Update on Diwali Picks

RNAM TARGET ACHIVED. KINDLY BOOK PROFIT

Stock	Market Cap (Rs Cr)	Initiation Price (Rs) 09-Oct-19	Target (Rs)	Upside Potential	Closing Price (Rs) 20-Nov-19	% Abs Returns
FINPIPE	7,223	582.9	770	32%	568.3	-3%
HDFCLIFE	1,17,105	580.5	718	24%	574.7	-1%
ICICIBANK	2,82,034	436.7	523	20%	495	13%
INDHOTEL	18,320	154.1	215	40%	152.2	-1%
ITC	3,03,599	247.1	310	25%	250.7	1%
RNAM (NIMF)	16,723	273.1	382	40%	382	40%
TATAELXSI	3,971	637.8	1050	65%	813.1	27%
Average Returns till Date						11.00%
Nifty		**11313.3**	--	--	**11999**	**6.06%**

Note: This report is in continuation of our following report dated, 9th October 2019.

IDBI capital

DIWALI PICKS 2019

Diwali Picks 2019

Stock	Market Cap (Rs Cr)	CMP (Rs)	Target (Rs)	Upside Potential
FINPIPE	7,223	582.9	770	32%
HDFCLIFE	1,17,105	580.5	718	24%
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Note: Holding period is 12 months

Finolex Industries Ltd.

FIL incorporated in 1981, is one of the largest PVC pipes and fittings manufacturers in the domestic market with a capacity of 3.7lac MT capacity. It is the 3rd largest PVC resin manufacturer with 2.72lac MT capacity. with a state-of-the-art facility in Pune ,Ratnagiri and Masar and having a captive power plant of 43MW. It offers a wide range of PVC pipes and fittings for diverse applications, largely agricultural and plumbing, through a pan-India network of over 850 exclusive dealers and 18,000 distributors and warehouses.

Key Triggers:

- **Focus on Housing & Plumbing Pipes**. Currently 30% of Pipe segment revenue comes from Housing PVC segment and to increase its footprint in housing , the Company plans to add capacity in Piping & fitting segment by 35% over next 3 years to cater growing demand. Total capacity to increase from370,000MT currently to 450,000MT.
- **Healthy growth in Agri Piping segment :** Finolex is an undisputed market leader in Agriculture pipes segment (70% of PVC pipes by volumes) with a very strong brand recall among farmers for its product despite low margins as compare to PVC/CPVC. Going ahead, we expect Agri pipes segment to grow at 9-10% CAGR led by increased thrust of government on irrigation through PMKSY ("Pradhan mantri krishi Sinchayee yojana").
- **Increasing Internal Consumption** :The company is transforming it's business model from B2B to B2C as it increases internal consumption of its PVC resin for its pipes & fittings division. The mix value added products to push up margins in pipe segment to low double digits.
- **Q2FY20 Results-Heavy monsoon marred quarterly performance:** Revenue was marginally up by 6% YoY to Rs5.7bn, whereas EBITDA declined by 34.4% to Rs0.8bn.Lower tax outgo supported PAT which reported healthy growth of 30.9%YoY to 0.9bn. PVC resin volume declined by 4.7%YoY on account of extended monsoons and PVC pipes and fittings volume witnessed growth of 6.1% YoY to 41,422MT/48,024MT respectively. In spite of weak Q2FY20 sales off take, the company has maintained its volume growth guidance of 12%-14% in FY20.
- **Valuation:** We forecast Net Sales/EBITDA/PAT to grow at a CAGR of 10.9%/9.6%/16% over FY19-21E.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY18	28,314	4,839	17.1	2,986	24.1	24.3	15.0	11.8	15.0
FY19	30,913	6,043	19.5	3,811	30.7	19.0	11.7	14.4	18.2
FY20E	34,413	6,573	19.1	4,583	37.0	15.8	10.1	17.2	19.9
FY21E	38,001	7,258	19.1	5,125	41.3	14.1	8.8	17.3	20.3

HDFC Life Insurance Co. Ltd.

HDFC Life is one of the leading players in the domestic life insurance sector with a strong presence across India offering a wide range of individual and group insurance solutions such as Protection, Pension, Savings, Investment, Annuity and Health. As on June 30, 2019, the company had 38 individual and 11 group products in its portfolio, along with 8 optional rider benefits.

