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20 YEARS

LARGE-CAPS LEGENDS

June 2021

Large-Caps Legends

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The table gives out the basic financial details of the 10 Stocks

Sr No	Company	Industry	Equity Latest	FV	CMP	Mkt cap	Book Value latest	Net Sales FY21	Change in sales y-o-y	PAT FY21	Change in PAT y-o-y	EPS TTM	P/E TTM	P/BV	Last Div %.	Divi-dend Yield
1	Axis Bank	Banks - Private Sector	613.0	2	739.4	226618	338.0	64696.4	1.5%	7195.5	288.3%	23.5	31.5	2.2	0	0.0%
2	Cipla	Pharmaceuticals - Indian - Bulk Drugs & Formln Lrg	161.3	2	955.9	77089	227.2	18988.5	13.7%	2404.9	55.5%	29.8	32.1	4.2	250	0.5%
3	GAIL (India)	Gas Distribution	4,440.4	10	155.3	68959	119.8	57371.9	-20.9%	6136.4	-34.9%	13.8	11.2	1.3	50	3.2%
4	ICICI Bank	Banks - Private Sector	1,384.9	2	630.9	436832	223.0	89162.7	5.1%	18384.3	92.2%	26.5	23.8	2.8	100	0.3%
5	Infosys	Computers - Software - Large	2,130.6	5	1511.9	644242	164.2	100472.0	10.7%	19351.0	16.6%	45.4	33.3	9.2	540	1.8%
6	ITC	Cigarettes	1,230.9	1	205.1	252453	49.0	48952.8	-0.1%	13161.2	-14.6%	10.7	19.2	4.2	1075	5.2%
7	Larsen & Toubro	Engineering - Turnkey Services	280.9	2	1499.2	210578	540.1	135979.0	-6.5%	13495.8	41.3%	102.4	14.6	2.8	1800	2.4%
8	Power Grid Corpn	Power Generation And Supply	5,231.6	10	234.1	122445	133.7	39639.8	5.0%	12868.3	16.4%	24.4	9.6	1.8	120	5.1%
9	St Bk of India	Banks - Public Sector	892.5	1	418.7	373628	282.4	278115.5	3.1%	21393.2	31.2%	24.0	17.4	1.5	400	1.0%
10	United Spirits	Distilleries	145.3	2	673.9	48965	56.7	8131.3	-12.8%	426.7	-31.5%	6.2	108.7	11.9	0	0.0%

Source: Capitaline Database, All figures in Rs. Crore except for Equity, Sales FY21 and PAT FY21, CMP is as of June 22 2021, EPS is adjusted for extraordinary items, Past dividend yield may not necessarily sustain in future

AXIS BANK

Axis Bank Ltd.

(M Cap Rs 2,26,618 cr)

- Axis Bank has consistently focused on de-risking its loan book by reducing corporate portfolio and focusing on high margin less risky retail segment. Over the past few years Axis's loan book mix has changed tremendously, Retail book now consists of 54% of the total book vs. mere 42% in Q1FY17. Although the Bank has significantly grown its Retail loan book over the years, the book continues to remain largely secured.
- Top management rejig as well as a well-articulated business plan are indicative of a DNA change. The company's strategic re-orientation like increased profit consciousness, granularity on both sides of the balance Sheet and better-quality corporate lending etc. are pointing that bank is in right direction.
- The subsidiaries of Axis Bank continue to perform well, and have scaled to a level where they are now able to complement the bank's overall strategy. As they grow bigger they might also help the bank in hedging against downturns in specific segments and access multiple growth avenues.
- **Concerns:** Even after significant improvement, 15% of the corporate loan book is still BBB & below rated. A significant influx into the BBB and below rated pool of corporate loans may eventually precipitate into higher slippages. The bank continued to make elevated provisions. If the trend continues it could dent the earnings.

