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Pre Budget Picks

25-January-2021

RETAIL RESEARCH

Pre-Budget Picks

Company	Industry	LTP	Recommendation	Fair Value	Time Horizon
Bharat Electronics Ltd	Defence	Rs. 132.9	Buy at LTP and add on dips in the Rs.122-124 band	Rs. 148	2 quarters
Escorts Ltd	Automobile	Rs. 1293.8	Buy at LTP and add on dips in the Rs. 1180-1190 band	Rs. 1457	2 quarters
HCG	Healthcare	Rs 156.3	Buy at LTP and add on dips to Rs 145-147 band	Rs 180	2 quarters
HPCL	Refineries/ Petro-Products	Rs. 225	Buy at LTP and add on dips in the Rs.208-210 band	Rs. 250	2 quarters
JK Cement Ltd	Cement	Rs. 2102.25	Buy at LTP and add on dips in the Rs.1940-1975 band	Rs. 2400	2 quarters

Bharat Electronics Ltd

Industry	LTP	Recommendation	Fair Value	Time Horizon
Defence	Rs. 132.9	Buy at LTP and add on dips in the Rs.122-124 band	Rs. 148	2 quarters

HDFC Scrip Code	BHAELEEQNR
BSE Code	500049
NSE Code	BEL
Bloomberg	BHE IN
CMP Jan 22, 2021	132.9
Equity Capital (Rscr)	243.7
Face Value (Rs)	1
Equity Share O/S (cr)	243.7
Market Cap (Rscrs)	32,394
Book Value (Rs)	41.3
Avg. 52 Wk Volumes	15144094
52 Week High	141
52 Week Low	56

Share holding Pattern % (Dec 2020)	
Promoters	51.1
Institutions	41.6
Non Institutions	7.3
Total	100.0

Link to Initiation Report
https://www.hdfcsec.com/hsl.research.pdf/Bharat%20Electronics%20Ltd%20-%20Initiating%20Coverage%20-%2012102020.pdf

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How will the Budget Positively Impact the Company:

Defence sector (especially capex allocation to domestic manufacturers) could receive increase in budgetary allocation against the backdrop of the ongoing military face-off between India & China. Given the fiscal pressure, the Government could come up with innovative way of financial procurement - a non-lapsable defence fund, issuance of tax free bonds or the Government could also focus on acquisition via leasing option.

The New defence acquisition policy (DAP) 2020 is in-line with India's 'Make in India' policy, seeks to further enhance indigenous manufacturing through active participation of public & private sectors and to cut imports. The government's Make in India and Aatmanirbhar Bharat initiatives along with rising spends for modernising defence equipment will support earnings growth in the coming years, as it is one of the key players with strong research and manufacturing capabilities in the defence space in the country. BEL is well positioned to deliver strong performance in the coming years given its robust order book (current 4x of FY20 revenues) and could capitalize on increasing emphasis on indigenisation. We continue to maintain positive stance on BEL on account of its strong manufacturing and R&D base, cost control measures, growing indigenisation, diversification strategy and strong balance sheet with improving return ratios. The stock is currently trading at valuation of 13.7x FY23E EPS. We feel the fair value of the stock is Rs 148 (18.0x FY23E) over the next two quarters. Investors can buy the stock at LTP and add on dips to Rs.122-124 band (15.0xFY23E EPS).

Other Triggers:

- BEL has also been exploring opportunities for growth in allied defence and non-defence areas like medical equipment business, smart city business, energy storage product, railway & metro solutions.
- An increased thrust towards harnessing export potential of Defence Electronics Products & Systems and exploring civil market in developing & third world Countries would add to diversification in company's revenue.
- BEL's focus on R&D spending has helped company to achieve 79% of sales from indigenous products.

Other Concerns:

- Government's spending capacity adds cyclicality to BEL's growth and operating cash flows, given that it accounts for more than 80% of the revenue.
- BEL's strategy to diversify its revenue stream to non-defence segments and service segments would de-risk its business over medium term.
- Delayed execution of orders, slower pace of fresh order intake, changes in government policy/terms in defence sector might impact its operating margins and cash flows.
- With defence sector opened for private players, threat of competition from some big players exists.

