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20 YEARS

MAJESTIC MULTI-CAPS

June 2021

The table gives out the basic financial details of the 15 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	Aarti Industries	Chemicals - Organic - Large	174.2	5	877.1	30,563	100.5	4506.1	7.6%	523.5	-2.4%	15.0	58.4	8.7	90	0.5%
2	Aditya Bir. Fas.	Retailing	847.6	10	212.4	18,000	30.4	5168.9	-41.2%	-672.5	-312.6%	-7.9	-26.8	7.0	0	0.0%
3	Ajanta Pharma	Pharmaceuticals - Indian - Formulations	17.3	2	1956.2	16,931	346.2	2889.7	11.7%	653.9	39.0%	75.5	25.9	5.7	475	0.5%
4	Birla Corpn.	Cement - Major - North India	77.0	10	1174.6	9,046	605.6	6785.5	-1.9%	681.0	34.8%	88.2	13.3	1.9	100	0.9%
5	Endurance Tech.	Auto Ancillaries - Others	140.7	10	1536.5	21,612	253.2	6547.0	-5.4%	528.2	-6.6%	37.6	40.9	6.1	60	0.4%
6	Guj.St.Petronet	Gas Distribution	564.2	10	331.7	18,712	113.3	11535.4	-5.8%	1606.8	-7.1%	28.5	11.6	2.9	20	0.6%
7	ICICI Securities	Finance - Investment / Others	161.3	5	633.7	20,441	56.5	2586.2	51.6%	1067.7	97.0%	33.1	19.1	11.2	430	3.4%
8	KNR Construct.	Construction - Civil / Turnkey - Large	56.3	2	223.7	6,290	70.0	2903.6	18.4%	348.6	27.8%	11.9	18.8	3.2	12.5	0.1%
9	Mahindra Life.	Construction - Factories / Offices / Commercial	51.4	10	598.4	3,075	317.4	166.3	-72.8%	-71.7	-15.4%	-14.0	-42.9	1.9	0	0.0%
10	Max Financial	Finance - Investment / Others	69.0	2	1004.3	34,657	96.9	31273.9	71.5%	425.4	193.4%	12.3	81.5	10.4	0	0.0%
11	Motil.Oswal.Fin.	Finance - Investment / Others	14.7	1	791.2	11,606	302.1	3564.7	53.7%	1317.9	618.7%	89.8	8.8	2.6	1000	1.3%
12	Mphasis	Computers - Software - Medium / Small	187.2	10	2008.9	37,601	348.7	9722.3	9.9%	1216.8	2.7%	65.0	30.9	5.8	650	3.2%
13	Radico Khaitan	Distilleries	26.7	2	794.6	10,615	134.2	2418.1	-0.4%	277.2	12.2%	20.7	38.3	5.9	120	0.3%
14	Sonata Software	Computers - Software - Medium / Small	10.5	1	733.6	7,717	86.1	4228.1	13.0%	244.0	-11.9%	23.2	31.6	8.5	1800	2.5%
15	Team Lease Serv.	Miscellaneous - Large	17.1	10	3614.5	6,181	381.4	4881.5	-6.1%	80.2	129.2%	46.9	77.1	9.5	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

AARTI INDUSTRIES LIMITED

Aarti Indistries Ltd

(M Cap Rs 30,563 Cr)

- Aarti Industries Limited (AIL) is a well-diversified chemical company headquartered in Mumbai. The company is the only Indian manufacturer of Nitro FluoroAromatics, via Halex chemistry, and PDA. It manufactures 125 products with chemistry of benzene, aniline, sulphuric acid, toluene and methanol. The company is one of the leading global suppliers of dyes, pigments, agrochemicals, pharmaceuticals and rubber chemicals. AIL has maintained its dominant market position in the Nitro chloro benzene (NCB) and D-chloro Benzene (DCB) -based specialty chemicals segment. It is the largest producer of benzene derivatives in India, and a major player among global manufacturers, with a 25-40% global market share across various products. The group has a diversified revenue profile, reflected in no single customer or product contributing more than 8% to revenue. The company is well diversified catering to industries such as polymer additives, pigments, dyes, paints, pharmaceuticals, agrochemicals, fertilizers, and FMCG, insulating it from downturn in any particular industry.

- AIL posted above expected results with revenue growing by 13.2%YoY, and 2.7% QoQ to Rs 1,346.8 crore, led by growth across all the segments viz, specialty chemicals (14.2% YoY growth); Pharmaceuticals (8.5% YoY revenue growth). EBITDA grew by 18.9% YoY to Rs 260.3 crore, gross Margins expanded by 548 bps to 53.8% thus recovering to pre-COVID levels. PAT grew by 26.3% YoY to Rs 139.3 crore.

- The company has come up with an aggressive CAPEX plan of a Rs 5,000 crore (Rs 1000-1200 crore each year) for the next 4-5 years for (a) guided capacity expansion (Rs 1500 crore for FY22/23E; USFDA capacity expansion in API unit at Tarapur); (b) introducing value added downstream products in existing and new chemistries; (c) additional custom synthesis opportunities, (d) expansion of existing Pharma products basket and (e) introduction of new API and intermediates.