Cipla

Cipla

(MCap Rs 77,089 cr)

- Cipla is a global pharmaceutical company and has presence across domestic formulation, North America, Europe and South Africa. Domestic formulation contributed to 40% of revenue in FY21 while US business at 21% and South Africa and Global Access (SAGA) at 18% and the balance from EM, Europe and API.
- Globally, Cipla is the second largest inhaler (MDI + DPI- metered dose and dry powder) selling company by volume and four of its respiratory brands are listed among the Top-50 medicine brands in India.
- Company is ranked no.1 in therapeutic areas such as respiratory and urology in domestic market. Company has 8 brands amongst top-100 brands in IPM while 22 brands feature in top-300 brands.
- In the domestic market, Cipla remains among the top five players, which covers almost all therapeutic areas. As per MAT March 2021 AIOCD ranking, Cipla is ranked third with a market share of 4.9%.
- Due to significant surge in Covid cases and among the domestic names, Cipla would be key beneficiary as it has the largest portfolio focused on the treatment which should benefit the company. Domestic consumer health business now accounts for 5-6 percent of overall sales, and the company aims to take it beyond 12 per cent in the next 4-5 years.
- Its US business outlook remains strong as respiratory/niche filings add longer-term growth visibility. Cipla expects to add US$ 300-500mn to its US revenue base of US$ 500mn+ by FY25. Company spends 6-7% of sales in the R&D and it is likely to continue in the coming years.
- Cipla has been working on six inhalation products, with launches planned between FY21-25. Of the six, Albuterol and ProAir (launched), Advair and Spiriva (filed), Symbicort (in clinics). It is also exploring out-licensing opportunities for CNS assets.
- Company is turned net cash as on Mar-2021 as against net debt of Rs 807cr in Mar-2020. We estimate ~9% CAGR in revenue led by strong US and domestic business growth over FY21-23E. Healthy revenue and strong margin would drive 15% CAGR in PAT over the same period. FY22 growth will be led by domestic branded portfolio, while FY23 would be led by large meaningful launches in the US along with domestic business.
- **Concerns:** Lower-than-expected growth in India, slower market share gains in its key products, delay in resolution of Goa warning letter, higher price erosion in the US.

Large-Caps Legends

GAIL (India) Limited

GAIL
(M Cap Rs 68,959 cr)

- GAIL is India's leading gas transmission and distribution company in India. Company is engaged in various activities range from gas transmission and distribution to processing (for fractionating liquefied petroleum gas (LPG), propane, special boiling point (SBP) solvent and pentane), transmission of LPG, production and marketing of petrochemicals like high density polyethylene (HDPE) and Linear low-density polyethylene (LLDPE) and leasing bandwidth in telecommunications.

- GAIL is planning to invest over Rs 45,000 crore over the next five years to expand the National Gas Pipeline Grid and city gas distribution network. The gas pipelines are planned to take the fuel to the east and northeast regions as well as to consumers in the south as part of the government push to raise the share of natural gas in India's energy basket to 15% by 2030 from the current 6.2%. Due to better availability of gas and completion of new trunk pipelines, GAIL could clock a CAGR of ~6% in gas transmission for next 5-6 years.

- GAIL is planning for expansion in petrochemicals, specialty chemicals and renewables to supplement growth in its core business of natural gas marketing and transportation. GAIL plans to bid for new pipelines put on offer by the regulator. Also, it will continue to grow its gas transmission business by laying important sections of National Gas Grid -- about 7,500-km of lines, mostly to the eastern part of the country.

- Gail (India), plans to invest in startups to operating in focus areas through its initiative 'Pankh'. Gail has even opened a fresh round for solicitation of investment proposals from the startups which operate in natural gas, petrochemicals, energy, project management, bio-manure marketing, nano materials, IoT, data mining, environment, health and social.

- **Concern:** Volatility in oil and gas prices and regulatory changes could impact its growth story in near future. General economic slowdown can have an impact on the growth plan of the Company.

ICICI Bank

ICICI Bank Ltd.
(M Cap Rs 4,36,832 cr)

- ICICI Bank has transformed itself from a corporate focused bank to a retail bank in the last 5 years. The focus of the management has shifted to lower risk retail loans to increase granularity in the lending book. Along with expansion of the physical presence, the bank is leveraging technology to expand its customer base and improve services. This has led to a significant moderation in gross slippages and helped company in improving CASA Ratio and NIMs.