Financial Summary

Rs in Cr	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	3195	2748	16.3	1676	90.7	12164	12968	13694	15269	17147
EBITDA	627	549	14.3	146	329.4	2906	2754	2616	2993	3532
Depreciation	97	91	6.0	94	2.8	338	372	441	502	570
Other Income	27	12	138.2	28	-1.9	73	99	110	137	154
Interest Cost	0.3	1.2	-75.6	0.1	328.6	12.8	3.6	5.0	6.5	6.0
Tax	162	133	22.0	21	672.8	780	686	574	661	784
PAT	396	335	18.1	48	733.1	1848	1793	1704	1961	2327
APAT	399	344	16.0	54	641.6	1887	1825	1736	1993	2359
EPS (Rs)	1.64	1.41	16.0	0.2	641.6	7.7	7.5	7.1	8.2	9.7
RoE (%)						21.9	18.9	16.3	16.8	17.8
P/E (x)						17.2	17.8	18.7	16.3	13.7
EV / EBITDA (x)						10.8	11.4	11.7	9.7	7.7

Source: Company, HDFC sec

Escorts Ltd

Industry	LTP	Recommendation	Fair Value	Time Horizon
Automobile	Rs. 1293.8	Buy at LTP and add on dips in the Rs. 1180-1190 band	Rs. 1457	2 quarters

HDFC Scrip Code	ESCORT
BSE Code	500495
NSE Code	ESCORTS
Bloomberg	ESC IN
CMP Jan 22, 2020	1293.8
Equity Capital (Rscr)	134.8
Face Value (Re)	10.0
Equity Share O/S (cr)	13.5
Market Cap (Rscrs)	17444.2
Book Value (Rs)	283.9
Avg. 52 Wk Volumes	29,15,000
52 Week High	1452.8
52 Week Low	527.1

Share holding Pattern % (Dec, 2020)	
Promoters	36.6
Institutions	30.9
Non Institutions	32.5
Total	100.0

Link to Initiation Report

https://www.hdfcsec.com/hsl.research.pdf/Escorts%20Ltd%20-%20Initiating%20Coverage%20-%20221220.pdf

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How will the Budget Positively Impact the Company:

The Government is likely to continue its budgetary allocations towards the entire agricultural value chain to improve productivity and reduce post-harvest losses, while ensuring adequate realisation for the farmers. Farm mechanization and crop productivity has a direct correlation as farm mechanization saves time and labor, reduces drudgery, cuts down production cost in the long run, reduces post-harvest losses and boosts crop output and farm income. Escorts, being one of the large tractor manufacturers in India,, is likely to benefit from increased budgetary support towards agriculture.

Increase in MSP prices or the announcement of a comprehensive agriculture produce procurement policy could enhance the pace of mechanization in the coming years

The government is looking at improving infrastructure in the country and allocation/incentives for the same will ensure growth in construction equipment sales volumes. Escorts is present in material handling, earth moving and road building segments of construction equipment.

Railways outlay increased by 3% in Budget 2020-21 to Rs 1.61 lakh crore. Further enhancement in railway capex could benefit Escorts. The company manufactures advanced components for the Indian Railways, including brake systems, couplers, suspension systems, shock absorbers and rail fastening systems, among others.

We feel investors can buy the stock at LTP and add on dips to Rs 1180-1190 band (13.0xFY23E EPS) for fair value of Rs 1457(16.0x FY23E EPS) over the next two quarters.

Other Triggers:

- Rising affordability and greater focus on productivity has resulted in a structural shift towards higher horsepower tractors which could help in improving margins.

Other Concerns:

- Lower investment on infrastructure segment due to lack of funds could hamper construction equipment volume.
- Slowdown in railway capex could derail the growth of railway division.
- Over the past few months prices of commodities have risen sharply. Any inability or delay in passing over the increased costs to customers may result in lower margins.

