Prudent Broking
Money through wisdom

2078
SAMVAT

TOP DIWALI PICKS

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TOP TECHNICAL PICKS

Blue Star	**Home First**	**Escorts**
CMP | 960	CMP | 705	CMP | 1569
Target | 1190	Target | 890	Target | 1980

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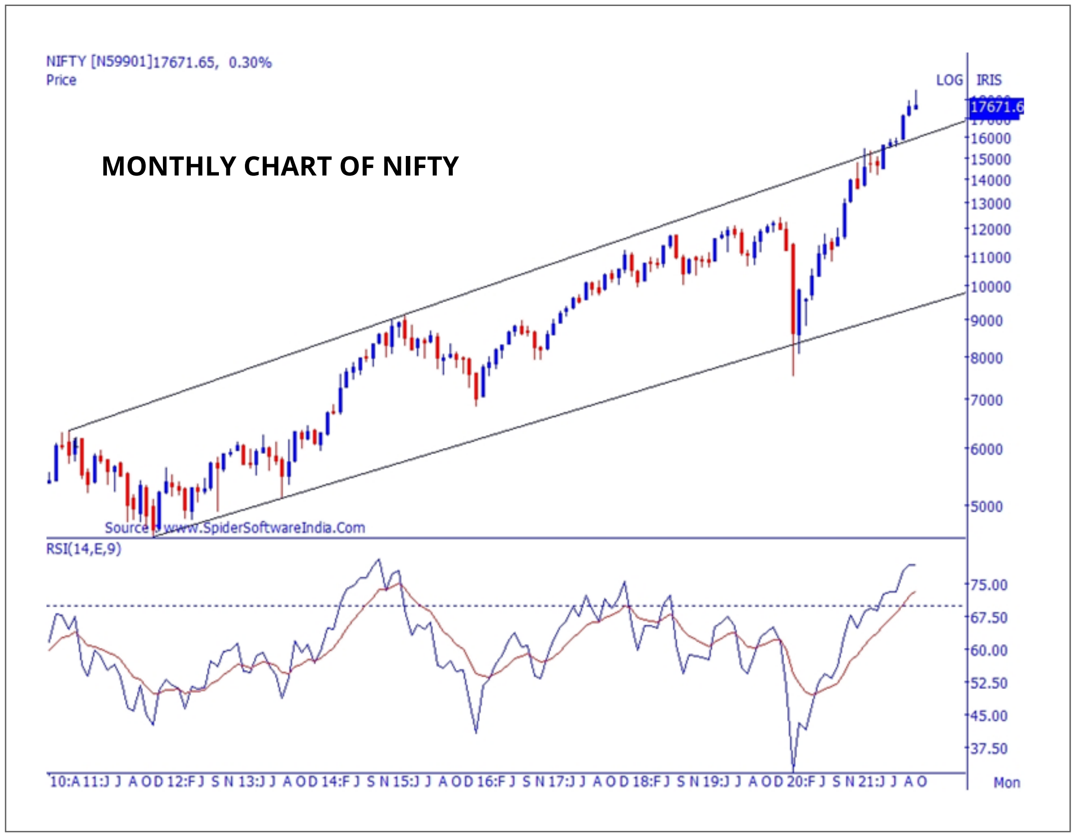
TOP FUNDEMENTAL PICKS

Company	CMP	Target
Axis Bank	742	950
Ambuja Cement	405	517
Cera Sanitaryware	5209	6495
PSP Projects	514	632
Mold-Tek Packaging	665	755
Bharat Electronics Ltd	207	250
TCS	3398	4000
GAIL	149	175