- Focus towards portfolio quality and strengthening of underwriting credit processes could restore the prudent growth path for the Bank and result in better long-term value creation. The current MD's focus is mainly on achieving superior RoEs via strong core operating performance. The Bank is well capitalized which will act as a cushion against further asset quality shocks and lower CASA growth if any. The bank has very strong retail loan book composition and PCR is also at industry best level. This indicates that ICICI Bank is better placed than peers to deal with the anticipated stress due to COVID-19.

- ICICI Bank's digital offerings for its retail segment are now maturing in terms of customer penetration, adoption and hyper-personalisation reflecting in speedier customer acquisition and better productivity. Incrementally, the bank's comfort and confidence in kick-starting growth in its corporate portfolio holds a gradual re-rating potential on the back of reducing concentration risk from a single growth/profit engine.

- **Concerns:** Recent COVID-19 pandemic is likely to have multiple order and far-reaching impacts on the banking sector. Credit growth is low and asset quality issues may spread to many sectors. On-going stress in Corporate and SME segment might accelerate.

Large-Caps Legends

Infosys
(M Cap Rs 6,44,242 cr)

- Infosys is a leading provider of consulting, technology, outsourcing and next-generation digital services, enabling clients in 46 countries to create and execute strategies for their digital transformation. The company offers business, technology and software consulting services, product engineering, customized software development, maintenance of information systems and outsourcing services to corporations in India and overseas.

- large deals for FY21 stood at US$ 14.1bn, a 57% growth over FY20. The net new share was 66%, setting up for strong growth in FY22. The company won 23 deals in FY21, of which six each were won in Financial Services and Retail. Of the total, 16 were won in America, six in Europe, and one in the RoW. The management guided USD revenue growth at 12-14% in CC term on YoY basis and EBIT margin of at 22-24% for FY22E. It also characterized the current demand environment to be one of the strongest for a while.

- Infosys is winning market share because of their end-to-end digital capabilities, ability to implement projects at scale across geographies and improved positioning. The company has undergone internal re-organization, improved positioning, are bidding aggressively for large deals and also won market share from some of its peers. The company has recruited ~20k people from campuses in FY21 and expect to hire ~26k in FY22. The company is confident to meet demand.

- There is strong demand from cloud, cyber security & data analytics. We expect to see Infosys as a key beneficiary of a recovery in IT spends in FY22E, given its capabilities around Cloud and Digital transformation. Leading operational performance in FY21 and strong deal wins should translate into strong outperformance in EPS growth, comparing with the sector.

- **Concerns:** INR appreciation against the USD, pricing pressure, retention of the skilled headcount, strict immigration norms and rise in visa costs are key concerns.

ITC Limited

ITC Limited
(M Cap Rs 2,52,453 cr)

- ITC Ltd is one of India's foremost private sector companies. While ITC is a market leader in its traditional businesses of Cigarettes, Paperboards, Packaging and Agri-Exports, it is rapidly gaining market share even in its nascent businesses of Packaged Foods & Confectionery, Branded Apparel, Personal Care and Stationery. There are some synergy benefits across the different segments. Paper & packaging and the agri business segments support the packaging and commodity sourcing requirements for cigarettes and the FMCG business. As of FY21, cigarettes and FMCG were the two largest revenue contributors, contributing 42% and 23% of revenues, respectively. However, cigarettes continue to account for 83% of ITC's profits.

- ITC is the largest combustible cigarette player with massive 77% market share in India where the demographics are favorable (rising population and disposable income growth), E-cigarettes are banned, and entry barriers for new players in the tobacco sector are high.

- ITC's management has been making efforts to diversify its business thereby relying less on the cigarette business. Over the past 20 years, ITC has aggressively invested in the FMCG business (packaged food, personal care, stationery, incense sticks, safety matches) as its growth avenues for the future. Since its diversification out of cigarettes in 2001-02, ITC has expanded to have a portfolio of 25 Mother brands in various consumption categories with a total consumer spend of Rs. 22000 Cr, making it the third-largest F&B company by revenue. Of these 25 Mother brands, 9 are among the top 4 in their respective categories. The company continues to scale up this business by expanding in adjacencies, innovation, and premiumising the portfolio with value-added products.