Financial Summary

Particulars (Rs cr)	Q2FY21	Q2FY20	YoY-%	Q1FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	1639.7	1323.9	23.9	1061.6	54.5	6196.4	5761.0	6190.0	6934.0	7885.8
EBITDA	300.9	126.7	137.4	119.6	151.5	733.3	675.8	872.8	956.9	1096.1
Depreciation	27.4	26.0	5.2	26.4	3.5	85.4	104.6	104.1	112.3	120.1
Other Income	37.6	21.1	78.4	29.8	25.9	91.8	83.0	154.3	206.7	236.5
Interest Cost	3.2	3.9	-16.6	1.9	66.3	18.5	15.5	9.1	2.1	2.1
Tax	77.9	4.1	1805.4	28.9	169.4	237.5	153.3	228.5	251.8	290.5
PAT	229.9	104.6	119.8	92.2	149.5	476.4	492.5	685.4	797.4	919.9
Diluted EPS (Rs)	17.7	8.8	102.5	7.7	129.8	53.6	55.4	67.8	78.9	91.1
RoE						17.1	15.1	16.0	14.6	14.6
P/E (x)						24.1	23.3	19.1	16.4	14.2
EV/EBITDA						15.2	15.6	12.2	10.4	8.4

Source: Company, HDFC sec Research

Healthcare Global Enterprises Ltd

Industry	LTP	Recommendation	Fair Value	Time Horizon
Healthcare	Rs. 156.3	Buy at LTP and add on dips in the Rs 145-147 band	Rs 180	2 quarters

HDFC Scrip Code	HEAGLOEQNR
BSE Code	539787
NSE Code	HCG
Bloomberg	HCG: IN
CMP Jan 22, 2021	156.3
Equity Capital (Rs cr)	125.3
Face Value (Re)	10
Equity Share O/S (cr)	12.53
Market Cap (Rs cr)	1959
Book Value (Rs)	62.7
Avg. 52 Wk Volumes	371489
52 Week High	186
52 Week Low	63

Share holding Pattern % (Dec, 2020)	
Promoters	66.87
Institutions	19.65
Non Institutions	13.48
Total	100.0

Link to Initiation Report

https://www.hdfcsec.com/hsl.research.pdf/Initiating%20Coverage%20-%20Healthcare%20Global%20Enterprises_141220.pdf

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How will the Budget Positively Impact the Company:

Healthcare Global Enterprises (HCG) is the largest provider of cancer care in India under the "HCG" brand. Aggressive expansion in the last few years and cap on cancer drug margins have hit financials (lower margins/RoCE, high debt). Having doubled bed capacity over the last five years, we expect HCG's capex phase to ease from FY21. Govt. may provide incentives for health infrastructure i.e. rationalize GST structure for hospitals and tax sops for new hospitals. There could also be extension of tax benefits related to healthcare spending and insurance premiums. Government's plan of reaching 2.5% of GDP on healthcare sector by 2025, is expected to be implemented by announcement of significant allocation in budget.

HCG is poised to see strong growth in the health related surgeries which had got postponed due to Covid-19. With the capex cycle coming to an end and we could see an improvement in return ratios. Revenue and EBITDA are likely to see CAGR of 9%/15% over the FY20-23E. HCG trades at 12.5x and 10.6x FY22E and FY23E EV/EBITDA which seems attractive given healthy growth trajectory and strong improvement in the balance sheet post recent capital infusion. We feel investors can buy the stock at LTP and add on dips to Rs 145-147 band for fair value of Rs 180 (14.5x FY22E EV/EBITDA) over the next two quarters.

Other Triggers:

- The long-term story in private healthcare remains exciting, due to low penetration in the country, favourable change in demographics, strong traction in organized healthcare space, medical insurance, better occupancy, improving balance sheet and operating margin. In Jun-2020, CVC Capital had announced capital infusion in HCG and post that CVC holds 50% stake and existing promoters hold 16.9% stake as on Dec-2020. We believe this capital infusion removes the key overhang of high leverage with repayment of debt from this fund raising exercise.

Other Concerns:

- Cancer care business is highly capital intensive and new cancer centers require a long gestation period to break even.
- HCG's one of the most profitable region is its Center of excellence-Bangalore cluster.
- Any adverse government policy intervention (viz. price caps, mandatory participation in govt. schemes etc.).