CONSOLIDATION WITHIN OVRALL UPTREND LIKELY

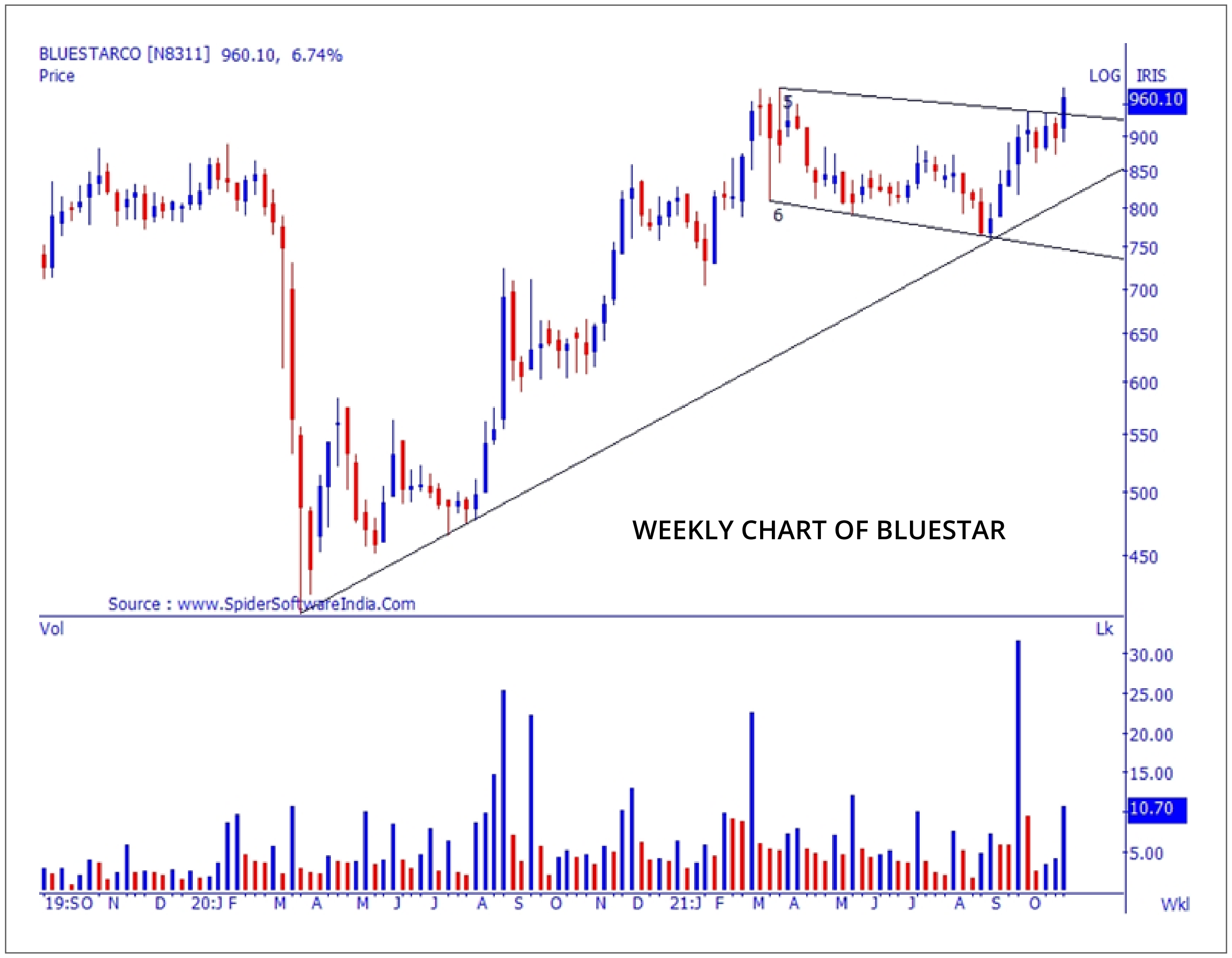


- Since last Diwali, Nifty has surged 38% when compared with Friday's close and 45.6% if one considers recent top of 18604.
- There is a "Negative Divergence" on weekly chart, which suggests that there is less strength in last leg of upmove and some sort of consolidation/ correction might be on the cards.
- However, there is no negative divergence on monthly chart which makes us believe that the benchmark will make newer highs after this small correction/consolidation phase.
- On the way down, 16000 is where an upward sloping trendline adjoining major tops on the monthly chart is placed. Also, you have got 200-DMA around 15800, which makes 16000-15800 important support zone.
- If this support zone gives way, 14151, the bottom made in April, would be the next downside level to eye.
- On the way up, once the recent top of 18604 is taken out, 19800 would be the upside level to eye. Above 19800, 20400-20600 would be the next target zone.