- The company has a huge cash balance of almost ~ Rs. 25,200 Cr. on its balance sheet and has changed its dividend payout ratio to 80-85% vs. ~65% earlier. With this move, the dividend yield for the stock will increase to ~5.2% for FY21 which is highest in the industry. ITC can use this cash for more inorganic opportunities.

- **Concerns:** Profitability and cash generation heavily skewed towards the cigarettes business any slowdown there could have impact on company's performance. While upcoming investment trends like more emphasis on ESG investing and the single digit growth rate in the cigarettes business are near term overhangs.

LARSEN & TOUBRO

Larsen & Toubro Ltd

(M Cap Rs 2,10,578 cr)

- Larsen & Toubro (L&T) is the foremost player in Infrastructure and Engineering space in India and holds interests in technology and financial services as well. L&T has wide presence all over the world covering over 30 countries. L&T addresses critical needs in key sectors such as Hydrocarbon, Infrastructure, Power, Process Industries and Defence.
- Strong order book despite of pandemic led the healthy revenue visibility - order inflows stood at Rs 1.8 trn (Rs 50,700 cr in Q4FY21) in FY21, mainly due to strong ordering momentum witnessed in H2FY21. Order book stands healthy at Rs. 3.3 trn (2.4x TTM revenues) up 8% YoY providing strong revenue visibility. Of total Rs. 2.6 trn domestic order book, Central Govt/State/PSU constitute 9%/31%/44%, while Private constitute 16%. Of total order book, projects worth ~Rs. 1 trn are multilateral funded. Management indicated that the tender pipeline remains strong at ~Rs9.6trn for FY22 comprising of domesticRs6.6trn and international-Rs3trn. Infra (Rs6.95trn opportunity) and Hydrocarbon (Rs. 1.4 trn opportunity) remains key growth segment in terms of order inflow.
- Strong balance sheet on account of reduction in net debt, improved working capital and cash flow from other business - The company reduce net debt to ~Rs. 855 bn in Q4FY21. Robust CFO/FCFF of Rs. 22,844 cr/21,921 cr due to the improvement in working capital. The company has kept high cash reserves to mitigate any uncertainty. While IT business is generating superior cash flow and the recent right issue has provided enough growth room to L&T finance. Hyderabad metro would require support of Rs. 1000-2000 cr until ridership will not pick up at certain level. Going forward limited investment required in core business, a healthy cash flow from IT business and stick to strategy of selling non-performing assets will keep the balance sheet healthy and provide robust return ration. L&T may reward its shareholder through the higher dividend payouts.
- Management has guided for the steady margins in FY22. 60% of the contracts are variable price contracts so it would protect against higher commodity prices. For the rest 40% fixed price contract, management believes there is enough cushion to protect the margin against sustained higher commodity prices.
- **Concerns:** Weakness in domestic investment and slower than expected project execution in domestic & international markets pose a downside risk.

पावरग्रिड

Power Grid Corporation of India Ltd

(M Cap Rs 1,22,445 Cr)

- Power Grid Corporation of India Limited is a transmission company engaged in the power transmission business with responsibility for planning, implementation, operation and maintenance of Inter-State Transmission System and operation of National and Regional Load Dispatch Centers. The company's segments include Transmission, Telecom and Consultancy. The Transmission segment includes extra high voltage/high voltage (EHV/HV) networks and grid management. It also owns EHV alternating current (AC) and HV direct current (HVDC) sub-stations. The consultancy segment includes planning, design, engineering, load dispatch, procurement management, operation and maintenance, financing and project management. It owns and operates over 1,29,350 circuit kilometers of EHV transmission lines. It has approximately 210 sub-stations. Its smart grid enables real time monitoring and control of power system. The company has the monopoly in building and operating India's high voltage transmission network (765KV and HVDC).
- Schemes like Development Financial Institution (DFI), the National Bank for Financing Infrastructure & Development (NaBFID), relaxation of norms for foreign investors to allow investment in InvITs, minimising presence of the CPSEs to create a new space for private sector investment, an outlay of Rs 3,05,984 crore to revamp reforms based result linked power distribution sector etc are all welcome moves in the power sector as a whole. Also, the waiver available for use of Inter State Transmission System (ISTS transmission charges and losses) has been extended for use of Inter State Transmission System (ISTS) for transmission of electricity by solar or wind power projects commissioned till December 2022. The waiver shall be applicable for the twenty-five years from the commissioning of such projects.
- The tariff regulations for 2019-24 with unchanged regulated RoE provide a strong direction to long term returns. Being a transmission company, more than 90% of the profitability of Powergrid is being governed and driven by regulated RoE of 15.5% which could undergo a downward change in future. 95% (post-InvIT) of PGCIL's current operational assets operate on risk-averse regulatory business model. As the company's profitability is largely inter-linked and dependent on regulated RoE and finance charge, any reduction in interest rates going forward will help the company to expand its margin profile, as the regulated RoE has been set until 2024.