Key Triggers:

- **Large Protection opportunity in India:** The protection market has expanded 3x in the last 4 years on the back of 1) Decline in premiums, 2) development of direct/online channels, and 3) Awareness through Ads and product innovations. We believe key factors to support the growth, are : 1) Formalization of income, 2) Urbanization, 3) Young age group, 4) Nuclear family and 5) lack of any government based social security.
- **Persistency continues to improve in Q2FY20:** Persistency continues to improve in Q2FY20 with 13th month persistency for H1FY20 standing at a sound 86% and 61st month persistency inching up to 53%. Persistency is on an improving trend for the company, which augurs well for operating variance on embedded value assumptions.
- **Strong brand image and better customer service drives the business:** HDFC Standard Life insurance has a strong parentage and a very reputed brand name which enables it to attract and gain new business from potential customers. Reputed brand and superior customer service has further enabled the company to create a strong positioning for itself and build a high customer recall.

Valuation: At current price, the stock is trading at a P/EV multiple of 4.5x/3.7x on FY20/FY21E.

Financial snapshot **(Rs mn)**

Year	Net Premium Earned	Operating Profit	New Business Margin (%)	PAT	EPS (Rs)	Embeded Value (Rs)	P/EV (x)	RoE (%)	RoA (%)
FY 16	1,61,787	19,675	19.9	17,763	8.9	102	5.7	29.0	1.12
FY 17	1,92,748	20,086	22.0	18,345	9.2	125	4.7	25.7	1.04
FY 18	2,33,710	11,249	23.2	11,072	5.5	152	3.8	25.8	1.08
FY 19	2,89,240	12,910	24.6	12,779	6.3	183	3.2	24.5	1.06

ICICI Bank Ltd.

ICICI Bank is a leading private sector bank in India, with consolidated assets in excess of Rs12.5tn. It currently has a network of 4,882 branches and 15,101 ATMs across India. The new management team under the leadership of Mr. Sandeep Bakhshi is set to deliver on key priorities with sharp focus on core operating profit growth and improvement in asset quality.

Key Triggers:

- **Slippages continue to decline further:** Total slippages for Q2FY20 was at Rs. 2,482cr. vs. Rs. 2,779cr in Q1FY20. Of the total corporate and SME slippages, Rs. 373 cr came from the BB and below portfolio. The telecom sector is ~1.8% of the total exposure, mainly towards the top players. Credit cost guidance was maintained at 120-130bps which also factor in NCLT recoveries, including one large steel account. In case, the resolution doesn't come through, credit cost could rise to ~180bps. G/NNPAs improved sequentially to 6.37/1.60% from 6.49/1.77%.

- **Increased focus towards granular loans:** Advances increased 14.7% YoY, supported by strong growth in domestic advances at 17.9% YoY. Strong growth is seen in personal loans (54.2%) and credit cards (32.9%) due to the bank's increased digital focus. On the deposits side, CASA improved marginally by 8.2% YoY, while term deposits were up 33.7%, pushing the total deposit growth rate to 20.8% YoY.

- **Likely improvement in NIMs:** Net interest margin gained 42bps to remain at 3.6% vs. 3.2% in Q12019, supported by a strong uptake in net interest income (up 26.8% YoY). With granular retail book driving lower costs and lower slippage run rate, we estimate NIM at 3.5% plus. Rising mix of high-yield unsecured segment within retail will support gradual increase in NIM.

Valuation: At current market price, ICICI Bank is trading at a P/B multiple of 2.3x/1.9x on FY20/FY21E.

Financial snapshot **(Rs mn)**

Year	Net Interest Income	Pre-provisioning Profit	NIM (%)	PAT	EPS (Rs)	Book Value (Rs)	P/BV (x)	RoE (%)	RoA (%)
FY16	2,24,473	1,93,833	3.7	97,262	15.2	140.29	3.2	11.4	1.42
FY17	2,27,057	2,02,804	3.5	98,010	15.3	156	2.9	10.3	1.3
FY18	2,39,773	2,16,753	3.1	67,774	10.6	163.59	2.8	6.6	0.82
FY19	2,76,445	2,05,878	3.3	33,633	5.2	168.1	2.7	3.2	0.36

Indian Hotels company Ltd.

Indian Hotel Company Limited (IHCL) incorporated in 1899, is South Asia's largest hospitality company. IHCL is present across the value chain through its 4 brands-Taj, SeleQtion, Vivanta and Ginger. The company currently has 151 hotels and 18,217 rooms, including international properties in US, UK and Middle East countries. Apart from hotels, it also provides ancillary services like restaurants, spas, catering services and clubs.