BLUE STAR

BLUE STAR CMP: 960 Target: 1190

- After making a top of 976 in March 2021, the stock corrected to 758 in September, where it found support at a trendline adjoining bottoms made in 2020.
- From there it has rebounded and has now broken out of a bullish flag formation.
- The stock should be accumulated between 960-890 zone for the target of 1190.
- Stop-loss should be placed at 840.



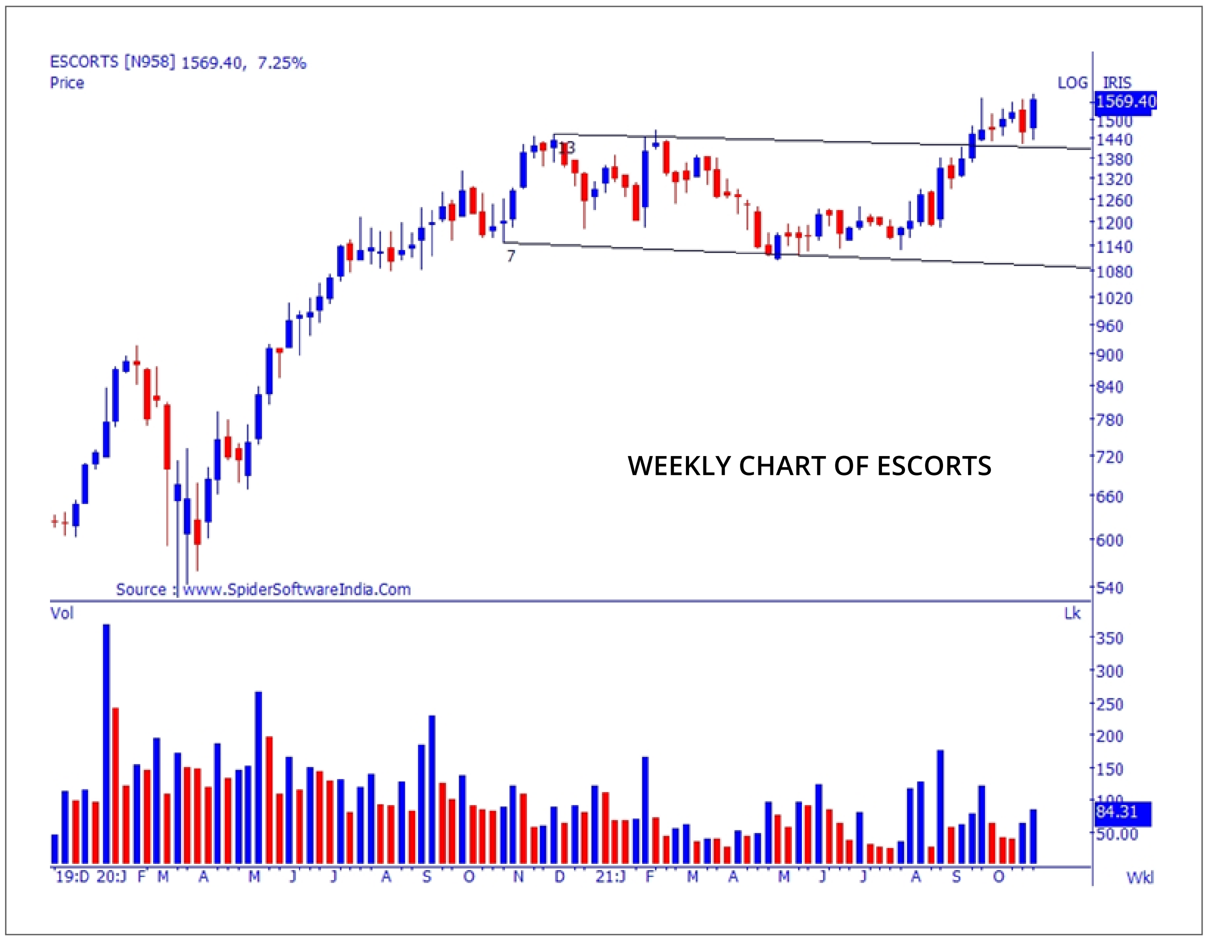
homefirst
We'll take you home

HOME FIRST CMP: 705 Target: 890

- The stock made a top of 640 after getting listed in February 2021 and then corrected to 440 in April.
- From there it rebounded and made multiple tops around 640.
- It finally broke out of 640 hurdle in October and is all set for the next leg of upmove.
- The stock should be accumulated in 706-620 zone for the target of 890.
- Stop-loss should be placed at 560 on weekly closing basis.

ESCORTS CMP: 1569 Target: 1980

- After making a top of 1452 in December 2020, the stock saw a correction/consolidation phase of nearly nine months.
- In September 2021, the stock broke out of this flag shaped consolidation formation and is set to move further higher in quarters to come.
- The stock should be accumulated in 1570-1425 range for the target of 1980.
- The stop-loss should be placed at 1280 on weekly closing basis.



AXIS BANK

Axis Bank CMP: 742 Target: 950

Since corona struck India in March 2020, Bank Nifty has underperformed Nifty by 23%. Banks are available at reasonable valuations when compared to historic levels **& our favorite amidst the pack is Axis Bank.**

Overview

- Axis is the third largest private sector bank in the country.
- Its market share in overall advances has increased from 3% in FY10 to 5.8% in FY21.
- Composition of loan book has shifted drastically towards retail loans from 35% in FY13 to 54% in FY21.
- Bank has a healthy capital adequacy ratio (CAR) of 20.04% giving it the firepower to grow its loan book once the economy recovers.

Valuations

