Diwali Picks 2020

12th November 2020

WAY2WEALTH
Research Desk

Index

WAY2WEALTH Research Desk

SAMVAT 2077 - Way2Wealth's Eleven

Sr	Diwali Picks 2020	CMP (₹)	Buying Range (₹)	Target (₹)	Stop Loss (₹)
1	AIA Engineering Ltd	1730.00	1720 / 1670	2000	1550
2	APL Apollo Tubes Ltd. (APTL)	3268.65	3050 / 2950	4100	2450
3	Apollo Tyres Ltd	161.45	150 / 140	220 / 250	99
4	Bharat Electronics Ltd (BEL)	95.85	95 / 85	135 / 165	65
5	Heidelberg Cement Ltd.	190.00	181 / 174	235	150
6	Hindustan Petroleum Corporation Ltd. (HPCL)	214.60	200 / 180	310	140
7	Hindustan Zinc Ltd. (HZL)	224.70	205 / 190	280	160
8	JB Chemicals and Pharmaceuticals Ltd.	973.00	930 / 880	1175	795
9	Mahindra & Mahindra Ltd	633.30	600 / 570	800	480
10	Radico Khaitan Ltd	462.00	450 / 435	570	380
11	**Mutual Fund Recommendation :** SBI Banking & Financial Services Fund				

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Dear Investor,

Since the start of 2020, host of domestic and global factors have kept the headline indices volatile. Indian Economy was looking towards recovery from Q1FY21 but the pandemic like COVID-19 which comes once in a century dented the plans of policy makers and others. Due to this pandemic market had crashed in Mar/Apr2020 but the position has improved in the last few months and the indices have reached near the peak of this year. Last year's Samvat 2076 belonged to companies in the mid-small caps space but with signs of revival in Q2FY21, Samvat 2077 would likely belong to economy driven sectors which would be able to suffice the pent up demand. Even though the economy is likely to be in recession in FY21 as forecasted by economists, it looks like the revival would be faster than expected provided we do not have a second wave of COVID-19 on a large scale. Good news is that the most of the health specialists in India have stated that the country is most likely to escape the second wave due to the current drop in cases to below 50k-levels per day.

Barring sectors like Travel and Leisure activities like movies, the result of the most of the companies showed signs of recovery which were further strengthened by the monthly economic indicators. Most businesses have reached pre-COVID levels, many others are still at 80-90% of pre-COVID levels. During lockdown times many people have realised the importance of hygiene and technology, with most of us working from home which required access to WiFi connections, paperless non-contact transactions etc. Thus, the pandemic has made people to seriously shift towards digital economy which is likely to gain further pace in coming years. To prove this point, as we all know one of our premium blue chip company was able to raise funds even during the peak pandemic times, this shows how the world sees the future of technology going ahead.

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When most advanced economies doled out massive fiscal stimulus, India remained prudent which reflected in the GDP of Jun'20 quarter. Now as most European nations are going for a month long lockdown, Indian economy is moving towards normalcy and is likely to come stronger quarter on quarter with growth rates for FY22 likely to be better than FY18 & FY19.

2020 US presidential election was a close contest with Mr. Joe Biden of the Democratic party finally as the President-elect. Irrespective of the Republican/Democratic party in power, the pro-India stance is to continue, enabling the market to run its own course. In the likelihood of divided Congress, the focus will turn towards the Federal Reserve for further stimulus to revive the economy. There are also few concerns around the fiscal deficit, jobs and the other economic data, but a market rally hardly ever expects to have all the ticks marked in its favour. The ECB is likely to come in action once again to prevent the Euro zone from the second dip. Non availability of the vaccine (looks like 6 months away) during the winter time as the rise in cases are likely to peak, this would further accentuate the fiscal and monetary support coming from governments and central banks.

As most people would like 2020 to end faster with a positive note on health and economic ground, so apart from the normal defensive and large-cap stocks, we suggest below growth enabler stocks. This is based on unscathed rural market, opportunities to gain market share both domestically and globally as companies are adopting 'China+One' strategy. **We suggest to invest in below stocks to build a portfolio which can withstand the prevailing volatility as it is likely to continue, considering the indices are at an all time high levels.**

Happy Investing. Happy Diwali !!!

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AIA Engineering Ltd

CMP: ₹1730.00/-

- **AIA Engineering Ltd** specializes in high chromium wear corrosion and abrasion resistant parts (grinding media & mill linings) used in cement, mining and thermal power generation industries. Outside India the company sells under the brand name Vega. AIA currently has current capacity to manufacture 340,000 MT of high chromium wear parts and pursuing capacity expansion program to reach 440,000 MT. Mining market continues to be growth engine as a large opportunity for conversion of conventional forged grinding media to high chrome grinding media. Management is extremely bullish on medium to long term business prospects from Gold & Copper mining. Annual consumption of grinding media for the mining segment is estimated at 2.5mn tons with less than 20% of the same converted to high chrome. The company is increasing its wallet share with Mill linings which has ~0.3mn tons global market. It is focusing on effective penetration by a) significant reduction in the grinding media cost through use of high chrome media in place of forged media resulting in much lower wear rates, b) Reduction of costly consumables in the down process by using high chrome grinding media & thereby improving recoveries, c) optimization via unique high chrome mill lining solutions resulting into higher throughputs & cost reduction.
- The company had production volume growth of 30% YoY to 76,936 MT in a challenging Q2FY21. Mining/Non-mining volume growth at 15.8%/4.6% YoY respectively. Consolidated sales grew 6.6% YoY to ₹7.4bn. Working capital came down to ₹9.7bn from Rs12bn in Q4FY20. It has ramped up its operations as demand continues to improve at decent rate across all geographies. Mgmt. seems confident of achieving volume of ~130k MT in 2HFY21 (Targeted 250k MT for FY21)
- At CMP of ₹1730 the stock trades at an FY21E and FY22E P/E of 30.3x and 24.9x respectively. The company did not see a single customer failing to pay or running in an overdue situation and also made its payments to vendors on time in 1HFY21. Brazil & South Africa markets are also opening up gradually like India. Gold plants are running at full throttle, copper demand is largely linked to electronics customers consumption which is robust. Iron ore is linked to infrastructure, and sees reasonable encouraging signals from its customers on that front.