Power Grid Corporation of India Ltd

(M Cap Rs 1,22,445 Cr)

- The launch of POWERGRID Infrastructure Investment Trust will unlock long term value for Power Grid Corporation as monetization plans for its tariff-based competitive (TBCB) projects will start. The initial InvIT would house five transmission projects (gross block: Rs 7200 crore), accounting 3% of PGCIL's total gross block. This would provide steady stream of cash flow and have been operational for the past 2–4 years – thereby implying another 31–33 years of life under the transmission service agreement (TSA).
- PGCIL has a visibility of 3-4 years on its current order book with total projects worth Rs 47,100 crore in hand. PGCIL has also recently won five TBCB projects and one cross border transmission project connecting Katihar (India) –Parbotipur (Bangladesh) – Bornagar (India) under the RTM basis from the GoI. Additionally, on 14th May 2021, PGCIL successfully commissioned POWERGRID Ajmer Phagi Transmission Limited. Further, on 30th May 2021, Ministry of Power, Government of India has transferred 220 kV Srinagar-Drass-Kargil-Khaltsi-Leh Transmission System to Power Grid Corporation of India Limited (POWERGRID), adding to PGCIL's assets.
- Revenue in Q3FY21 has gone up by 6.4% YoY (8.3% QoQ) and amounts to Rs 10,142.5 crore. EBITDA rose by 8.5% YoY and 8.9% QoQ and stood at Rs 9,567.1 crore. PAT was up by 26% over Q3FY20.
- **Concerns:** Delay in project execution due to the COVID pandemic could drag the margins. Operating cash flow disappointments due to sharp increases in working capital, Works-in-hand continuing to fall due to delay in awards of TBCB projects, cash generated in non-remunerative ventures leading to medium-term RoE falling are other concerns.

SBI

(M Cap Rs 3,73,628 cr)

- The largest Public Sector Bank with over 22,000 branches stands to gain from improvement in business sentiment.
- SBI is almost immune to any liability-side risks at this juncture, given its expansive, granular deposit base and government's majority holding. It is better placed to curtail asset quality worries than many other large banks because of its quality of loan book. Moreover, ample provision coverage will curtail incremental loan loss provisions.
- SBI is a financial conglomerate. Through its various subsidiaries and JV companies, it has presence in insurance, asset management, credit cards and various other services including stake in various regional rural banks. All these are performing exceptionally well and adding substantial value to the bank's valuation. This will also help SBI hedging against downturns in specific segments and access multiple growth avenues. Also this all of the consolidated business is trading at attractive valuation.
- SBI reported good set of Q4FY21 numbers. The headline positive surprise came on the asset quality front, with full-year slippages at a multi-year low at 1.2%. It is even better than the leading private banks.
- Among PSU banks, SBI remains the best play on the gradual recovery in the Indian economy, with a healthy PCR, robust capitalization, a strong liability franchise and an improved asset quality outlook.
- **Concerns:** Any further delay in the process of resolution of large assets due to current uncertainties and extension granted under IBC could be a dampener.

UNITED SPIRITS

United Spirits Limited

(M Cap Rs 48,965 cr)

- UNSP is the largest spirits player in India, with sales of ~82mn cases per annum, garnering ~33% volume share of the market. UNSP has a strong product portfolio with 120 of its own brands, of which 13 are millionaire brands millionaire (million cases sold per annum) brands including 4 brands with over 10mn cases per annum in sales. UNSP's product portfolio encompasses all categories of IMFL, namely whiskey, brandy, rum, gin and vodka.