Axis is trading at a price/adjusted book value of 2.4 times. Bigger banks such as HDFC Bank & ICICI Bank with a better return matrix trade at a price/adjusted book value of 4.1 times & 3.7 times respectively. We believe, return matrix are set to improve at Axis triggering a re-rating cycle. Given the tailwinds from recovering economy, well provisioned balance sheet & healthy capital adequacy, we give a thumps up to Axis!

Key Thesis

- Economic activities have picked up significantly since August 2021- A consensus commentary across all banks. The buoyant commentary was visible in Axis retail disbursements which grew by 54% YoY in its September quarter results.

  Further, banks are talking about acceleration in government spending & early signs of pickup in private capital expenditure cycle. This will boost demand for credit which will be good for banks & Axis going forward.

- Axis has one of the lowest restructured book amidst the private sector banks at 0.64% of advances implying that there won't be any negative surprises on asset quality book from this book. To add, its standard assets coverage ratio is best in class at 2.1% of advances implying that Axis have enough excess provisions to take care of any negative surprises emerging from future covid waves. Improving asset quality with a lower provisioning requirement to boost profitability going ahead.

Ambuja Cement CMP: 404 Target: 517

Overview

- Ambuja Cement is the fifth largest cement player in the country having a installed capacity of 31.5 Million Tones Per Annum (MTPA). If we combine the capacity of its subsidiary ACC, Ambuja becomes the second largest cement player.
- As per 2020, the company holds ~8% of the market share in the cement industry. North & North-West are its key geographies accounting for 57% of sales.
- Despite the pandemic, in the last twelve months revenues & profits have grown at a pace of 36% & 42% respectively.

Valuations

Ambuja Cement is available at a price/earnings of 23 times when compared to bigger players such as UltraTech & Shree Cements which are trading at multiples of 33 & 39 times respectively. The commercialization of its recent capacity expansion will enhance its cement production by a considerable 5 MTPA which will boost profitability. Given the tailwinds to industry & favorable valuations, Ambuja remains our top pick in cement space.