Financial Summary

Particulars (Rs cr)	Q2 FY21	Q2 FY20	YoY (%)	Q1 FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenues	248	279	-11.1	193.5	28.2	979	1,096	1,052	1,277	1,434
EBITDA	30	46	-34.2	19	54.6	125	172	144	220	259
Depreciation	40	35	14.5	39	0.5	85	148	161	174	185
Interest Cost	27	35	-21.4	37.4	-27.3	70	138	115	97	91
Tax	5	2	211.8	11	-51.8	-3	6	-25	-5	-3
APAT	-22	-22	0.5	-39.8	-44.0	-25	-107	-94	-26	14
EPS (Rs)						-2.8	-12.0	-7.5	-2.1	1.2
RoE (%)						-5.0	-24.8	-16.2	-3.4	2.0
P/E (x)						-55.3	-13.0	-20.7	-75.8	135.3
EV/EBITDA (x)						22.0	16.0	19.1	12.5	10.6

Source: Company, HDFC sec Research

Industry	LTP	Recommendation	Fair Value	Time Horizon
Refineries/ Petro-Products	Rs. 225.0	Buy at LTP and add on dips in the Rs. 208-210 band	Rs. 250	2 quarters

HDFC Scrip Code	HINPET
BSE Code	500104
NSE Code	HINDPETRO
Bloomberg	HPCL IN
CMP Jan 22, 2021	225.0
Equity Capital (Rscr)	1523.8
Face Value (Rs)	10.0
Equity Share O/S (cr)	152.4
Market Cap (Rscrs)	34286.0
Book Value (Rs)	203.3
Avg. 52 Wk Volumes	6,662,978
52 Week High	252.3
52 Week Low	150.0

Share holding Pattern % (Dec, 2020)	
Promoters	51.6
Institutions	36.7
Non Institutions	11.7
Total	100.0

Link to Initiation Report

https://www.hdfcsec.com/hsl.research.pdf/HPCL-%20Initiating%20Coverage%20061020.pdf

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How will the Budget Positively Impact the Company:

Upcoming Budget 2021 could bring an important development as well as announcement for oil and gas industry and the Govt could transform India into a gas-based economy. Large target for divestment in FY22 could mean that BPCL's divestment could come on fast track. The trickle-down effect of this could be felt on HPCL's stock price.

For the coming budget, the government could further reduce kerosene subsidies and divert more towards the LPG subsidy. Apart from this, expectation of reduction in excise duty on petrol and diesel for FY22E could be favorable for HPCL. Downstream industry expects that the GoI could introduce a specific rate of excise duty on ATF from an ad valorem rate of 11% currently, which would eliminate difficulties in re-determination of duty on stock transfers.

HPCL's strong operational profile driven by dominant market position supported by established marketing and distribution network and scale-up in refining capacity provides comfort. On the refining side, we expect, margins to bottom out and GRMs are likely to recover H2FY21 onwards. Positive developments in Union Budget 2021 in Oil and Gas Industry could help to push up stock prices in near to medium term.

Company's H2FY21 result is expected to be strong too**.** Investors could buy the stock at LTP and add more on dips to Rs. 208-210 band (5.85xFY23E EV/EBITDA). Fair value of the stock is Rs 250 (6.25xFY23E EV/EBITDA) over the next 2 quarters. At the CMP of Rs 225 the stock trades at (5.6xFY23E EV/EBITDA).

Other Triggers:

- HPCL will add 6.7mmtpa refining capacity at Vizag by replacing one of the 3 CDUs in FY22.
- HPCL plans to add 2mmtpa capacity at Mumbai in FY22 to take capacity to 24.5mmtpa.
- HPCL plans to invest over Rs 60,000 crore in the next five years to develop infrastructure.
- HPCL to maintain refinery utilisation at 100%+ and GRMs to recover in positive territory.
- Focus on operational efficiency and cost optimization could help to increase profitability.

Other Concerns:

- Economic slowdown, volatility in oil and gas prices and regulatory changes in the industry.
- Any adverse development in project cost and timelines, and stabilisation of operations.
- Volatility of crude prices, crack spreads and currency fluctuations impacts its profitability.
- HPCL has seen under-recoveries on account of controlled prices of SKO and LPG in the domestic market over the past.