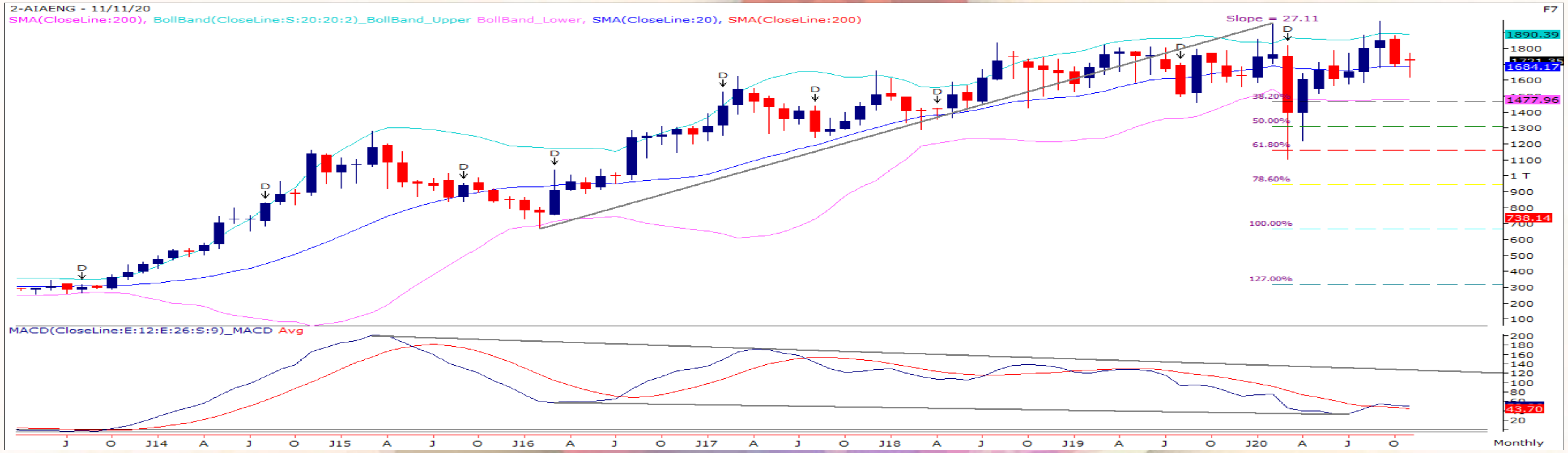
	REVENUE (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	P/E (x)	RoE (%)
FY21E	27,586	6,465	23.1	5,348	30.3	13.7
FY22E	33,561	7,912	23.4	6,526	24.9	15.4

Source: *Bloomberg Estimates*

Diwali Picks 2020

AIA Engineering Ltd

CMP: ₹1730.00/-



AIA Engineering Monthly Chart

Source: Falcon 7

Buying Range 1720/1670

Target: 2000

Stop Loss: 1550

- AIA Engineering from Midcap space is again one of the stocks which is trading near to its life time high. Nevertheless as compared to other trending stocks, this stock has still not given clear breakout and has been buying more time from last few months.
- The above monthly chart shows that since the year of 2009; stock has been trading in rising trend wherein higher top higher bottom structure is intact. In the month of March, 2020 sharp fall was witnessed which broke the upward sloping trend line support on a temporary basis however on a closing basis stock managed to hold the same. Also, stock took support around previous swing area of 1280-1250 zone on closing basis. Post that it has managed to move higher but zone of 1900-2000 is acting as strong hurdles. To understand the volatility, we have applied Bollinger Bands which has become flat and suggests no trending move. Hence lower volatility hints towards consolidation zone wherein one can use lower bands as a entry point for the long positions.
- **In short, AIA Engineering is in consolidation mode but long term trend is expected to be on positive side based on the above technical parameters. Use any dips towards 1720-1670 as buying zone with 1550 as stop loss and target of 2000 can be expected where the upper band trend line resistance is placed.**

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CMP: ₹3268.65/-

APL Apollo Tubes Ltd. (APTL)

APL Apollo Tubes Ltd (APTL) is the largest producer of Electric Resistance Welded (ERW) Steel Pipes in India, with a capacity to produce 2.5 Million tonnes per annum. Steel Pipes has its applications across varied sectors and industries like Infrastructure Projects, Construction activities, Automobiles, Energy Sector, Agriculture, etc.

- **Leading Building Material Structural Steel Brand –** APTL has market share of 50% as on Q2FY21 which is reflected in its strong demand for its products which clocked volume growth of 32% YoY.
- **Latest Technology –** APTL has been at the forefront in using latest technology like DFT and IGL which enables company to save on direct material wastage and reduction in idle time. It has also added advantages like durability and strength, reduced weight and corrosion protection.
- **Lowest Cost Producer & Lead Time to Distributor –** Considering huge scale of operations APTL has good bargaining power. It also has vast distribution network (800 distributors, 50,000 retailers , 2 lacs fabricators). Its nearest competitor has less than half of APTL distributors which enables it to become dealer choice as well as innovative and large product range and pan India warehousing depot has reduced delivery time to distributor.
- **Tricoat –** The acquisitions of Tricoat has enabled the company to introduce high end and margin accretive value added products in the market.
- **APTL has seen consistent revenue growth of ~21% on the back of sales volume growth of ~22% (5 Yr CAGR). It has been able to grow in other key financial parameters like increasing OCF, reducing debt, maintaining return ratios of 20%+. APTL being a market leader will be well positioned to capitalize on infrastructture and construction opportunities. We have a Positive view on this stock.**