Key Thesis

- All the banks in the recently concluded results talked about pick-up in government spending & early signals of pick-up in the private capital expenditure cycle. This will benefit cement players in terms of higher demand.

  What's more rewarding is the pick-up in the residential real estate cycle on account of lower interest rates in tier 2 & 3 cities & sustenance of demand in rural areas for individual home building.
- Cement is the only commodity wherein prices have remained stagnant & haven't increased. This is about to change. Most of large players have taken two price hikes beginning October. This will ensure that margins pressures due to fuel inflation abates & cement players report good profitability.

CERA Cera Sanitaryware CMP: 5183 Target: 6495

Overview

- Cera Sanitaryware (CSL) is a dominant player in the sanitaryware & faucetware space. It is the second largest player in organized domestic sanitary-ware industry with 25% market share.
- In the recently concluded quarter, sanitaryware contributed 52% to revenues, faucetware at 34% & balance came from tiles vertical.
- CSL's revenue mix is dominated by retail segment contributing around 70% of sales. Retail was just at 50% a decade back. This shows the strong brand equity which Cera has developed over the years. The retail driven sales mix also helps the company enjoy a strong pricing power.
- Geographically, South India is the largest contributor in CSL's revenues while Tier-3 areas contributed around 53% of sales.

Valuations

The stock has corrected by 23% from its recent highs of Rs 6774. The stock is available at a price/earnings ratio of 53 times. The earnings growth is going to be rock solid for Cera which will enable it to continue trading at expensive valuations. If anyone want's to buy a quality stock in building material space, Cera is a good bet!

Key Thesis

- Cera Sanitaryware is a proxy for playing the pick-up in the real estate cycle. Secondary sales are also leading to upgradations & renovations which are boosting the demand for its products. In the past twelve months, its revenues and profits have grown at a healthy pace of 27% & 44% respectively.
- Further, bigger players such as Jaguar used to import sanitaryware from China. On account of rise in freight rates for single container from USD 600 to almost USD 10,000, it has become unviable to import products from China. This has led to Cera grabbing market share from these big players.
- Cera has a cash balance of Rs 485 crore on its book approximating to a third of its balance sheet size providing enough cushion for organic or inorganic expansion.

PSP Projects Ltd.

PSP Projects | CMP: 514 | Target: 632

Overview

- PSP Projects Limited is a construction company. It is the second fastest growing construction ompany in small category in India.
- In the past five years revenues & profits have compounded at a CAGR of 21% & 29% respectively. The average three year return on equity (RoE) for the company is at healthy 24.1%.
- PSP is know in the industry for its fast pace of execution. Some of the marquee projects as executed by PSP includes the like of Zydus Hospital, Sabarmati Riverfront, Surat Diamond Bourse, Gujarat Vidhasabha, IIM Ahmedabad, Kashi Vishwanath Dham, Brigade International Financial Center at Gift Center & many more.

Our View

PSP Projects is available at a price/earnings ratio of 14 times which is considerably cheap for the order book it boasts of & the tailwinds to the industry. If you are looking to take exposure to a construction company, PSP Projects is our best bet!

Key Thesis

- The company has strong order book of Rs 3500 crore & is equivalent to 2.9 times FY21 revenues. Even in these tough times especially for a construction player, company has maintained a strong balance sheet with minimal debt on its book. The debt/equity stands at 0.16 times. The quality of project selection & faster execution capabilities has enabled PSP to maintain a good clean balance sheet.
- With the recent events in China, the thesis of MNCs diversifying their supply chain away from China has only strengthened. And India will be one of the biggest beneficiaries of this shift. We believe the cycle of private capex which has remained subdued since many years to revive going ahead. This will trigger a fresh set of investments which will benefit a construction player like PSP Projects.