Financial Summary

Particulars (Rs Cr)	Q2FY21	Q2FY20	YoY-%	Q1FY21	QoQ-%	FY20	FY21E	FY22E	FY23E
Total Operating Income	51832.3	60952.4	-15.0	37782.0	37.2	269091.5	191628.4	222322.1	247616.3
EBITDA	3608.0	2137.0	68.8	3803.4	-5.1	4659.6	7548.7	12068.4	15352.2
Depreciation	883.3	825.4	7.0	883.1	0.0	3369.9	3322.8	3856.5	3815.6
Other Income	778.2	294.1	164.7	533.4	45.9	1681.6	1638.9	1459.3	1989.8
Interest Cost	272.4	300.4	-9.3	334.0	-18.4	1138.9	1407.7	1477.4	1207.5
Tax	862.1	543.6	58.6	867.1	-0.6	-1264.4	1194.2	2214.6	2265.4
APAT	1761.0	761.7	131.2	2252.7	-21.8	3096.9	3263.0	5979.3	6073.9
Diluted EPS (Rs)	19.5	5.0	290.6	14.8	32.1	20.3	21.4	39.2	39.9
RoE-%						8.6	11.0	18.4	15.2
P/E (x)						11.1	10.5	5.7	5.6
EV/EBITDA						14.6	9.5	5.8	4.3

Source: Company, HDFC sec Research

JK Cement Ltd

Industry	LTP	Recommendation	Fair Value	Time Horizon
Cement	Rs. 2102.25	Buy at LTP and add on dips in the Rs.1940-1975 band	Rs. 2400	2 quarters

HDFC Scrip Code	JKCLTDEQNR
BSE Code	532644
NSE Code	JKCEMENT
Bloomberg	JKCE:IN
CMP Jan 22, 2021	2102.25
Equity Capital (Rs. cr)	77
Face Value (Rs)	10
Eq- Share O/S(cr)	7.73
Market Cap (Rscr)	16227
Book Value (Rs)	392
Avg.52 Wk Volume	114163
52 Week High	2381.65
52 Week Low	800.00

Share holding Pattern % (Dec, 2020)	
Promoters	57.74
Institutions	37.05
Non Institutions	5.21
Total	100.0

Link to Initiation Report
https://www.hdfcsec.com/hsl.research.pdf/Initiating%20Coverage%20-%20JK%20Cement%20201120.pdf

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How will the Budget Positively Impact the Company:

We expect few major announcements in budget such as extension of deadline for the PMAY's Credit Linked Subsidy Scheme for Middle Income Group till March 2022, Dedicated financing of 1% of GDP for infrastructure sector, Increasing limit of rebate on housing loan interest rates, Single window clearance to large sized projects, Reduction of stamp duty on affordable housing projects which can improve demand environment in housing sector & infrastructure sector that will lead to higher demand of cement and building material. JK Cement (JKCE) has a multi-region presence which will help the company to take benefits of demand from different regions.

We expect the company to record a Revenue and PAT CAGR of 12% and 25% over FY20-23E. Higher PAT growth is likely to be mainly driven by strong rationalization and cost control.

The company is trading at FY22E EV/T of $151/T. We feel the fair value of the stock is Rs.2400 (12.99x FY22E EV/EBIDTA, FY22E EV/T of $170). We feel investors can buy the stock at LTP and add on dips to Rs.1940-1975 band (10.98x FY22E EV/EBITDA, FY22E EV/T of $144).

Other Triggers:

- JKCE has plants in Rajasthan, Karnataka, Haryana helping the company having a good hold on southern, northern and western markets in the country.
- The Company is the second-largest White Cement manufacturer in India (~40% market share) with a capacity of 2.42MTPA in India (combined capacity white cement capacity, wall putty and allied products).
- JKCE became the largest player of Wall Putty in the country with the capacity of 1.2 MTPA post expansion of 0.3 MTPA.
- It has commissioned 4.2MTPA of expansion projects and, it further plans to accelerate its work on 3.5 MTPA greenfield capacity which will take its overall capacity to 18MTPA.
- Strong realization and cost control have helped to improve financial strength. RoE/RoCE has expected to improve from 16/13% in FY18 to 21/19% in FY23E.