- The ongoing pandemic has called for increased consumption of drugs, which bodes well for the company. The API market (both domestic and exports) is expected to witness strong growth. Going forward, the company is eyeing to deepen its penetration in therapies such as antihypertensive, cardiovascular, oncology, corticosteroids etc. In order to tap these opportunities AIL has plans to demerge its specialty chemical business. This COVID has called for big usage of paracetamol (medicine to subsidise fever; commonly sold over the counter) among individuals. AIL manufactures PNCB (Para Nitro Chloro Benzene) which is a big pharma intermediate that goes into paracetamol manufacturing. The export market demand has also shot up with industries like textiles, engineering polymer (7-8% growth globally, as it is replacing metals), construction, paint and automobile.

- **Concerns:** Crude price volatility (Benzene is produced from Naptha which is a crude derivative), delay in commissioning of contracts, FOREX fluctuation, are a few risks.

Aditya Birla Fashion & Retail Ltd
(M Cap Rs 18,000 Cr)

- ABFRL is India's largest pure-play fashion and retail entity with an elegant bouquet of leading fashion brands and retail formats supported by a pan-India distribution network with a combined retail footprint of 8.4 million square feet across 750+ cities. The company has a network of 3,212 stores across ~31,000 multi-brand outlets with 6,800+ point of sales in department stores across India. ABFRL has charted out growth strategies and planning to achieve revenue to the tune of Rs 21000 cr by FY26E.

- ABFRL has mainly two divisions - Madura Fashion & Lifestyle (Madura) and Pantaloons. Madura is the largest branded men's wear player in India and currently houses India's leading premium & sub-premium apparel brands such as Louis Phillipe, Van Heusen, Peter England and Allen Solly under its Lifestyle business. Madura division also has other two segments, Fast Fashion which houses Forever 21 and The People and other business which has the innerwear business and super luxury brands such as Ted Baker, Polo Ralph Lauren, American Eagle. Pantaloons, the value-fashion retail format operates across varied categories like casual wear, ethnic wear, formal wear, party wear and sportswear for men, women and children. It also operates in the non-apparel segment, which primarily comprises beauty products, fashion jewellery, footwear, and accessories. ABFRL also is focusing on tapping the ethnic and wedding wear, with the acquisition of Jaypore and; strategic investments in Shantanu & Nikhil, Sabyasachi Couture and Tarun Tahiliani - places itself on the frontline in the ethnic and bridal wear.

- Strong brand pull, product innovation, digital campaigns, asset-light expansion, enhancing omni-channel presence and higher contribution of e-commerce will drive growth for lifestyle brands in the near to medium term. In the next five years, ABFRL expects to increase store count to more than 3500 stores by focusing on enhancing penetration in newer towns. Driven by healthy store addition, high single digit SSSG, it aims to achieve sales of Rs 9000cr by FY26E with EBITDA margins of ~11-12%.

- Focus on value retail segment, higher store productivity, cost rationalisation and better product mix has improved the profitability of this segment in last few years and would add meaningfully to the topline and margins going forward. The management expects Pantaloons to become a Rs 8500cr multi-category retail brand, with an integrated online-offline play by FY26E. It plans to add 250 new stores (mainly in non-metro cites) in the next three years across 100 new towns.

- ABFRL is expanding its brand horizon by deepening its presence in ethnic wear and is betting big on the ethnic play expecting revenue to grow at a fast rate (from Rs 50cr in FY20 to Rs 2000cr by FY26E). Innerwear segment which in a short span of time, has seen significant ramp up with revenues touching Rs 280cr in FY20. The management expects innerwear revenues to sustain healthy momentum driven by increased touch-points and post 32% CAGR in FY20-26E.

- ABFRL offers secular growth potential with a unique portfolio of established and leading industry brands and high growth categories of value-fashion retail chains. Its strong platform of established brands, deep distribution and management capability allows it to launch multiple products and brand extensions which can continue to fuel growth and drive valuations. The recent right issue of Rs 1000cr and Flipkart's equity infusion have addressed rising debt and liquidity concerns. The company's strategic partnership with Flipkart would improve its brand's visibility and help in exercising more control on online sales in their platforms. The deal with Flipkart would further enable ABFRL to enhance its reach in Tier II, III cities.

- In FY21, it has achieved best-in-class reduction in rent expenses, employee costs, and overhead expenses. The company has deepened its partnerships with e-com players. Ownbrand.com has seen strong growth from Pantaloons and other lifestyle brands. E-Com sales grew 3x YoY. Management expects recovery to start from July-August and recovery will be stronger during the festive season.

- **Concern:** Any sustained slowdown in recovery due to localised lockdowns in the coming quarters is a key risk in the near term

Ajanta Pharma

(M Cap Rs 16,931 cr)

- Ajanta Pharma is a diversified branded play with best-in-class return metrics. Its high exposure to branded generics markets (70% revenue from India, Asia and Africa) offers sustainable growth visibility with superior profitability.

- In the domestic formulations, the company posted strong growth in Pain Management, Dermatology and Cardiology segment in FY21. Company launched 21 new products in the domestic market in FY21.

- The company's strategy of launching novel first-to-market products (~50%+ of portfolio) has driven its outperformance in the past. As per AIOCD, Ajanta has 0.7% market share in IPM.

- Key therapeutic areas in the domestic formulation are Cardiac (~41% of revenue), Ophthalmology (24%) and Dermatology (16%), account for ~80% of domestic revenues. Barring Derma, the company has improved its market share and ranking across therapies.

- Company has approvals for 42 ANDAs in the US and has launched 36 products as on Mar-2021. Total 15 ANDAs are pending for approval from the US FDA. R&D expenses for FY21 it stood at Rs 139cr, 4.8% of revenue (Rs 164cr in FY20).