Particulars	Sales (₹Cr)	EBITDA(₹ Cr)	PAT (₹ Cr)	Implied P/E (x)
FY21E	7,900	550	275	~30
FY22E	9,600	675	400	~20

Source: *Bloomberg Estimates*

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APL Apollo Tubes Ltd. (APTL)

CMP: ₹3268.65/-

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Buying Range
3050 / 2950

Target:
4100

Stop Loss:
2450

APL Apollo Tubes Monthly chart

Source: Falcon 7

- Similar to many other stocks, APL Apollo Tubes started its correction in the beginning of 2018 by making top at 2575 levels and corrected towards 1030 level by March 2020. Subsequently, stock rose from 1030 to 3290 in last 8 months which is the return of more than 3 times.
- The above monthly chart shows that prices completed Triangle pattern near 1030 level and since then sharp rise has continued. During the trending moves, it has tendency to find the support of 5 months EMA as shown in red colour. Hence any dips towards this can be utilized as a buying opportunity. The RSI values between 80-85 on monthly chart has become normal for this stock which suggests still more steam is left here.
- For upside projections we have used trend line connecting the earlier highs as well as well as Fibonacci price projection of prior entire up move witnessed in the year of 2012 to 2018. As per this, immediate target can be expected near 3511 and then 4092 level where 1.236 times of the prior rise is placed. **In short, upside trend remains strong for this stock. Use any retracement in the range of 3050 - 2950 as a buying entry opportunity with 2450 as stop loss and target towards 4100 can be expected.**

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Apollo Tyres Ltd

CMP: ₹161.45/-

- **Apollo Tyres** is the second largest tyre manufacturer in India having healthy market share in both the commercial vehicle and passenger vehicle space. Indian business contributes about 70% to revenue, while European business contributes about 30%. With its recent entry into the 2W space, it has become a full-fledged tyre player. The OEM segment contributes about 27% to revenue, while the replacement segment accounts for the balance 73%.
- Q2FY21 saw significant improvement driven by Indian business. Revenue stood at ₹42.8bn was driven by higher than expected cost control. During 1HFY21, consolidated net debt declined from ₹60bn to ₹46bn. In ***India,*** the replacement market for all segments witnessed double-digit YoY growth with Truck and Bus (TB)/ Passenger vehicle (PV) segment growing at 18%/11%. Truck and Bus Radial Tyre (TBR)/Passenger Car Radial tyre (PCR) posted record volumes during Sep'20 and continues to remain robust in Oct'20. Demand in TBR segment is driven by higher freight rates, resumption of mining activity and increased momentum in road/infrastructure spends. Demand in PV segment is led by shift towards personal mobility and import restriction on tyres .In ***Europe,*** Q2FY21 revenue at EU operations remained flat YoY at € 129mn. EBITDA margin stood at 9% (+230bps YoY) driven by favourable product mix. Tyre pricing in the European market has bottomed out and there could be a price increase going forward. The company's focus on all season tyres is expected to support volumes.. During 1HFY21, the company added 200 dealers across EU. 1HFY21 performance was driven by India business. In Q2FY21, domestic replacement demand witnessed double-digit YoY growth across segments while OEM demand started to pick pace towards the end of the quarter. The momentum is expected to continue through 2HFY21. Current capacity utilisation of India plants stands at 85-90%.Capex peaked during FY16-19 and the company has guided for significant reduction in capex intensity from FY23. Higher replacement exposure (75%), PCR capacity expansion and ramp-up of the Hungary plant augur well for the company driven by volume recovery and margin expansion. **At CMP of ₹161.45 the stock trades at an FY21E and FY22E P/E of 28.1x and 12.8x respectively.**

	REVENUE (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	P/E (x)	RoE (%)
FY21E	169,780	21,542	12.6	3,742	28.1	3.6
FY22E	183,645	25,324	13.7	8,214	12.8	7.3

Source: *Bloomberg Estimates*

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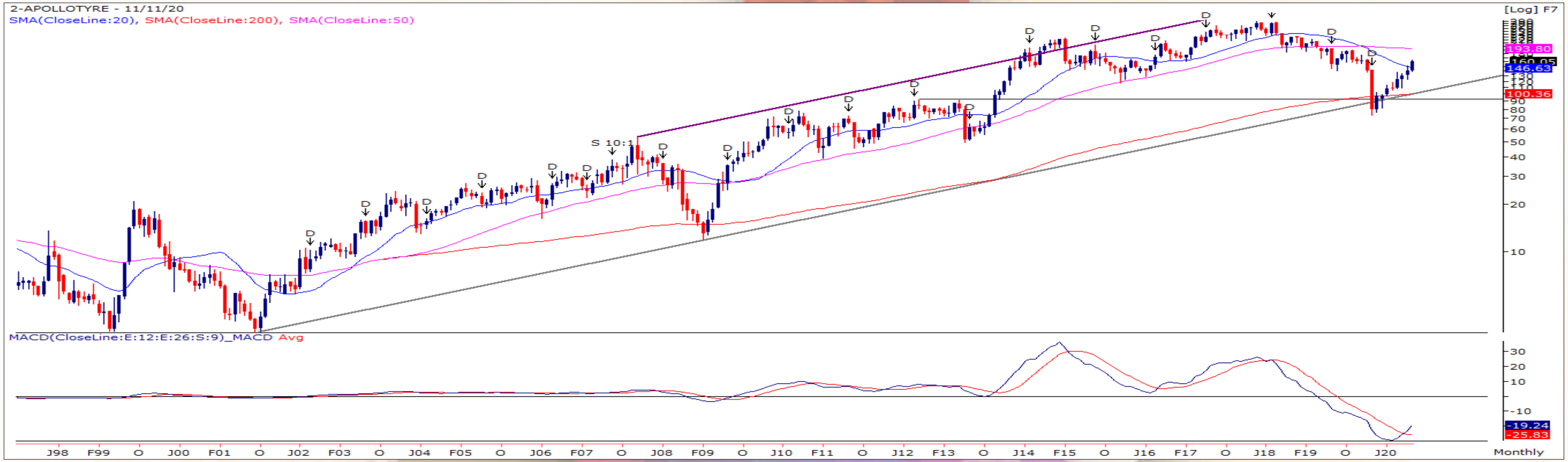
Apollo Tyres Ltd