- Stringent state-wise regulations and restrictions on advertising could create challenges for new players to enter this market and create a loyal customer base for their products. These aspects act as a strong advantage for UNSP's business, given its pan-India manufacturing and distribution footprint, as well as established product portfolio with notable brand recall. UNSP's strong distribution network and point of sale coverage spans across more than 65,000 outlets across India. Along with its presence in 'off-premise' outlets, the company has a strong presence in 'on-premise' outlets (20-22% of total sales). UNSP has adopted the 'perfect store program' where it does activation at store levels in the form of right visibility, share of shelf space and merchandising.

- UNSP has focused on premiumisation of its portfolio. This has led to an increase in contribution from 'Prestige & Above' segment to 53% of volumes in FY21 vs 36% in FY16 resulting in improved profitability as 'Prestige & Above' segment fetches superior gross margins. Higher gross margins coupled with various cost saving initiatives have led to EBITDA expansion. The company has continued deleveraging repaying ~Rs. 3,644 Cr debt in last 5 years and shall turn into net cash position in FY22. The Company is incrementally focusing on franchising its popular portfolio to become asset light, this will further enhance company's return ratios.

- Management's efforts to enhance productivity and premiumisation continue to be on track. Besides low per capita consumption (at 2.6 litres/year/person versus 6.4 litres' world average), favourable demographics (~60% population in working age group by 2020 from 50% now) and steady conversion from country liquor to IMFL, of which UNSP will be a prime beneficiary over the long term.

- **Concerns:** ENA and Glass are key raw materials for UNSP. Volatility in raw material prices along with uncertainty over taxation policies on alcohol across states especially in aftermath of Covid-19 are key concerns.

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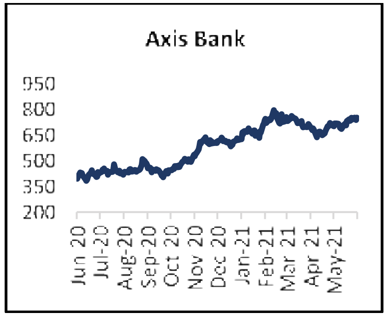
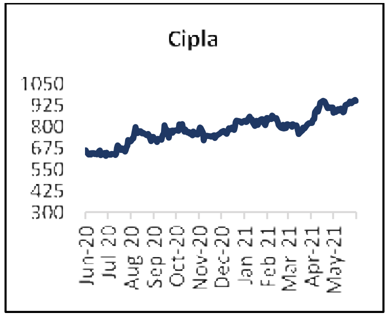
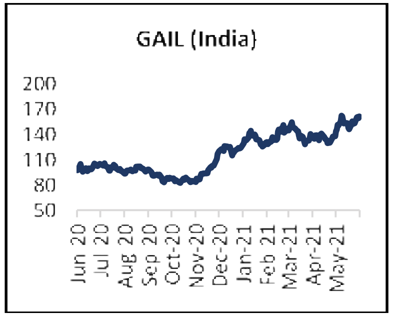
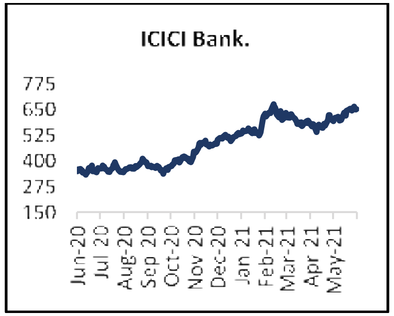
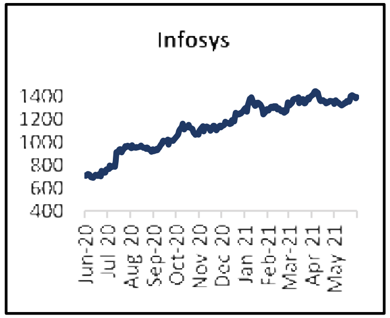
Price Chart

