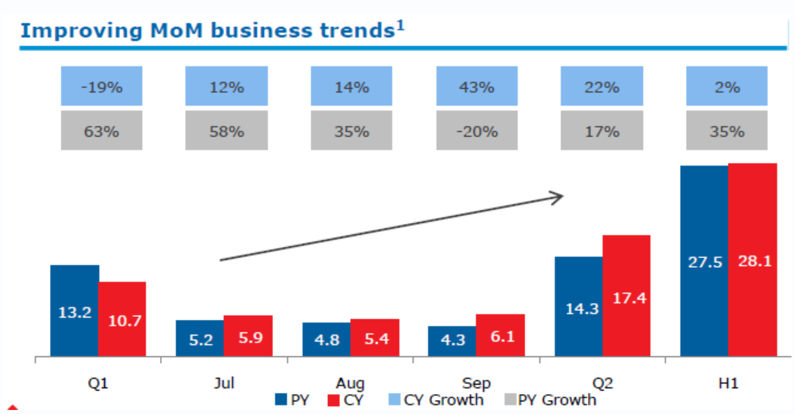
d) Value of new business witnessed a YoY growth of 12 percent to Rs. 8.38 bn in Q2FY21. The 13 month persistency stood at 88 percent in Q2FY21 as against 86 percent in Q1FY21.

e) Focus on the protection segment resulted in 38% growth in the individual (retail) segment. Protection share based on individual annualised premium equivalent improved to 9% in the first half of H1FY21. The contribution from ULIP has declined to 23 percent in Q2FY21 from 28 percent in FY20.



Source: Company

f) In October 2020, Annualised Premium Euivalent (APE) witnessed a strong YoY growth of 48.3 percent to touch Rs. 632.2 crores. The Year To Date (YTD) Market Share (private player APE) stood at 18.4 percent versus 15.8 percent.



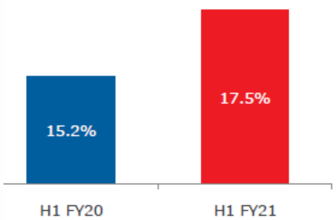
Source: Company

g) The solvency ratio of HDFC Life has improved to 203% in Q2FY21 (184% in FY20) as against sub-200% levels in Q121 and Q2FY20 quarters led by capital infusion worth Rs. 600 crores in Q2FY21.

h) The Company has reduced its management expenses ratio at around 15% compared to 19.3% last year in Sep-19 quarter.

i) The EV of a life insurance company comprises two key elements. Firstly, it includes the net asset value or the net worth of the company, which represents the market value of the company's assets attributable to the shareholders. Secondly, EV also comprises of the present value of the company's future expected profits from its existing business portfolio as at the date of valuation. The Return on Embedded Value stood at 17.6 percent in Q2FY21 as against 19.4 percent in Q2FY20.

Expanding market share[1] Rs Bn.



Growth	HDFC Life	Pvt sector	Industry
H1 FY21	2%	-11%	-7%
H1 FY20	35%	16%	11%
2 year CAGR	18%	1%	1%

Source: Company

j) We believe HDFC Life will always command a higher valuation to its peers as it is focused on protection and annuity business has higher margin products. The Management remains focused on profitable growth and is confident to gain market share in COVID-19 era.

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Shriram Transport Finance Company Limited – "Strong play on economic recovery" – "Accumulate"

CMP: Rs. 888, Book value: Rs. 803, Target price: Rs. 1000, Upside: 17 percent, FV: Rs. 10, Market Capitalization: Rs. 21,848 crores, 52 week High/Low: Rs. 1,331/Rs. 428.7

Impressive background and business model

a) Shriram Transport Finance Company Limited is the flagship company of the Shriram group which has significant presence in Consumer Finance, Life Insurance, General Insurance, Stock Broking and Distribution businesses.Presently, it is one of the largest asset financing NBFCs in India with Assets on Balance sheet of Rs. 113,345.9 crores.

b) The company is a leader in organized financing of pre-owned trucks with strategic presence in 5-10 year old trucks. It has a pan-India presence with a network of 1,784 branches, and employs 25,893 employees including 20,291 Business team. The company has built a strong customer base of approx. 2.10 mn.

c) Over the past 40 years, it has developed strong competencies in the areas of loan origination, valuation of pre-owned trucks and collection. It has a vertically integrated business model and offers a number of products which include: Pre-owned CV financing, New CV financing and other loans like accidental repair loans, tyre loans and working capital finance, etc.

Marquee shareholders

Key Shareholders	Current Shareholding (Mn Shares)	%
Shriram Capital Limited	66.96	26.46
Fidelity Investment Trust Fidelity Series Emerging Markets	12.96	5.12
Sanlam Life Insurance Limited	7.54	2.98
Government Pension Fund Global	4.78	1.89
Wishbone Fund, Ltd.	4.38	1.73
T. Rowe Price International Growth and Income Fund	4.36	1.72
Life Insurance Corporation of India	4.24	1.68
T. Rowe Price New Asia Fund	3.37	1.33
Composite Capital Master Fund LP	3.16	1.25
Vanguard Total International Stock Index Fund	3.00	1.19
Public & Others	138.32	54.65
Total	**253.06**	**100.00**

Impact of COVID-19

a) The prolonged lockdown imposed by the government due to Covid19 pandemic had affected the Company's business operations. The Company has considered an additional Expected Credit Loss (ECL) provision on Loans of Rs. 416.65 crores and Rs. 1,372.80 crores on account of COVID – 19 during QFY21 and half year ended September 30, 2020 respectively. As at September 30, 2020, additional ECL prdw ovision on Loan Assets as management overlay on account of COVID-19 stood at Rs 2,282.44 crores.

b) The additional ECL provision on account of COVID – 19 is based on the Company's historical experience, collection efficiencies post completion of Moratorium period, scheme by Government of India, internal assessment and other emerging forward looking factors on account of the pandemic.