- The two key formulation plants for US – Paithan, Aurangabad and Dahej have received EIRs in Aug'19. Dahej will address the capacity constraints faced at Paithan. Majority of the new launches will be from Dahej facility.

- Company guides for 31-32% operating margin in FY22E. Management guided for capex of ~Rs 250cr largely for maintenance for FY22.

- With a recovery in Asia Branded Generics business, incremental orders for the Institutional business, and new launches/increased market share in existing products in US Generics would drive revenue and profitability in the coming years. We are positive on Ajanta on the back of: i) outperformance in Branded Generics segment and better capacity utilization, ii) better operating leverage in US Generics and iii) given that the company is done with major capacity expansion program for the next 2-3 years.

- **Concerns:** Adverse pricing regulations by the National Pharmaceutical Pricing Authority (NPPA) in India, elevated price erosion in the US generic market are key risks for Ajanta. Any adverse US FDA action upon inspection of its US dedicated facilities would hinder growth. Large part of revenue comes from exports (US, Asia and Africa) and hence, the company poses risk of currency fluctuations.

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BIRLA CORPORATION LIMITED
MP BIRLA GROUP

Birla Corporation
(M Cap Rs 9,046 cr)

- Birla Corp (BCL) has a significant presence in Central (Madhya Pradesh), Northern regions (Uttar Pradesh & Rajasthan), West Bengal and Maharashtra. It has 4.2% of the market share in the Indian cement industry.
- The company has finalized a plan to scale up its capacity to 25 MTPA by 2025 from current capacity of 15.6 MTPA which provides strong visibility of future growth.
- BCL has a network of 1250 marketing staff, 300 sales staff and more than 10,000 dealers. Birla Corp has a strong presence on the retail front owing to its distribution network and focus on trade sales, which has a share in excess of 80% of total volume sales. Further, the company has been pushing more of premium cement via its trade channels and higher ad spends. This has led premium products to form ~53% of trade sales.
- Increase in sale in blended cement implies higher absorption of fly ash, which reduces clinker consumption, and in turn, boosts profitability. Fly-ash and captive coal consumption is estimated to lower down costs by ~Rs.30/MT. BCL has undertaken an organization-wide supply chain improvement exercise, which is expected to contribute ~Rs. 50/MT in cost reduction FY23E onwards.
- **Concerns:** uncertainty on promoter front, fall in demand of cement that could lead to lower realisations and higher raw material price impact on margins are the key concerns.

ENDURANCE
Complete Solutions

Endurance Technologies
(M Cap Rs 21,612 cr)

- Over the years, Endurance Technologies (ETL) has evolved from a single customer/single segment player to a multi-product and multi-customer business enterprise. It supplies to almost every OEM and produces multiple components including aluminum machined castings, suspension, braking systems, and transmissions (clutches).
- Government has mandated compulsory fitment of ABS/CBS in all 2W from Apr-2019. ETL has been getting new orders in ABS, front forks and rear shock absorbers. The increasing order flows indicate that the products of the company are well accepted by the OEMs which is likely to drive future growth.
- The company is focusing on value-add products including ABS brakes, CVT transmissions for scooters, front forks, paper-based clutches, and complete machined die-cast products, amongst others. The management is confident of expanding its market share in the brakes segment (which forms ~10% of revenue), from 30% currently to ~50% after the new capacities come on stream
- It is getting strong order inflows from Europe, where it has been able to de-risk away from Fiat. The European business accounts for 29% of the consolidated revenues.
- New customer addition, increasing content per vehicle and new product addition would drive the company's performance in the coming years.
- **Concerns:** High concentration in the domestic market (Bajaj Auto accounts for 50% of revenues) and 45% of the business comes from aluminum die-casting components (which might reduce on faster adoption of EVs)

GSPL

(M Cap Rs 18,712 cr)

- Gujarat State Petronet Ltd (GSPL) is India's second largest Natural Gas Infrastructure and Transmission Company. GSPL is primarily engaged in transmission of natural gas through pipeline on an open access basis from supply points to demand centers. It owns and operates around 2,685 km of gas transmission pipeline in the state of Gujarat as on March 31, 2020. GSPL also sells electricity generated through its 52.50 MW windmills.
- GSPL along with its consortium partners, Indian Oil Corporation Ltd (IOCL), Bharat Petroleum Corporation Ltd (BPCL) and Hindustan Petroleum Corporation Ltd is implementing three cross country pipeline projects awarded by Petroleum and Natural Regulatory Board (PNGRB): Mallavaram to Bhilwara (~1881Km), Mehsana to Bhatinda (~1670Km) and Bhatinda to Shrinagar (~740Km). GSPL, along with consortium partners, has formed two Special Purpose Vehicles named GSPL India Transco Ltd (GITL) and GSPL India Gasnet Ltd. (GIGL) to construct cross country pipelines. GIGL is associated with Mehsana-Bhatinda Pipeline and Bhatinda-Jammu-Srinagar pipeline.
- GSPL commenced its operations with transmission of gas being provided by GSPC. Over a period of time, GSPL has invested significantly in developing its pipeline network which is now connected to major gas supply sources in Gujarat including designated collection points near the natural gas fields of Hazira, re-gassified LNG from Shell's terminal at Hazira, Petronet LNG Ltd.'s terminal at Dahej, GSPC LNG's terminal at Mundra along with the Panna-Mukta-Tapti gas fields.
- GSPL's robust volume outlook on the back of strong demand from CGD entities and the power sector, visibility of its earnings, stable margins and steady cash flows bring positive view on the stock. The upward revision of transmission tariffs by PNGRB is a positive for the stock and will lead to increased profitability. GSPL investments and large exposures in CGD entities like Gujarat Gas (54.4% stake) and Sabarmati Gas (27.5%) would also create value for investors in future.
- **Concerns:** Decline in exploration and production activities, demand slowdown due to second wave of COVID-19 pandemic, decline in domestic gas production, and decline in importation of LNG and government regulations affecting allocation of gas supplies can affects its business.