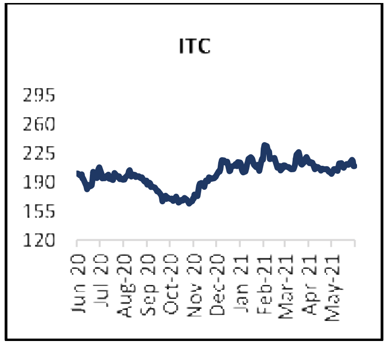


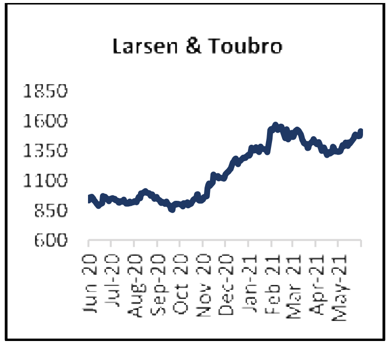


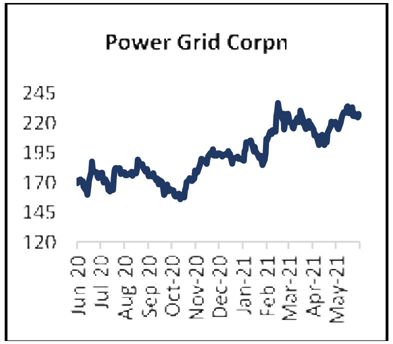


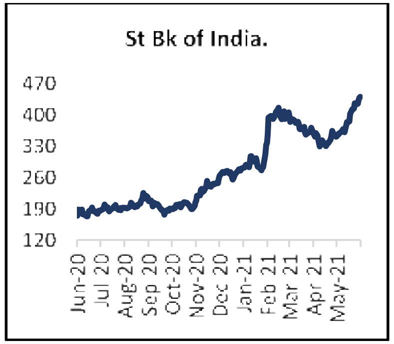


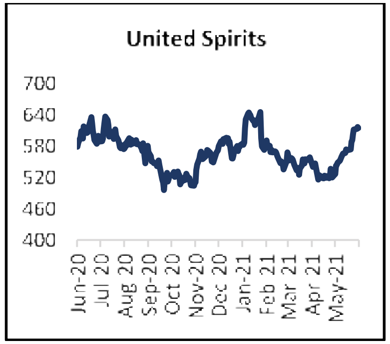












Stock	Analyst	Educational Qualification	Holding	Analyst	Educational Qualification	Holding
Axis Bank	Nisha Sankhala	MBA	No	Krishnan ASV	PGDM	No
Cipla	Kushal Rughani	MBA	No	Bansi Desai	CFA	No
GAIL (India)	Abdul Karim	MBA	Yes	Harshad Katkar	MBA	No
ICICI Bank	Nisha Sankhala	MBA	No	Krishnan ASV	PGDM	No
Infosys	Abdul Karim	MBA	No	Apurva Prasad	MBA	No
ITC	Harsh Sheth	M Com	No	Varun Lohchab	PGDM	No
Larsen & Toubro	Chintan Patel	MSc Financial Mathematics	No	Parikshit Kandpal	CFA	No
Power Grid Corpn	Debanjana Chatterjee	Msc in Economics, PGDM in Finance	No	Anuj Upadhyay	MBA	No
St Bk of India	Nisha Sankhala	MBA	No	Krishnan ASV	PGDM	No
United Spirits	Harsh Sheth	M Com	No	Varun Lohchab	PGDM	No

Disclosure:

We, Abdul Karim (MBA), Kushal Rughani (MBA), Nisha Sankhala (MBA), Jimit Zaveri (MBA – Finance), Debanjana Chatterjee (Msc in Economics, PGDM in Finance), Harsh Sheth (Mcom), Chintan Patel (MSc Financial Mathematics), Krishnan ASV (PGDM), Bansi Desai (CFA), Harhad Katkar (MBA), Apurva Prasad (MBA), Varun Lohchab (PGDM), Parikshit Kandpal (CF) and Anuj Upadhyay (MBA) authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Research Analyst or his/her relative or HDFC Securities Ltd does not have any financial interest in the subject company. Also Research Analyst or his/her relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his/her relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock – Yes for Abdul Karim for GAIL

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