MOLD-TEK Packaging Limited

Mold-Tek Packaging CMP: 665 Target: 755

Overview

- The company is the pioneer in bringing in-mould labeling (IML) technology in India. This technology not only helps in better presentation of the product but also helps to enhance brand image & brand recall.
- The company derives 53% of its revenues from paints, 22% from lubricant industry & 23% comes from the fast moving consumer goods (FMCG) segment. The FMCG segment holds great growth potential for the company going ahead. And the margins too in the FMCG segment are significantly higher as compared to paint & lubricants segment.

Key Thesis

- Company's biggest client is Asian Paints. In the recently concluded result season, Asian Paints reported a very robust volume growth of 34%. Paint industry volumes are set to grow at robust pace on account of pick-up in residential real estate & re-painting demand. One of thekey beneficiaries for the same will be Mold-Tek Packaging.
- FSSAI- the **food regulator of India recently showed IML to be the best choice for packaging products such as milk, milk products, fruit products, edible oils & vegetables** and may come out with stringent guidelines to stop the hazardous usage of inks in printing which can contaminate the products and instead use the IML packaging in these products.
- Further, the competition in IML in FMCG space is almost negligible & company has been successful in pitching its IML Technology in the ice-cream segment. Biggies such as Hindustan Unilever, Vadilal & many more have assigned Mold-tek to do the packaging for them.
- The **company has pricing power & historically it has been able to pass on any increase in raw material costs to its clients.** It happens with a lag of one-month & not instantly, but the re-pricing does take place.
- Another lucrative opportunity is in the pumps space used is shampoos & beuaty and wellness products. In 1QFY22, pumps accounted for 2.6% of turnover. This can go to around 9-10% of overall revenues in FY23. This is a huge opportunity for the company and Rs 40-50 crore of revenues can come from this segment from FY23 & onwards

Our View

- The stock is available at a price/earnings of 32 times. The return on capital employed (RoCE) stands at a healthy 22%. The dividend yield on the stock is 1%. **Given the multiple triggers ahead, this is one of the stock to indirectly play the consumption boom in the country!**

BHARAT ELECTRONICS
QUALITY. TECHNOLOGY. INNOVATION.

Bharat Electronics Ltd CMP: 206 Target: 250

Overview

- BEL is an Indian state-owned aerospace and defence company with government holding 51.14% stake in the company.
- More than 80% of the turnover comes from the defence segment. BEL spends 7.5% of turnover on R&D, one of the highest amongst defence PSUs.
- In the last twelve months, revenues & profitability have grown at a pace of 12% & 33% respectively.
- The company is almost debt free & return on capital employed was at a healthy 28% as of FY21.

Our View

- The stock is trading at a price/earnings multiple of 22 times. Government's thrust on infrastructure development and rising indigenization of products through Aatmanirbhar Bharat initiative's is expected to benefit companies like BEL. It is our favourite bet in the defence space!

Thesis

- Management remains quite optimistic on upcoming opportunities in defense as well as non-defense space as government focus on indigenization, spending and initiative's such as PLI schemes. In order to capitalize on huge opportunities and mitigate risk of defense, BEL is diversifying into non-defence sectors.

  Non-defence contributes 10% of order book and 7% of revenues as of now. The revenue contribution is expected to increase to 20-25% over the next two to three years. This will significantly help de-risk the business model. BEL is diversifying into different business verticals such as Medical Electronics, Energy Storage, Unmanned System, Space Electronics and Systems, Software Service, etc

- With the current order book equivalent to almost 4 times trailing twelve months revenues & strong order flow guidance of Rs 15000-17000 crores provides strong revenue growth visibility going forward.

TATA CONSULTANCY SERVICES

TCS | **CMP: 3398** | **Target: 4000**

Overview

- Tata Consultancy Services is the flagship company and a part of Tata group. TCS offers a consulting-led, cognitive powered, integrated portfolio of business, technology and engineering services and solutions.
- North America accounts for 51% of revenues, Europe accounts for 32% of revenues, Rest of the World accounts for 12% of revenues and the balance 5% comes from India
- TCS has generated free cash flow to the tune of Rs 2 trillion in last ten years. Of which, 86% were distributed back to shareholders by way of dividends & buybacks. Hence, shareholders will be rewarded regularly through dividend & buyback. The dividend yield on the stock is 1.1%.