ICICI Securities Ltd.

(M Cap Rs 20,441 cr)

- ICICI Securities (ISEC) is one of the pioneers in online trading in India with the launch of its online portal "icicidirect.com" almost 2 decades back. Given the strong brand backed by its parentage, leadership and industry tailwinds, we remain optimistic on the future growth of ICICI Securities. The company has well established brand and experienced management team. Over last 2 decades, it has seen various markets cycles and has a strong track record in the capital market space.
- ISEC has been constantly reducing its dependence on the cyclical brokerage income and has been focusing on cross selling products which provides more linear and sustainable growth.
- The company is a subsidiary of ICICI Bank which holds a 75% stake in the company. This gives access to the bank's retail clientele, its branch network and the physical presence. It has also entered into unique arrangement with ICICI Bank to facilitate higher activation rate and improve the quality of customers, acquiring from more affluent and relevant segments. Strong synergy benefits with the parent provides extensive reach through 5300+ ICICI Bank branches spread across 2300+ cities and towns.
- We expect, New Client Acquisition along with firm Activation Rates and strong albeit cyclical trading volumes to drive the core broking revenue growth in the near term. Company's focus on digital capabilities and cost efficiency can result in realisation of operating leverage.
- **Concern:** Discount brokers acquiring a higher client share remains the key concern.

KNR Constructions Ltd

(M Cap Rs 6,290 Cr)

- KNR Constructions Ltd is one of the leading providers of engineering, procurement and construction (EPC) services. Its major projects are in the fast-growing sectors of roads and highways. Apart from this, it has an established presence in irrigation and urban water infrastructure management. The company has 20 years of proven track record of executing >6,000 lane km road projects across 12 states in India. Its promoter Mr. K. Narasimha Reddy has wide experience of over 50 years in the highway sector. As of date, it has completed around 5,890 kilometres of projects across >10 states in India. Its urban water infrastructure management project is the Challaghatta Main Valley Project, which involves remodelling of primary and secondary storm drains, bridges/culverts and related works in the Challaghatta Main Valley in Bengaluru. The company's irrigation and water management projects include Shankara Samudram balancing reservoir, Eastern Kosi canal system, reservoir across Mathadivagu, and Budpur balancing reservoir.

- The strong order book of Rs 7,117.9 crore (Rs 4,008.8 crore top 5 road projects and Rs 3,109.1 crore in irrigation sector) as on 31st March 2021 took its total order book to Rs 11,400 crore, including L1 orders of Rs 4,320 crore. This provides revenue visibility of three to four years. There are 4-5 more process bids that are underway - each of Rs 1,000 crore, taking the bid pipe-line to Rs 3,000-4,000 crore during FY22.

- KNR Construction's special purpose vehicle (SPV) KNR Srirangam Infra Pvt Ltd entered an agreement to divest HAM projects to Cube Highways and Infrastructure III Pte. Ltd (a Singapore-based company) on 29 Jan 2019. Under this agreement, KNR will transfer 74% of its shareholding on the commercial operation date (CoD) of these projects. This deal will improve liquidity of the company.

- KNR posted a stellar performance with revenue growth of 38.5% YoY, to Rs 935.8 crore. EBITDA grew by 24% from Rs 146.9 crore to Rs 182.2 crore, with OPM at 19.8%. PAT also grew by 43.3% to Rs 96.3 crore. PAT for FY21 has been adjusted for a) impairment of advances on sale of Wallayar tollways (Rs 11.2 crore) b) Tax pertaining to earlier years (Rs 19.3 crore). There was a (24% YoY; 31.4% QoQ) drop in finance cost on account of repayment of promoter loan of Rs 210 crore in Q2FY21. Strong FCF generation of Rs 200 crore and Rs 300 crore from Kerala BOT sale during FY21 led to KNR becoming virtually debt-free. Standalone debt reduced further to Rs 16 crore (from Rs 64 crore/230 crore as on Sep-20/Mar-20) and as at Q4FY21 stands at Rs 0.7 crore, with debt/equity at-0.1x. With Rs 117.3 crore of cash, KNR remains net cash positive.

- **Concerns:** High dependence on state and central government authorities for timely receipt of payments is a challenge to the working capital needs of the company. Plus, the order book is concentrated in South India, with the following states comprising the bulk of orders: Andhra Pradesh and Telangana (67%), Tamil Nadu (16%) and Karnataka (15%). The order book also exhibits project concentration, with the top five projects comprising 59% of it.