Key Triggers:

- **Capitalizing on the strong positioning in the domestic market :** IHCL has healthy 10% market share in branded hotel segment. We believe, with 65% industry occupancy, there are early signs of revival in hospitality industry, which will drive ARR growth. We believe IHCL would be a key beneficiary, considering its strong positioning in the domestic market and well planned expansion plan.
- **'Aspiration 2022' and a strategic deal with GIC-Right things done at right time :** With new management at the top, the company has set impeccable targets to achieve by 2022. The company plans to achieve 25% EBITDA margin by FY22E, bring down debt level to 2x EBITDA and open 15 new hotels every year, mostly through management contracts. Also, the company signed a strategic partnership with GIC for acquisition of premium hotel assets in India. This will help to expand into luxury segment, keeping balance sheet leaner.
- **Q2FY20-Helathy margin improvement continues :** Indian Hotels Company Ltd. (IHCL) reported healthy Q2FY20 results amid subdued demand, particularly in corporate segment. The company reported net sales of Rs10,074mn (+4.4%YoY). The growth over Q2FY19 was primarily driven by higher occupancy. EBITDA came in at Rs1,605mn (+61.7%YoY), while EBITDA margin improved by healthy 564bps YoY to 15.9%. Net profit stood at Rs713mn compared to a loss of Rs52mn in Q2FY19.

Valuation: IHCL has a 5 year and 3 year average EV/EBITDA of 20x and 19.2x respectively. We have done SOTP valuation of the stock and value ICHL operations at its 5 year average EV/EBITDA multiple and stake in Taj GVK and Oriental Hotel at current market capital (as per IHCL stake).

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY18	41,036	6,703	16.3	784	0.7	197.8	26.2	2.3	5.1
FY19	45,120	8,298	18.4	2,803	2.4	55.3	20.5	6.6	6.6
FY20E	49,121	10,209	20.8	4,184	4.0	37.2	18.5	10.5	8.3
FY21E	53,674	11,893	22.2	5,327	5.1	29.1	15.6	11.0	10.0

ITC Ltd.

Established in 1910, ITC is India's top cigarette maker but has diversified into a range of businesses. Its four primary interests are fast moving consumer goods (cigarettes and cigars, food, and personal care products); luxury hotels; paperboard, paper, and packaging; and agri business (leaf tobacco, commodities, spices). Its major brands include India Kings, Insignia, Navy Cut, Scissors, and Gold Flake (cigarettes); Wills Lifestyle; Kitchens of India and Bingo! (prepackaged food, candy); and Essenza Di Wills and Fiama (personal care).. British American Tobacco owns about a 30% stake in ITC

Key Triggers:

- **Moderate price hike to accelerate cigarette EBIT growth:** We note that despite an improvement in volume growth in FY19, ITC's quarterly earnings were below consensus expectations. This was due to escalation in tobacco cost which led to contraction in EBIT margins. We believe, ITC is now well poised to take moderate price hike and consequently support acceleration in EBIT.
- **FMCG-others poised to see better profitability as the business gains scale:** FMCG – other business has now gained scale and is competitive across many categories. ITC is now positioned amongst top 3 companies in categories like; biscuits, instant noodles and stationery products.
- **Valuation extremely favourable relative to domestic consumer peers:** ITC is currently trading at 45-50% discount relative to broader India consumer universe. With the expectation of acceleration in EBIT growth and in-expensive valuation
- **Steady Performance in challenging environment** : in 2QFY20 ITC reported a topline growth of 5.3% YoY to Rs 118.7 Bn. All segments other than cigarettes and Others-FMCG reported strong double digit growth, while Cigarette segment growing at 6% YoY and FMCG-others growing at 4%. EBITDA came in at Rs 45.6 Bn (+8.8% YoY) and EBITDA Margin improved by 110 bps YoY to 38.4% as other operating expenses and staff costs as % of revenue declined by 90 bps and 20 bps respectively. Net Profit stood at Rs 40.2 Bn (+36.2% YoY) largely due to lower tax rate.

Valuation: The stock is trading at 18x PE at FY21E Bloomberg estimates.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY16	3,91,921	1,60,062	40.84	9,492	7.74	28.25	16.12	25.95	39.96
FY17	4,27,766	1,72,222	40.26	10,471	8.47	33.11	19.61	24.27	36.02
FY18	4,34,489	1,83,399	42.21	11,485	9.24	27.71	16.87	24.07	35.39
FY19	4,83,527	2,06,061	42.62	12,824	10.27	28.88	17.45	23.8	34.39

Reliance Nippon Life Asset Manangement Ltd.

Reliance Nippon Life Asset Management Company is one of the largest AMCs in India with an MF AUM of Rs2.3tn as of Mar'19. The company's principal shareholders include Reliance Capital and Nippon Life Insurance . RNAM has a total AUM of Rs.4.3trn, which has grown at a 18% CAGR in last 10 years.