CMP: ₹161.45/-



Apollo Tyre Monthly log Chart

Source: Falcon 7

Buying Range 150/140

Target: 220/250

Stop Loss: 99

- Among Auto ancillary stocks, Apollo Tyres is one such stock which formed ‘Panic low’ in the month of March 2020 at 73.40 levels and since then stock has managed to show decent recovery towards 165.00 levels. This is a gain of almost 1.24 times from its March, 2020 lows. One higher degree chart, this rise is suggesting that important low has been formed and we can witness good gains in this stock in coming months or years.
- The above is the monthly Log scale chart of Apollo Tyre which shows that correction that started from mid of 2018 from 307.25 levels completed near 73.40 level in the month of March 2020. Post that it took support near its ‘Rising Channel’ formation which is intact since the year of 2002. We can see that major lows has been formed at this channel and thus recent low of 73.40 seems to be a medium to long term bottom. In the past, whenever MACD has given positive crossover, decent gains were witnessed in this stock. Also, stock has broken the downward moving trend line resistance since 2018 and now it is on verge of crossing 20 months of EMA which has been working as trend following technique.
- **In short, based on above parameters we expect that more upside is possible for this stock in coming times. Use any dips towards 150/140 as buying opportunity with target of 220/250 levels and stop loss of 99 levels.**

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CMP: ₹95.85/-

Bharat Electronics Ltd

- **Bharat Electronics Limited** is an Indian state-owned aerospace and defence company with about nine factories and several regional offices in India. It is owned by the Indian Government and primarily manufactures advanced electronic products for the Indian Armed Forces.
- Regardless of pandemic the company reported decent order inflows in 1HFY21 of ₹49.8bn which includes Ventilators, Electronic warfare system, Advance To Long Range Torpedo Defense Systems and Smart cities. Revenues came in at ₹48.6bn led by strong execution in Ventilators, part supply of Surface to Air Missile System, Spares & Services, Smart City, Intelligence gathering system, Thermal Imaging Cameras and Radars repairs
- Akash Missiles order (₹53.6bn) bagged during Q2FY20 is expected to commence by the end of FY21, which would be in addition to the execution of LRSAM order. Order book remains robust at ₹521.4bn, of which ~90% belongs to defense related products apart from homeland and smart city, while exports worth US$ 198.97mn provides revenue visibility for next 2-3 years
- Electronics Warfare Systems, Avionics Package for Light Combat Aircraft (~Rs10bn), Naval Fire Control System and Radar Systems (Rs20bn), various upgradation orders (~Rs30bn) are some of the orders expected during FY21. The company continues to maintain healthy cash balance of Rs10bn (compared to Rs15bn in Mar'20; reduced largely towards deferred payment of LRSAM project}.
- **At CMP of ₹95.85 the stock trades at an FY21E and FY22E P/E of 15.4x and 12.6x respectively. The management maintained its 8-10% revenue guidance for FY21. We see a short term minor impact due to deferment of few orders. Considering the prevailing geo-political situation and the vision of long-term self reliance in defence production under "Atmanirbhar Bharat" we see the stock performance to improve as order inflow & execution improves.**

	REVENUE (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	P/E (x)	RoE (%)
FY21E	130,775	23,698	18.1	15,828	15.4	14.8
FY22E	142,588	28,168	19.8	18,718	12.6	16.6

Source: *Bloomberg Estimates*

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Bharat Electronics Ltd

CMP: ₹95.85/-

Buying Range
95/85

Target:
135 / 165

Stop Loss:
65

BEL Weekly Chart

Source: Falcon 7

- Since, December 2017, BEL stock prices are trading in downward direction and tumbled till the low of 55.20 mark and this level is coincide with March 31, 2010; swing high levels. From there price reverted sharply and jumped almost till the previous swing high levels of 118 along with huge volume.

- Currently the stock price are retracing from the highs and precisely retraced 50% of its rally from the bottom of 55 to the top of116 mark. Looking the weekly chart structure, BEL stock prices seems to made bottom around 55 and is in the process of forming "Inverse head and shoulder pattern with neckline placed around 119. A breakout above said neckline of 119 may turn the overall trend to positive and could propel stock price till 61.8% retracement level of 132 of the entire fall from the high of 178.50 to 55.25 and higher.

- On a monthly chart, we are seeing a formation of 'Falling Wedge' pattern and during the month of August, 2020; stock confirmed its breakout from said pattern. The recent low of 86.35 precisely occurred at its upper band of 'Falling Wedge' pattern and once again stock resumed its up trend. The momentum indicator stochastic oscillator which slipped into deep oversold zone is slowly heading higher, indicating limited scope on the downside. Considering above analysis, **we believe BEL stock price likely outperform coming future therefore we advice investors to accumulate in the range of 95 – 85 levels for upside targets of 135 and 165 levels respectively. Stop loss to be placed at 65.**

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Heidelberg Cement Ltd.

CMP: ₹190.00/-

- **Heidelberg Cement (HCIL)**, one of the largest cement manufacturing company in India with market share of 10-11% has total installed capacity of ~6.3 mn tonnes at Ammasandra (Karnataka), Damoh (Madhya Pradesh), Jhansi (Uttar Pradesh) and Raigad (Maharashtra) as of H1FY21. Company sells close to 80-90% of the PPC and PSC (grades of cement) in the central region and the remaining in the western and southern region.
- Faster demand recovery in Central India (post Q2FY21E), price hikes and recent capacity expansion is expected to aid topline growth of the company going ahead.
- Company's cost reduction initiatives such as setting up waste heat recovery plant, changing fuel mix and improved pricing structure helped expand operating margins from 14.8% in FY17 to 24.3% in FY20 and improved EBITDA/ton from ~557 in FY17 to ~1122 in FY20. We expect demand recovery to pickup during H2FY21E on the back of resumption of government projects.
- Company improved D/E from 1x to 0.2x over FY15- FY20 and return ratios- ROE from 8% to 20% and ROCE-10% to 26% during same period on the back of improved operating margins, better working capital management and higher fixed cost absorptions. Going ahead, we believe, return ratios would improve with strong financials.
- We remain optimistic on growth prospects of HCIL driven by demand recovery in Central India post Q2FY21E, higher capacity utilisation from existing facilities, steady realizations, strong return ratios and healthy balance sheet. At CMP of ₹190 Heidelberg Cements Ltd is trading at ~7.8x FY20 EV/EBITDA.