Mahindra Lifespaces

Mahindra Lifespace Developers Ltd

(M Cap Rs 3,075 Cr)

- Mahindra Lifespace Developers Ltd (MLDL) is a leading real estate and infrastructure development player, and a part of the USD 19.4 billion Mahindra Group. It came into existence with the demerger of the property development division of Great Eastern Shipping. The company is into design, development, construction, and marketing of residential and commercial projects. MLDL, along with its subsidiaries, is engaged in various infrastructure projects including development of SEZs, development of real estate, residential projects in the mid-premium and affordable housing segments, integrated cities and industrial clusters. It represents the Mahindra group's interest in real estate, and is strategically important to the parent, given its visibility and branding as a Mahindra venture. Its financial flexibility arises from the ability to raise funds in the capital markets, and management and operational support from M&M. Currently, the company has over 5,000 acres of ongoing and forthcoming integrated townships and industrial cluster projects in three cities. MLDL's development footprint spans 25.7 million sq. ft. (2.4 million sq. m.) of completed, ongoing and forthcoming residential projects across seven Indian cities.

- MLDL has guided for an outlay of Rs 500 crore per annum for land acquisition, with potential of 4x gross development value (Rs 2,000-2,500 crore of sales value, 3-4mn sq ft in volumes). This shall add about Rs 1,000 crore annually to the legacy pre-sales average of Rs 700-1,000 crore, implying doubling of sales from FY23E, assuming one-year time from land acquisition to launches. Concessions on FSI premium by Maharashtra State Government and cuts on stamp duty, and quickly managing dwindling inventories augurs well. Low mortgage rates and lockdown infused demand has boosted affordability, particularly for low and mid income and affordable housing consumers who are reliant on home loans to make their purchase. Further, the company's focus on affordable housing and lower ticket sized apartments bodes well.

- Although, the top-line sales (-45%/-14% YoY/QoQ), EBITDA and bottom line de-grew, pre-sales and volume grew on a quarterly basis. Pre-sales value in MLDL for Q4FY21 came in at Rs 350 crore (-13%/+77% YoY/QoQ) and volume stood at 0.5 mn sq ft (-31%/+68% YoY/QoQ). While new launches contributed Rs 260 crore in pre-sales during FY21, sustenance inventory contributed 34% of the sales. 60% of the sales came from mid-premium segment and rest from the affordable. In the IC&IC business, MLDL leased out 28/55.6 acres for Rs 66.4/128.7 crore during 4QFY21/FY21. MLDL consolidated net debt stood at Rs 110 crore with net D/E at 0.07x, which provides ample room for expansion. Currently, MLDL has BD pipeline with Rs 4500 crore sales potential which should augment its 4.4 mn sq ft forthcoming area. Management is hopeful of opening >2 mn sq ft area for sales in new launches during FY22. Opening of international travel may aid IC&IC business.

- Recent management changes helped the company add a number of projects (new projects 2.8 ms ft; forthcoming 4.4 mn sq ft) in the month of February and March 2021, across Pune, Mumbai and Chennai cities. The new management comprise of personnel with work background from renowned companies like Tata Housing, Sobha and Lodha Group. The management is focussing on various aspects like; (a) acquisition of new land bank, (b) ramp-up of new launches, (c) accelerating the launches on the captive land bank, and (d) ramping up sales in MWC Jaipur.

- **Concerns:** Rise in steel prices, and geographic concentration (MMR region), are a few structural risks. Further, overseas investments might get delayed as international travel is curtailed due to COVID. Also, slowdown in Integrated Cities and Industrial Cluster (IC&IC) business on SEZ benefits being phased out adds to the risks.

Max Financial Services Ltd

(M Cap Rs 34,657 cr)

- A diversified product portfolio and strong distribution reach has made the company fourth largest private life insurance player in India. Given the strong brand, leadership and tailwinds on the back of financialisation of savings, we remain optimistic on the future growth of the company.
- A strategic partnership with Axis Bank provides long term distribution capability, ending uncertainty and market anxiety over the future of Max Life (MAXL) and Axis Bank's distribution arrangement.
- Over a long-term period, India's highly underpenetrated life insurance space is attractively positioned to capture the huge growth opportunity. Large private players are in better placed to take advantage given their ability to push protection business by leveraging strong brand and existing network. They have access to adequate capital and can invest in online platforms. Also, insurance industry's inherent nature of long gestation period to break-even (9-10 years) and need for bancassurance partnership provides a very bleak visibility for a new entrant which in turn is extremely positive for well-established larger bancassurance players.
- COVID-19 situation could be blessing in disguise over the medium term for the industry as it will create renewed push for insurance coverage by Government and increase need for coverage felt by the general public.
- **Concerns:** Rising competition especially via digital disruptors poses pricing and volume risk for traditional players.

Motilal Oswal Financial Services Ltd

(M Cap Rs 11,606 cr)

- Motilal Oswal Financial Services Limited (MOFSL) is diversified financial services company. It operates in businesses such as Retail and Institutional broking, Investment banking, Asset Management, Wealth Management, Private equity and Housing finance. In each of the businesses MOFSL offers unique value proposition to its customers and creates its niche in each of the business segment and command premium position over peers.
- Diversified business with rising fee-based income along with differentiated client franchise provides potential of gains from financialisation of savings.
- The company has well established brand and experienced management team. Over last three decades, MOFSL has seen various markets cycles and has a strong track record in the capital market space. This gives us confidence in the company's ability to give sustainable return.
- The AMC business is showing traction despite a challenging environment due to recovery in markets. The broking business is expected to do well over medium term as volumes continue to show strong traction. Scaling up of MOHL will still take some time.
- **Concern:** Discount brokers acquiring a higher client share remains the key concern.