As per IND AS

Particulars (Rs. mn)	Q2 FY20	Q1 FY21	Q2 FY21	YoY (%)	QoQ (%)	H1 FY20	H1 FY21	YoY (%)	FY20	Q2 FY21 as per Supreme court order
Gross Stage 3	93,965.6	89,307.5	82,171.2	-12.55%	-7.99%	93,965.6	82,171.2	-12.55%	91,797.1	72,656.1
ECL provision-Stage 3	30,165.4	34,429.1	32,630.7	8.17%	-5.22%	30,165.4	32,630.7	8.17%	31,886.5	32,630.7
Net Stage 3	63,800.2	54,878.4	49,540.5	-22.35%	-9.73%	63,800.2	49,540.5	-22.35%	59,910.6	40,025.3
Gross Stage 3 (%)	8.80%	7.98%	7.26%	-17.44%	-9.02%	8.80%	7.26%	-17.44%	8.36%	6.42%
Net Stage 3 (%)	6.15%	5.06%	4.51%	-26.64%	-10.91%	6.15%	4.51%	-26.64%	5.62%	3.64%
Coverage Ratio (%) Stage 3	32.10%	38.55%	39.71%	23.70%	3.01%	32.10%	39.71%	23.70%	34.74%	44.91%
Gross Stage 1 & 2	974,057.2	1,029,274.7	1,049,026.2	7.70%	1.92%	974,057.2	1,049,026.2	7.70%	1,006,319.5	1,058,541.4
ECL provision-Stage 1 & 2	27,664.6	38,412.4	41,776.6	51.01%	8.76%	27,664.6	41,776.6	51.01%	31,433.6	41,776.6
Net Stage 1 & 2	946,392.6	990,862.3	1,007,249.6	6.43%	1.65%	946,392.6	1,007,249.6	6.43%	974,885.9	1,016,764.8
ECL provision (%) Stage 1 & 2	2.84%	3.73%	3.98%	40.22%	6.71%	2.84%	3.98%	40.22%	3.12%	3.95%

c) Gross NPA and Net NPA as of 30th September, 2020 stood at 6.42% and 3.64% respectively, as against 8.80% and 6.15% as of 30 September 2019. However such accounts have been classified as stage 3 and provisioned accordingly. If the Company had classified borrower accounts as NPA after 31 August 2020, the Company's Gross NPA and Net NPA ratio would have been 7.26 % and 4.51% respectively.

Decent collection efficiency in tough times: The Company has witnessed good collection efficiency. In spite of the moratorium, the Company has been able to collect from 84%, 23%, 52%, 71%, 73%, 78% borrowers in the month of March, April, May, June, July and August 2020 respectively. Post moratorium, the collections for the month of September 2020 was 95 % of the Demand. The Company expects One Time Restructuring to be opted by around 3 % of its portfolio whose business is still being impacted by COVID – 19. The liquidity buffer and SLR investments was Rs. 108.91 bn and Rs. 18.09 bn respectively.

Guidance on growth: The disbursements would be around Rs. 12,000 to 13,000 crores per quarter should be the disbursement for next two quarters, that should result in AUM growth of around 5% to 6%. So, it will be almost on par with the last year's growth and this growth also includes the postponement of the EMI because when there is extended moratorium, because of moratorium when it gets extended, the AUM does not come down. So, to the extent there is a growth that is coming out of postponement, so overall it will be 5% to 6%

Outlook and Valuation: We like the Company owing to factors like a) Company will benefit from the economic recovery as rural markets are recovering fast; b) ease of restrictions on inter – state transport in Unlock phase augurs well for the Company, c) Company's collection efficiency has been decent considering tough times in COVID-19 era, d) decent Q2FY21 result, f) adequate provisioning which provides cushion for unanticipated slippages, g) well diversified liability profile, h) expected strong Q3FY21 result, f) RoNW which was affected in FY20 is expected to improve in FY21 and FY22, g) consistent track record and high growth potential has attracted reputed institutional and private equity investors to infuse growth capital, h) high margin of safety as it has not rallied significantly in last 7 months.

At CMP of Rs. 888 (Face Value: Rs. 10), the stock is valued at a P/BV of 1.10x which we believe is cheap considering the strong management, good business model, decent performance in challenging times and good return ratio's with ROA of 2.22 percent and ROE of 14.24 percent as on Q2FY21. We expect an upside of 17 percent for investors with a horizon of 12 months with a target of Rs. 1,000 (P/BV: 1.07x at FY22E Book Value of Rs. 935).

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b) Company holding: No
c) Directors holding: No
d) Group/Associates Position: No
e) Relationship with management: No
f) Any Compensation Received by our Company/Associate during the last 12 months: No
g) Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months: No

Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above
Accumulate – Absolute return between 15% and above
Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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