Particulars	Revenue (₹ mn)	PAT (₹ mn)	EV/EBITDA (x)	ROE in %
FY21E	20150	2337	8.7	14.5%
FY22E	23455	3052	6.1	16.6%

Source: *Bloomberg Estimates*

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Heidelberg Cement Ltd.

CMP: ₹190.00/-

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Heidelberg Cement Monthly Chart

Source: Falcon 7

Buying Range 181 / 174

Target: 235

Stop Loss: 150

- After posting a fresh all-time high of ~211 during February, 2020; Heidelberg Cement witnessed vertical slide and corrected till 118 during March, 2020. Subsequently, the selling pressure exhausted as stock found support near its rising 50-MA on a closing basis along with its previous monthly swing high of October, 2016 (please find the horizontal trend line). As a result, we saw decent recovery in past few months and stock trimmed most of its losses by posting a high of 200 during October, 2020.
- Looking at monthly chart, we are seeing a formation of long term 'Bearish Divergence' and impact of such development seen in terms of sharp sell-off from 211 to 118. However, during March, 2020; monthly RSI (14) signalled a 'Positive Reversal' formation which is a bullish indication. The probable target of said pattern comes near 235.
- Also, stock is trading well above its monthly 20-MA and 50-MA respectively which indicates that the overall trend is still up. Considering the above technical evidences, **we advocate investors to accumulate Heidelberg cement in 181 to 174 with an upside price target of 235. Stop loss to be placed at 150 on a daily closing basis.**

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Hindustan Petroleum Corporation Ltd. (HPCL)

CMP: ₹214.60/-

- **HPCL** has about one-fourth market share of India's fuel marketing, and the second-largest number of retail fuel outlets. With its refining capacity of 27mmtpa, including 11 mmtpa of capacity in its joint venture, HPCL-Mittal Energy Ltd is set to increase it to 36 mmtpa within the next 12 months. In Q2FY21, the revenue declined ~15% YoY and grew 37.3% QoQ to ₹517.7bn. EBITDA stood at Rs36bn driven by healthy margins core GRM at US$2.7/bbl v/s US$2.5 in Q2FY20, -US$0.9/bbl in 1QFY21) owing to improvement in lubes and FO cracks, marketing margin at ₹6/litre and sales volumes (8.4mmt). Refining throughput was at 4.1mmt. MS and HSD demand for the company was +2.6/-4% YoY of the normal level in Sep'20, which further improved to +4.7/+11.5% YoY in Oct'20. Lubes saw 22.5% YoY growth in Q2FY21. HPCL's sales decline was 2% lower than peers due to better inventory and leverage on its marketing business.
- The board approved the proposal for a buyback through stock exchange, of up to 100m equity shares, the amount would not exceed ₹25b (~16% of free-float market cap), at a price not exceeding ₹250/share. Buyback is intended to signal value in the stock at current levels, as a substitute to dividends for all shareholders. The buyback is expected to start soon and complete over six months. The company is working on petchem integration projects, thus, totalling it to ~6.2mmt (~15% of total refining capacity) over the next 3-4 years: Additional cracker (already under construction) at HMEL, which will have expanded capacity of ~2.7mmt.HPCL commissioned ~895 new retail outlets (ROs) in 1HFY21 and plans to add another ~900 ROs by end-FY21. It has 575 ROs selling CNG currently and is planning to set up ~11 LNG stations (has allocated ~₹1bn for setting up a LNG corridor). It is setting up ~5mmt of LNG gasification terminal (in JV),. At CMP 214.6 the stock trades at an FY21E and FY22E P/E of 4.8x and 5.7x respectively. The overall business of an OMC is a function of both refining and marketing margins, which tends to normalize in the longer term. Despite announcing a buyback plan, the company iterated that it would continue with its dividend policy for the year. The company has made strong dividend payout of 80% in FY20 with dividend yield at 4.8%. Hence, **we view it as a long term portfolio stock factoring in the heavy capex and the hydrocracker's project execution risk at Vizag.**

	REVENUE (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	P/E (x)	RoE (%)
FY21E	1,867,907	120,904	6.5	38,785	4.8	21.1
FY22E	2,231,085	106,704	4.8	51,287	5.7	17.1

Source: *Bloomberg Estimates*

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Hindustan Petroleum Corporation Ltd. (HPCL)

CMP: ₹214.60/-

HINDPETRO Weekly Chart

Source: Falcon 7

Buying Range 200/180

Target: 310

Stop Loss: 140

- After retesting the previous swing high of 309 in October, 2019; stock price has been on a downward trend and in the month of March 2020, it declined till the previous lows of 143 mark. From there stock price made a decent recovery of more than 50% of entire fall from the high of 313 till the low of 143 levels. However, bulls did failed to hold it and gave up the gains and once again slipped till 163 mark.
- Looking at the overall chart structure, stock is in a broad consolidation and as a result we are seeing a formation of ‘Descending Triangle’ pattern. Looking at the recent momentum, it seems that stock is maturing for a breakout from said triangle pattern. The neckline of said triangle pattern peg near 240 and decisive move beyond 240 will resumed its long term up trend. on the month scale; the October candle stick formed a “Hammer pattern” which is strong reversal pattern.
- **As currently, stock prices are near the crucial support zone and the risk reward ratio looks favorable and hence we recommend buying Hind petro in the range of 200 – 180 levels for upside targets of 310 . stop loss to be placed below 140 mark.**

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CMP: ₹224.70/-

Hindustan Zinc Ltd.