Mphasis
(M Cap Rs 37,601 cr)

- Mphasis is a leading IT solutions provider, offering Applications, Business Process Outsourcing (BPO) and Infrastructure services globally to clients in the banking and capital markets, emerging industries, information technology, communication and entertainment and insurance. Mphasis applies next-generation technology to help enterprises transform businesses globally. Company derives its revenues primarily from software services & projects, licensing arrangements & application services, infrastructure outsourcing services.

- Mphasis has ability to win and construct large transformation deals, and looks at market share gains due to vendor consolidation, low legacy exposure. The company's new deal wins increased by 18% YoY to US$ 245 mn in Q4FY21. In addition, the company has won a US$ 250 mn deal in Q1FY22E, which is one of the largest deal wins in UK for a period of 10 years, which will get ramped up from Q2FY22E. Apart from healthy deal wins, the company has witnessed increase in deal in size of wins, almost doubled on a YoY basis and the tenure has also increased.

- Mphasis' financial profile remains healthy marked by stable earnings, sizeable networth, and strong liquidity with large cash reserves, healthy capital structure and coverage metrics. Company has achieved substantial and sustained growth in revenue and profit, revenue CAGR of 12.5% and 10.8% of PAT CAGR over the past 4 years. Because of cost rationalization efforts, Company could see growth in profitability as well as better return ratios in the future.

- Mphasis has a strong record of retaining key customers, with an average tenor of 14-15 years that provides some operating stability. Its impressive deal wins over the last three quarters, healthy deal pipeline, healthy balance sheet and expectation of inorganic growth could bring earning visibility in medium to long term.

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

Radico Khaitan Limited

Radico Khaitan Limited

(M Cap Rs. 10,615 cr)

- Radico Khaitan is one of the few companies in India to have developed its entire brand portfolio with in house capabilities. Over the past five years, Radico has continued to outperform the spirits industry, with a volume CAGR of 4.5% vs the industry's 0.3% decline, which demonstrates its outperformance. The company has strong brand portfolio with 6 millionaire brands (million cases sold per annum). It is a dominant player in white spirits segment with 60% domestic market share in Vodka through its flagship brand Magic Moments.

- Despite a challenging year, Radico has reported flat revenue and 10% EBITDA growth in FY21. EBITDA per case is improving every year. EBITDA margins improved in the past five years from 11-12% to 17-18%, on product mix and premiumisation story.

- Management has indicated consistent market share gains over the last three years and expects to maintain higher-than industry growth ahead with aim for high double-digit growth, post normalization, for the P&A category. The target stands at 38-40% on volume contribution and 60-65% on value side, going ahead.

- Radico has reduced its balance sheet's debt by Rs. 185 Cr to Rs 198 Cr as on March 2021. The company intends to be net debt free by FY22 based on improved working capital and a strong cash generation and raise dividend or consider buyback post that given healthy cash-flows post that.

- Change in the UP excise policy to move from the monopolistic distribution to a free market benefited the Company as Radico enjoys a strong positioning in the state. Lot of states are looking to adopt UP's model which shall boost overall industry volumes. CSD contributes 10% to the topline and ban on imported liquor in CSD gave a boost to premium brands and it also provides Radico an opportunity to consolidate its no. 1 position (~30% market share) in CSD.

- Radico has been launching brand extensions such as 8 PM premium black whisky, which helps it to push newer volumes into P&A fold (clocked 1 million cases mark in FY21). Further, the company intends to tap into the super-premium category (Rs 1500-2000 retail price category) and also introduce luxury brands such as Jaisalmer gin and Rampur single malt (Rs 6500-8000 retail price) in the domestic market. It is on the cusp of another breakthrough (post dominance of domestic vodka market volumes) with its focus on the bigger domestic P&A whisky segment by launching more brands in the segment.

- **Concerns:** Volatility in raw material prices along with uncertainty over taxation policies on alcohol across states especially in aftermath of Covid-19 are key concerns

Sonata Software

(M Cap Rs 7,717 cr)

- Sonata is one of the leading IT companies and company is engaged in IT consulting, product engineering services, application development, application management, managed testing, business intelligence, infrastructure management, packaged applications, and travel solutions to its customers across the globe including the US, Europe, Middle-East, Asia - Pacific, Australia and New Zealand.

- The Microsoft Dynamics modernisation program is a multi-year opportunity and the company could invest in R&D and sales capabilities to boost growth. Going forward, with improved traction, Microsoft dynamics and improvement in demand for its travel client in H2FY22E, we expect FY22E to witness robust growth in revenues. In addition, revival in non-essential retail, manufacturing verticals, upgrades in Microsoft Dynamics and improved traction in cloud could help to further boost revenues.

- Company is also building capability to provide the fast-growing social, mobility, analytics, and cloud (SMAC) solutions space. It operates a software distribution business for companies such as Microsoft, Oracle, and IBM. In cloud Infrastructure and management business it has got into partnership with AWS and Google, some of the leading Cloud platform providers. These long standing business relationships have brought in new customers and revenue.

- Sonata has achieved substantial and sustained growth in revenue and profit, revenue CAGR of 15.2% and 17.7% of PAT CAGR over the past seven years. Company is seeing improving demand in retail, distribution, independent software vendor segment and revival in commodity segment. We believe this will drive revenues in coming quarters.

- **Concerns:** INR appreciation against the USD, any large debt-funded acquisitions and any stake sale by promoter in near future could hit investor's sentiment towards the Company.