Other Concerns:

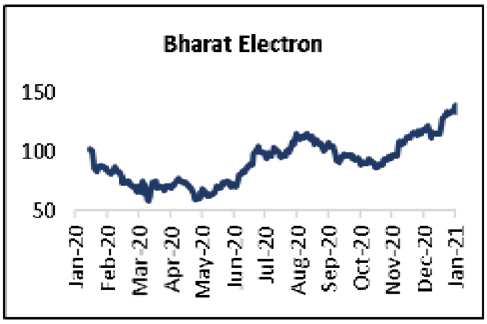
- Any spike in key raw materials can result in higher input cost which can impact earnings.
- Prolonged deterioration of core economy sectors can result in slowdown in cement demand which can result in lower volume offtake and lower cement prices.

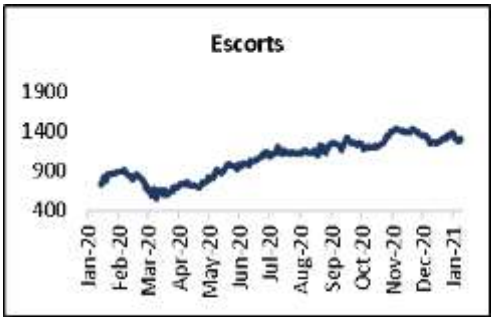
Financial Summary

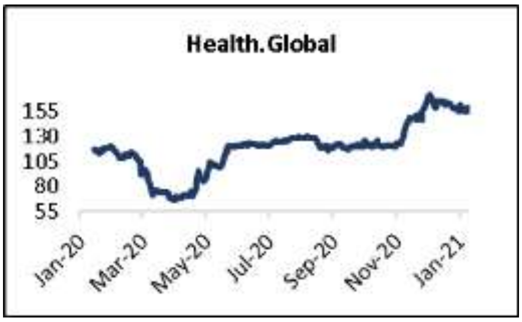
Particulars (Rs cr)	Q2FY21	Q2FY20	YoY-%	Q1FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	1634	1318	24.0%	1005	62.7%	5,259	5,802	6,135	6,999	8,147
EBITDA	431	256	68.4%	213	102.3%	834	1,213	1,428	1,632	1,935
Depreciation	75	69	8.2%	74	2.1%	241	288	325	363	391
Other Income	29	18	63.2%	20	41.8%	80	85	94	100	125
Interest Cost	61	69	-12.1%	67	-8.6%	261	276	285	302	297
Tax	102	55	85.6%	43	140.6%	149	251	320	352	429
PAT	222	80	178.7%	50	343.6%	270	496	603	730	966
Diluted EPS (Rs)	28.67	10.29	178.6%	6.46	343.8%	35	64	78	94	125
RoE (%)						12	17	18	19	21
P/E (x)						60	33	27	22	17
EV/EBITDA (x)						23	16	13	12	10

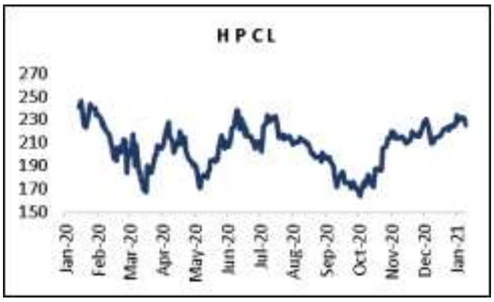
Source: Company, HDFC sec Research

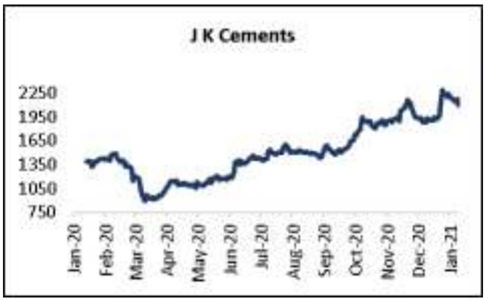
One Year Price Chart











Stock	Analyst	Educational Qualification	Holding
Bharat Electronics Ltd	Hemanshu Parmar	ACA	No
Escorts Ltd	Atul Karwa	MMS Finance	No
Healthcare Global Enterprises Ltd	Kushal Rughani	MBA	No
HPCL	Abdul Karim	MBA	No
JK Cement Ltd	Jimit Zaveri	MBA - Finance	No

Disclosure:
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