- **Hindustan Zinc Limited (HZL)** is an integrated mining and resources producer of zinc, lead, silver and cadmium. It is a subsidiary of Vedanta Resources PLC. It's the world's second largest zinc produce. Q2FY21 Net revenues improved 26% YoY to ₹56.6bn driven by higher metal volumes, higher silver prices and Rupee depreciation partly offset by lower LME zinc and lead prices. EBITDA was at ~₹29.5bn. EBITDA jumped 39% YoY and 87% QoQ primarily due to higher revenues and lower operating costs. Silver production in Q2FY21 was at a record level of 203 tonnes higher 51% YoY and 73% sequentially with higher lead production and better silver grades. Silver contributed 22% to revenues (13% in Q2FY20) and 46% to EBIT (32% in Q2FY20). The back-fill plants at Zawar are under commissioning while the fumer project at Chanderiya is ready for commissioning.
- FY21 guidance for mined/ refined metal production has been maintained at 925-950kt with silver production targeted at 650 tonnes. Silver refining capacity would increase from 800 TPA to 1,000 TPA over the next three years which would be a ~60% jump over FY20 production level of 610 tonnes. Hindustan Zinc would be among the top three global producers at a production level of 1,000 tonnes per annum
- Zinc cost of Production targeted at US$ 1000/tonne for FY21. Zinc metal cost of production, excluding royalty, decreased 8% YoY in Rupee terms to ₹68,228/ton. Costs benefited from lower coal, cement and met coke prices and a reduction in employee costs aided by higher volumes and acid credits.
- Volume ramp-up, however, has been lagging guidance. Zinc outlook would be supported by the broadly balanced market in CY20, supply cutbacks and gradual recovery in demand with easing of lock-down. Strong silver prices, lower costs and recovery in metal volumes would support earnings. Strong growth visibility, high payout, FCF yield and inexpensive valuations compel it to be an attractive risk-reward. At CMP ₹224.7 the stock trades at an FY21E and FY22E P/E of 11.6x and 10.4x respectively

	REVENUE (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	P/E (x)	RoE (%)
FY21E	208,985	115,574	55.3	82,984	11.6	22.9
FY22E	247,786	131,857	53.2	92,085	10.4	26.9

Source: *Bloomberg Estimates*

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Diwali Picks 2020

Hindustan Zinc Ltd.

CMP: ₹224.70/-

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Hindustan Zinc Monthly chart

Source: Falcon 7

Buying Range 205/190

Target: 280

Stop Loss: 160

- From Metal space, Hindustan Zinc is one such stock which has formed intermediate bottom along with the major equity stocks in the month of March 2020 and since then stock has traded with positive bias.
- The monthly chart of Hindustan Zinc suggests that since the start of 2018 to the March 2020; stock was in intermediate downtrend and stock corrected nearly 78.6% of the prior rise from 73 to 341 levels. Prior to few months, It took support exactly around the horizontal support lines as shown in black colour. At this zone only, it formed monthly 'Hammer candlestick' pattern post which indicated that the trend continued to remain on upside. MACD is showing positive crossover after 2 years whereas ROC is in rising trend. Along with the same ATR (Average True Range) has been in rising trend with the up move. These all parameters bode well for continuation of the rise in coming months.
- **In short, Medium term trend looks to be changing on upside for Hindustan Zinc based on trend lines and oscillators. One can buy in the range of 185-175 levels with 160 as stop loss and target can be expected around 280 where next resistance zone is placed.**

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CMP: ₹973.00/-

JB Chemicals and Pharmaceuticals Ltd.

- **JB Chemicals and Pharmaceuticals (JBCP)** is a 40-year-old pharmaceutical company, with several well-established brands in the domestic market and a wide geographical presence in export markets with focus on both, regulated and semi-regulated territories. The company is ranked 34th by sales value and 19th by number of prescriptions in the India Pharma market (IPM). Cardiac and Gastro are the major therapies for JBCP accounting for 90% of company's India revenue. Company's key export markets include Russia/CIS, South Africa and the USA.
- JBCP has market leading position in most of its top brands. It has market share of 50-75% in products such as Cilacar, Metrogyl and Nicardia and market share of 20-25% in Rantac.
- Company has ongoing contract manufacturing agreement with few products and its CRAMS business is growing at high single digit every year. Also its Russian subsidiary has become profitable since few years and its profitability is expected to improve going ahead.
- Company's net cash position, consistent history of FCF generation, regular dividend flows and good return ratios provide us further comfort.
- Going ahead, we believe that management (KKR) will focus on accelerating growth in various business segments. It will enter into new therapeutic areas apart from cardiac and gastro in domestic markets. Focus on profitable CMO business can drive the higher growth in export and API business.
- We believe that the management transition, business restructuring, improving sales representative productivity in India business, growth in CMO business and cost saving strategies will lead to margin expansion in FY21 & FY22. **At CMP ₹973, the stock is trading at 28x FY20 EPS of ₹35. Hence, we have positive view on stock.**

Particulars	Sales (₹ mn)	EBITDA(₹ mn)	EBITDA Margins(%)	PAT (₹ mn)	Implied P/E (x)	ROE(%)
FY21E	19,550	4,790	24.5%	3,370	23.0	24.0%
FY22E	21,500	5,380	25.0%	3,820	21.0	27.0%

Source: *Bloomberg Estimates*

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Diwali Picks 2020

WAY2WEALTH Research Desk

JB Chemicals and Pharmaceuticals Ltd.