TeamLease Services

(Mcap Rs 6,181 cr)

- TeamLease Services is a prominent leader in the staffing industry, with a market share of 6%, it is a provider of human resources services to various industries. It offers staffing, payroll processing, recruitment, compliance and training services. A gradual movement from unorganised to organised staffing companies in India is expected to bode well for organised staffing players like TeamLease.

- Company has total headcount of ~2 lakhs which included 1.5 lakhs in general staffing division and ~45,000 NETAP (National Employability Through Apprenticeship Program) trainees. TeamLease has 3500+ active clients across various industries. Company will continue to focus on the large general staffing opportunity and does not intend to get into facility management or security services.

- General staffing business of TeamLease continues to grow over the past few years. It is at the cusp of witnessing higher growth on account of changing industry dynamics and higher penetration of flexi-staffing in India. The acquisitions have enabled it to foray into new verticals which have better margins compared to general staffing segment. Company enjoys about 90% renewal rate with its existing clients.

- Margin expansion would be led by growth, improved productivity, cost rationalisation and better revenue mix. Factors such as (1) formalisation of jobs, (2) vendor consolidation, (3) focus on collect & pay (4) cost-cutting by Enterprises, and (4) client diversification will benefit market leaders like Teamlease.

- We estimate 13% CAGR in revenue and 26% CAGR in net profit over FY20-23E. TeamLease's ability to grow at 15-20% organically, focus on driving productivity through automation, lower funding exposure, domestic focus, and high management pedigree leads to premium valuations vs. peers.

- **Concerns:** Any provisions due to delay/inability in recovery of Rs 174cr of investment (maturities between FY21 and FY27) made by the company's PF trust in DHFL and IL&FS is a concern. The staffing industry is a play on employment, which has a correlation with the economic conditions of any country. Any economic downturn in the country could impact the demand for staffing services as many companies reduce their use of temporary employees. Inability of the company to consistently improve margin would hinder growth in profitability.

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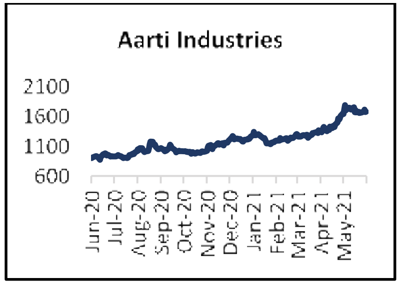
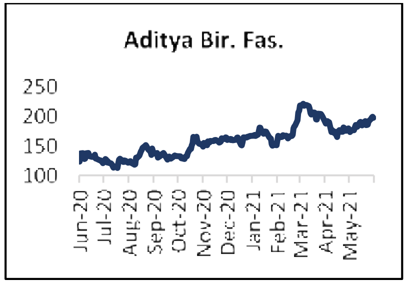
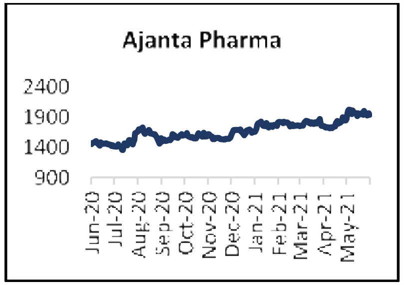
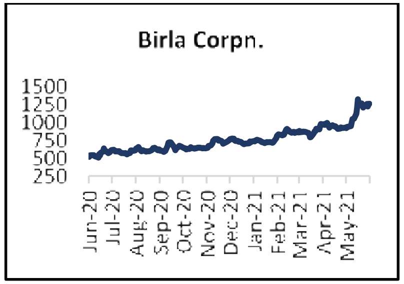
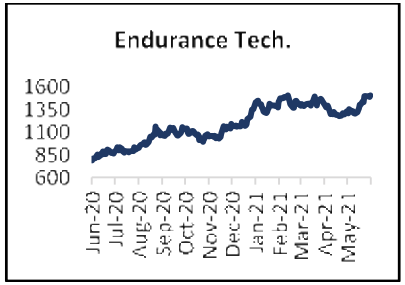
Price Chart