Our View

- TCS is trading at a price/earnings of 38 times. The long term historic price/earnings ratio since listing for TCS is 23 times. Hence, the price/earnings ratio is far higher than the historic average. But we believe valuations will continue to remain expensive as it expands its revenues in low double digits in the next two to three years.
- A lot of FMCG companies are trading at a price/earnings of 60-70 times & growing their topline in low single digits. From a valuation angle, it makes sense to shift a part of exposure from FMCG to TCS given the growth trajectory which lies ahead for IT companies.

Thesis

- The pandemic has triggered a multi-year technology cycle. Enterprises across the world are increasing their technology spends and adapting to cloud in order to make their business agile. The first phase of spends will be triggered by migrating the data to these public clouds also known as hyper-scalers. TCS will help enterprises to migrate this data to public clouds as they have extensive knowledge in this field.
- The second phase of spends will be unleashed by leveraging the capabilities or technology stacks of these hyperscalers. Major hyperscaler providers have been steadily building out their technology stacks over the last few years to include richer native choices around databases, data warehouses, applications and even cutting-edge tools like machine vision, conversational systems, Artificial Intelligence, Machine Learning and Internet of Things (IOT).
- The cycle will last for the next two to three years which will benefit the IT players.

GAIL | CMP: 148 | Target: 175

Overview

- GAIL is an integrated natural gas company in India. It owns over 11,500 km of natural gas pipelines garnering a 70% share in natural gas transmission in the country.
- GoI's focus on increasing the share of natural gas in the overall energy mix of the country to 15.0% from 6.5% currently has resulted in the government taking several steps to increase natural gas consumption.
- In the latest reported results, a third of its earnings before interest & tax (EBIT) is contributed by transmission services. Another third is contributed by natural gas marketing and the balance is contributed by petrochemicals & LPG.
- The company holds a sizable stake in city gas distribution companies such as Mahanagar Gas & Indraprastha Gas.

Thesis

- Its gas transmission vertical is poised to grow in high single digit CAGR in the next three years. This will be led by increased demand from city gas distribution (CGD) players coupled with new refineries & fertilizers plants which are going to get commissioned within this time frame.

  GAIL is also looking to monetize two of its transmission lines through Infrastructure Investment Trust (InvIT) route just like PowerGrid did. This will lead to value unlocking in assets & the monetized amount can help fund capital expenditure for future growth or can be returned back to shareholders in the form of special dividends or buybacks.
- High crude prices will aid realization and margins of its gas marketing segment. In the gas marketing or gas trading segment, Gail imports LNG from the US & sells it in the domestic & international market. Gail imports LNG from the US at the Henry Hub natural gas price.
- Whereas, at the other hand GAIL sells non-contracted version of LNG at spot prices. The spot prices of LNG have seen a sharp upward movement. The spreads at current levels are very healthy. If crude prices hold strong, spot prices will increase which will lead to this vertical reporting healthy profitability.
- Petrochemical realizations are expected to be strong in the backdrop of high crude prices. The end prices of petrochemical vertical are dependent on crude prices. If crude prices rises, petrochemical realizations improve. If global recovery remains buoyant and global supplies stays stable, we can see a rise in crude prices. This will aid the petrochemical realization & margins.

GAIL | **CMP: 148** | **Target: 175**

Our View

- GAIL has grown its profitability at a compounded annual growth rate (CAGR) of 8% in the preceding three years, whereas the stock price has de-grown at a CAGR of 7-% during the same period.
- Since listing in 2000, GAIL has traded at an average price/book value of 1.8x. Currently, the stock is available at a discount to its long term historic average valuation at 1.1x. The dividend yield for GAIL is 3.4%. All these factors indicate that GAIL looks attractively priced from a longer term perspective. If one's view on crude is bullish then this is a must have stock in the portfolio!