CMP: ₹973.00/-

JB Chemical Weekly Chart

Source: Falcon 7

Buying Range
930 / 880

Target:
1175

Stop Loss:
795

- Looking at weekly chart, JB Chemical has been one of the outperformer in chemical space and registered a fresh all-time high of ~1149 during mid September, 2020. Subsequently, stock witnessed bouts of profit booking as a result stock gradually descended and corrected till 873 during late September, 2020. Of late, stock slipped into a consolidation and trading in a range of 935 to 930 on the lower side and 1050 – 1075 on the higher side .
- On a candlestick front, September 18, 2020 candle resembles a formation of ‘Bull Elephant Bar’ and as name suggests the implication of such candle is bullish and required confirmation in terms of breaking its high of 1149.
- Also, if we meticulously look at monthly chart, stock is holding its 20-MA since April 09, 2020 and the 20-MA itself is still rising which support our bullish hypothesis.
- Therefore, **we advocate investors to accumulate JB Chemical in a range of 930 to 880 with an upside price target of 1175. Stop loss to be placed at 795 below which our bullish view will be negated.**

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Mahindra & Mahindra Ltd

CMP: ₹633.30/-

WAY2WEALTH Research Desk

- **Mahindra & Mahindra Ltd** is the flagship company of the Mahindra group, operating in the global tractor industry and the Indian utility vehicles market along with industrial engines. Through a joint venture with Navistar Inc, it produces diesel engines for medium and heavy commercial vehicles in India. In Q2FY21, the M&M's (MM+MVLM) revenues grew 5% YoY to ₹115bn, EBITDA grew 29% to ₹19.8bn Net realisation grew 9% YoY. Current total channel inventory (Auto + Farm Equipment) is very low. Lower other income restricted adj. PAT to ~₹13.1bn, implying decline of 3.2% YoY. It has impaired long-term investments worth Rs11.5bn (total impairment since Q3FY20 at ₹53b), pertaining to the loss-making international businesses. It has fully impaired its investment in all international loss-making businesses identified for exit. Exiting the aeroplane business (Gippsaero), which made loss of ₹3-4bn in FY20. Automotive division revenues came in at ₹63.6bn, a decline of 8% YoY led by 23% YoY decline in volumes, offset by 20% YoY increase in ASPs due to BS-VI transition in Q1FY21.As it got very strong response with over 20k bookings. Over 55% of Thar customers bought the MM brand for the first time. Mgmt expects the Tractor industry to grow in low double-digit in FY21. The system stock level (factory plus dealer inventory) is half of last year levels in the tractor business. International operations in the FES business reported positive PBIT in Q2FY21 at ₹30mn (v/s PBIT loss of ₹560m in Q2FY20), driven by North America retail volumes growing 41% (+80bps market share), Brazil retails growing 31%, and turnaround in Turkey operations. Expects North America Tractor business to remain in the positive zone as one-time correction of inventory is done (which took two years). Farm machine business grew 90% in 1HFY21 and is seeing very broad-based growth.
- Things look positive for the company as the management continues its focus on tighter capital allocation policy exiting all the unviable businesses.. We expect the Farm Equipment and Automotive segments' volume growth to continue on the strong demand momentum from continued higher rural spending by the Government along with revival in automotive volumes due to new launches in FY22. At the CMP ₹633.3 the stock trades at an FY21E and FY22E P/E of 16.7x and 12.5x respectively.

	REVENUE (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	P/E (x)	RoE (%)
FY21E	452,745	61,837	13.7	35,785	16.7	10.1
FY22E	535,719	70,896	13.2	44,287	12.5	11.8

Source: *Bloomberg Estimates*

Diwali Picks 2020

Mahindra & Mahindra Ltd

CMP: ₹633.30/-

WAY2WEALTH Research Desk

M&M Monthly Chart

Source: Falcon 7

Buying Range
600 / 570

Target:
800

Stop Loss:
480

- Since August 2018, M&M stock trading with a negative bias and in September 2019, price took supports around 500 and went into a consolidation. But the stock failed to hold it for the longer period and in February 2020; the sell off due to outbreak of Covid-19 pandemic the lower support and plummeted the stock price to 2010 levels of 244 mark.
- In the auto space, very few stocks that rebounded sharply from the March lows, M&M remained one of them and it showed spectacular rebound with in no time and recovered more that 50% of the entire fall seen from 2018 high of 975 – March 2020 lows of 244 levels. Currently, stock price is consolidating just around 50% retracement level and trading in narrow range.
- Meanwhile the momentum indicators RSI (14) has cooled off from the overbought zone and almost came down till the support of 51 mark. If the RSI (14) slips further below 51 mark then it could pull down stock prices till the supports of 200-DMA placed at 520 mark. While, on the higher side the resistance as per 61.8% retracement is placed around 695 and cross above that could extend the price till 800 levels in long run. Therefore, **we advice investors to accumulate M&M stock on minor corrections around 600 - 570 levels for upside levels of 800 mark. stop loss to be placed at 480 levels.**

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WAY2WEALTH Research Desk

CMP: ₹462.00/-

Radico Khaitan Ltd.

- Premiumisation would positively impact margins as EBITDA margins in the prestige category are higher than the regular category. Further, the higher share of prestige brands would also provide cushion to the company against raw material price volatility as these have higher gross margins. The company is also expected to launch two new brands in the P&A category in the next two years. With these new launches, the share of premium products to total sales would improve from current level of 30% of total volume.
- RKL has established a strong foothold in the market particularly in the regular segment with its brands like 8 PM whisky, Old Admiral brandy, and Contessa rum and became one of the leading brands in the Canteen Stores Department (CSD). The company has four millionaire brands in its portfolio (8 PM, Contessa Rum, Old Admiral Brand, and Magic Moments Vodka).
- ENA/grain and packaging materials are the two key components of the raw materials required for the company's product portfolio. With an improved monsoon, better crop this sugar season, and a significant decline in the crude prices, the raw material pricing scenario is expected to be stable in the near term. Furthermore, an increasing proportion of Prestige & Above category brands coupled with price increases accorded by various state governments will mitigate the risks of raw materials price increases.
- Liquor consumption presents an attractive opportunity in India as the country has a large young population and remains an underpenetrated market in the alcoholic beverage segment.
- Given the strong visibility on margins, sustained double-digit volume growth and zero debt status in two years, we believe there is a case for a re-rating. Long term prospect of the company looks promising considering its accelerated volume growth in the premium segment with new launches, strong brand and wide distribution network. At CMP of ~₹462, the stock is trading at 29.2 to its EPS of 15.8.