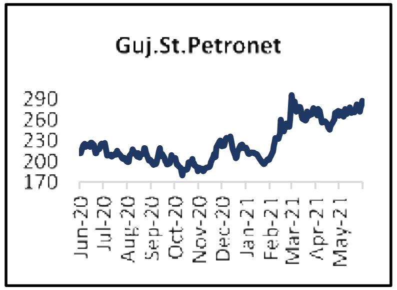


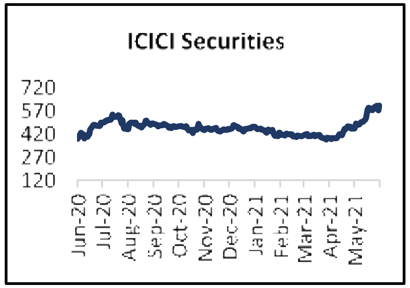


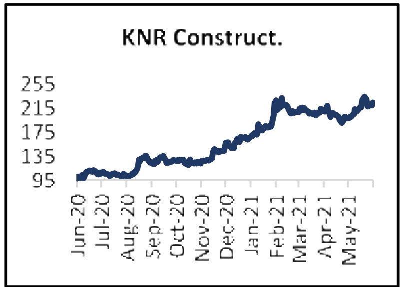


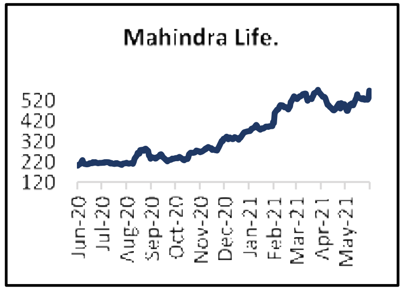


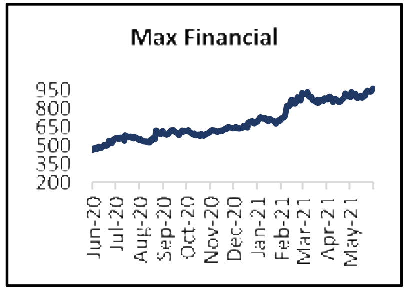


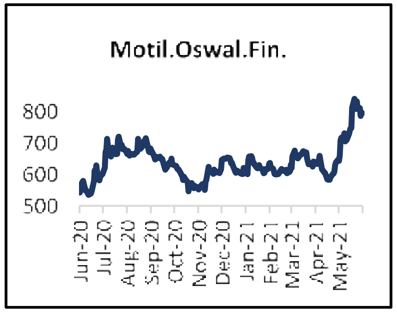


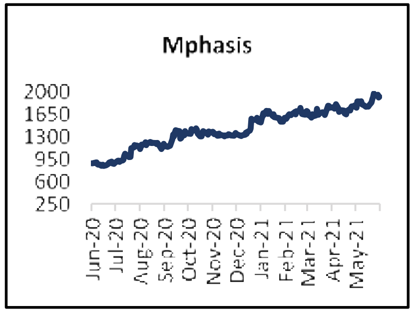


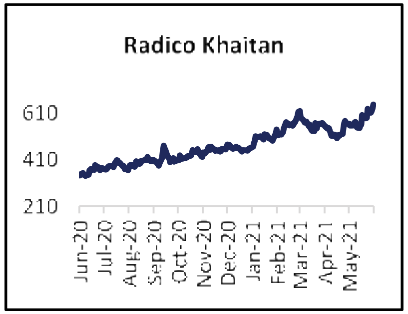


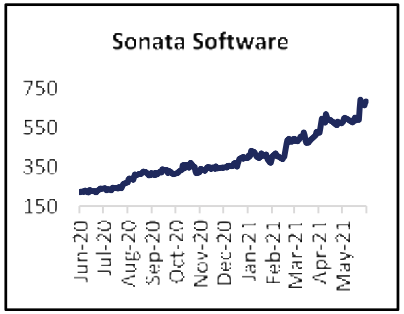


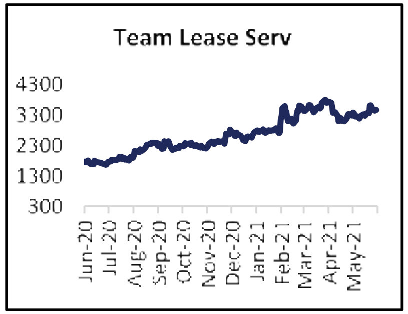












Stock	Analyst	Educational Qualification	Holding	Analyst	Educational Qualification	Holding
Aarti Industries	Debanjana Chatterjee	Msc in Economics, PGDM in Finance	No	Nilesh Ghuge	MMS	No
ABFRL (Aditya Birla Fashion)	Hemanshu Parmar	ACA	No	Jay Gandhi	MBA	No
Ajanta Pharma	Kushal Rughani	MBA	No	Bansi Desai	CFA	No
Birla Corpn.	Jimit Zaveri	MBA – Finance	No	Rajesh Ravi	MBA	No
Endurance Tech.	Atul Karwa	MMS Finance	No	Aditya Makharia	CA	No
Guj.St.Petronet	Abdul Karim	MBA	No	Harshad Katkar	MBA	No
ICICI Securities	Nisha Sankhala	MBA	No	Krishnan ASV	PGDM	No
KNR Construct.	Debanjana Chatterjee	Msc in Economics, PGDM in Finance	No	Parikshit Kandpal	CFA	No
Mahindra Lifespaces	Debanjana Chatterjee	Msc in Economics, PGDM in Finance	No	Parikshit Kandpal	CFA	Yes
Max Financial	Nisha Sankhala	MBA	No	Krishnan ASV	PGDM	No
Motilal Oswal Financial Services	Nisha Sankhala	MBA	No	Krishnan ASV	PGDM	No
Mphasis	Abdul Karim	MBA	No	Apurva Prasad	MBA	No
Radico Khaitan	Harsh Sheth	M Com	No	Naveen Trivedi	MBA	No
Sonata Software	Abdul Karim	MBA	Yes	Amit Chandra	MBA	No
Team Lease Serv.	Kushal Rughani	MBA	No	Amit Chandra	MBA	No

Disclosure:

We, Abdul Karim (MBA), Kushal Rughani (MBA), Atul Karwa (MMS Finance), Nisha Sankhala(MBA), Jimit Zaveri (MBA - Finance), Debanjana Chatterjee (Msc in Economics, PGDM in Finance), Hemanshu Parmar (ACA), Harsh Sheth (Mcom), Nilesh Ghuge (MMS), Jay Gandhi (MBA), Bansi Desai (CFA), Rajesh Ravi (MBA), Aditya Makharia (CA), Harshad Katkar (MBA), Krsihnan ASV (PGDM), Parikshit Kandpal (CFA), Apurva Prasad (MBA), Naveen Trivedi (MBA) an Amit Chandra (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 Sonata Software. Yes for Parikshit Kandpal for Mahindra Lifespacese.

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