Key Triggers :

- **Under penetration provides opportunity to grow:** Of all the financial savings products, mutual funds are the most under-penetrated in India with an AUM/GDP of ~ 12%, against a global average of ~55%. There has been a rise in proportion of mutual funds as an investment option from 1.4% in FY12 to 2.9% in FY16. This is also reflected in double digit growth in AAUM over the last couple of years vis-à-vis fixed deposits which have grown in single digits.
- **Diversification of portfolio to sustain high growth:** In addition to its mutual-funds business, RNAM also oversees managed accounts - including portfolio management services, alternate investment funds and pension funds - and offshore funds and advisory mandates. As part of the managed-accounts business, it provides portfolio management services to HNIs and institutional investors, including the Employees' Provident Fund Organization (EPFO) and Coal Mines Provident Fund Organization (CMPFO).
- **Equity share increased to 43%**: On YoY basis, share of equity AUM has increased by 600 bps while share of debt funds has declined by 200 bps QoQ and 900 bps YoY to 29%. The increase in share of equity AUM has been a function of a relatively sharper decline in share of fixed income AUM which has declined 38% YoY/15% QoQ.

Valuation: At the current price, RNAM is trading at a P/E multiple of 39x/31x on FY20/FY21E.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	BV(Rs)	PE (x)	RoE(%)	RoA (%)
FY16	11,999	5,223	40.5	3,964	-	-	-	23.7	21.9
FY17	13,073	5,812	42.5	4,019	6.8	-	39.0	22.4	20.7
FY18	15,918	5,095	32.0	4,572	7.5	38.6	35.4	20.9	18.4
FY19	14,786	5,390	36.5	4,861	7.9	42.0	33.4	19.7	17.7

TATA ELXSI Ltd.

Tata Elxsi provides design and technology services for product engineering and solutions across industries including Broadcast, Communications and Automotive. It provides technology consulting, new product design, development, and testing services. Tata Elxsi also provides solutions and services for emerging technologies such as IoT (Internet of Things), Big Data Analytics, Cloud, Mobility, Virtual Reality and Artificial Intelligence.

Key Triggers :

- **Weakness in the Automobiles sector as impacted growth:**
  - Tata Elxsi's, automotive business contributes to 51% of its total revenue. Within automotive vertical, 60% of revenue comes from Europe, 30% from US, 10% from Japan, and Korea. JLR, being the largest client contributes to 14.5% of the total revenue of Tata Elxsi, it is amongst top preferred client and the only Indian supplier to JLR.
  - With the increasing share of electronics auto companies are focusing on software even more and allocating bigger part of R&D spend towards electronics which will be key trigger for driving the growth for Tata Elxsi.
- **Next wave of growth to be driven by Media & Communication and Healthcare**
  - Tata Elxsi has developed good presence in the Media & Communication space. FTH and 5G has opened up new opportunities for service providers like Tata Elxsi across both communications and media space.
  - OTT Platforms (over the Top), another space within media sector which has gained traction globally, is another growth avenue for Tata Elxsi. The company already has both domestic and global OTT players as its clients..
  - Tata Elxsi has also partnered with leading domestic DTH service provider to deliver an engaging digital platform for customers with an innovative hybrid DTH set-top-box – 'Internet TV' which brings together the best of online content and linear TV on one platform.
  - Tata elxsi's healthcare business is also witnessing a healthy growth through a differentiated solution offering.
- **Q2FY20 sees pickup in growth but EBIT margin remains soft**
  - Tata Elxsi's Q2FY20 revenue grew by 6.7% QoQ to Rs3,858 mn. However, EBIT margin declined by 101bps QoQ to 15% and vs. 25% in Q2FY19. The company is confident of significant improvement in EBIT margin through pick-up in revenue growth.

Valuation: Tata Elxsi has seen management change with Mr. Madhukar Dev, MD & CEO having retired and succeeded by Mr. Manoj Raghavan. At current market price, Tata Elxsi is trading at a PER of 19.9x/16.2x on FY20/FY21E which provides good risk reward. Thus we believe that the stock has strong re-rating potential as the growth improves in H2FY20/FY21. It also has a cash surplus of ~Rs5 bn.

Financial snapshot **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY16	10,752	2,477	23%	1,548	24.9	31.6	17.9	46%	53.2
FY17	12,373	2,966	24%	1,748	28.1	28.0	15.0	37%	39.9
FY18	13,863	3,460	25%	2,400	38.5	20.4	12.8	37%	39.1
FY19	15,969	4,150	26%	2,900	46.6	16.9	10.7	35%	

Disclosures and Analyst Information

Research Head
A. K. Prabhakar ak.prabhakar@idbicapital.com

IDBI Capital Markets & Securities Ltd. (A wholly owned subsidiary of IDBI Bank Ltd.)

Retail Research Desk
Regd. Office: 6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005.
Phones: (91-22) 4322 1212; Fax: (91-22) 2285 0785; Email: info@idbidirect.in
SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578
Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 4322 1212

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