Particulars	Revenue(₹ crs)	EBIDTA(₹ crs)	EBIDTA Margin	Net Profit	Net Profit Margin	PE (x)
FY21E	2,233	348	15.6%	201	9%	30.7
FY22E	2,456	373	15.2%	211	8.6%	29.2

Source: *Bloomberg Estimates*

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WAY2WEALTH Research Desk

Radico Khaitan Ltd.

CMP: ₹462.00/-

Radico Khaitan Monthly Chart

Source: Falcon 7

Buying Range
450-435

Target:
600

Stop Loss:
380

- Looking at monthly chart, Radico Khaitan resumed its long term up trend during the month of July, 2017 and registered a fresh all-time high of ~495 during August, 2018. Subsequently, stock fell sharply and formed 'Lower Top Lower Bottom' formation on monthly chart.
- During March, 2020; stock precisely tested its lower band of 'Falling Channel' formation and rebound gradually. During September, 2020; stock confirmed its breakout from 'Falling Channel' pattern however follow-up buying was missing. During last month, stock witnessed decent buying interest and eventually confirmed its breakout by closing above said channel.
- On long term basis, stock confirmed its breakout from 'Bullish Flag' pattern hence the medium term as well as long term outlook of this stock looks fairly positive.
- Hence, **we suggest our investor to accumulate Radico Khaitan in a range of 450 to 435 with an up side price target of 570. Stop loss to be placed below 380.**

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WAY2WEALTH Research Desk

Mutual Fund Recommendation : SBI Banking & Financial Services Fund

- The Banking sector remains the backbone for any economy and is the key beneficiary as well catalyst of economic recovery. This sector offers an interesting play on consumption and capex revival themes. Improvement in key macroeconomic parameters like fiscal & current account deficit, lower inflation, strong balance of payments etc. augurs well for the banking sector.
- **We recommend :** SBI Banking & Financial Services fund with a portfolio of financial companies with long historical track record of profitable growth and prudent capital allocation, that stand to benefit from the demise of weaker public sector institutions across the financial landscape and acceleration in market share gains caused by the multiple disruptions caused during these unprecedented times.
- **What is likely to follow for the Banking & Financial Services Sector?**
  - With the recent meltdown, the valuations are in comfortable zone and are available below its historical averages. It is expected that demand side impact due to COVID-19 would normalizes by H2 of FY21.
  - Long term structural opportunities from formalisation, digitalization, and financialisation remain intact. Thus, the large and well capitalised private and selected PSB banks with strong capital position, granular liability franchise, diversified asset base and higher digital adoption, will be able to handle the dislocation better than the smaller players. At the same time, the valuations of these banks are also attractive.
  - Also, emerging subsectors like Insurance as well as capital markets structurally remain long-term plays on the underpenetrated savings & protection themes in India. Further, select NBFCs with significant exposure to the retail credit theme and operating in niche segments look attractive at current valuations.

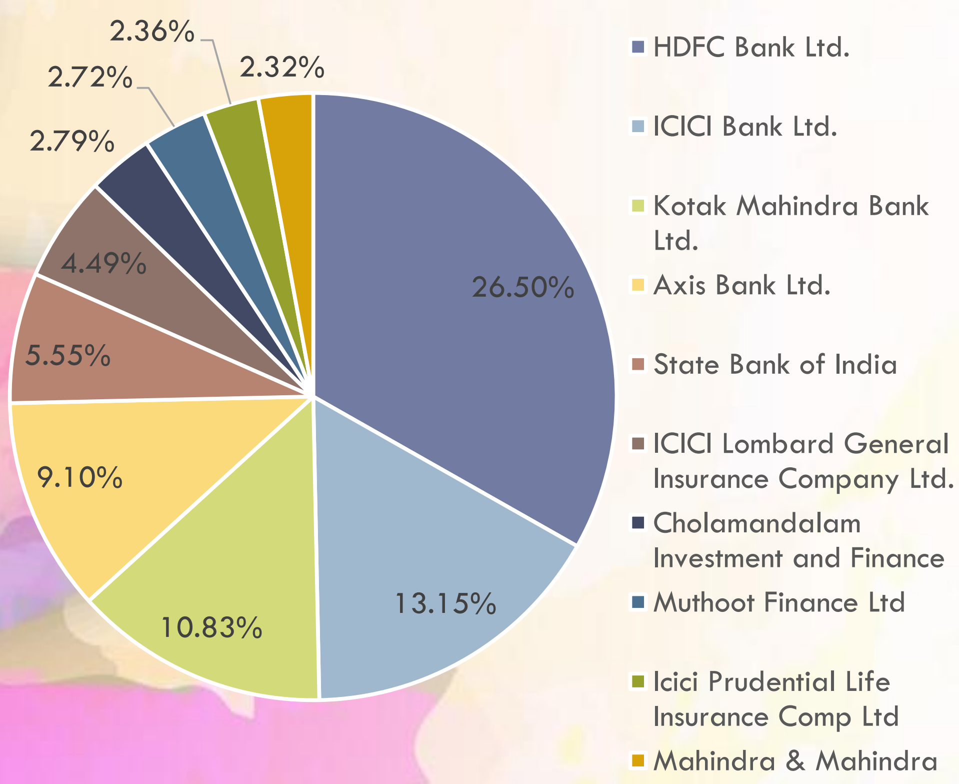
WAY2WEALTH Research Desk

Mutual Fund Recommendation : SBI Banking & Financial Services Fund

- The fund's core portfolio comprises at least 80% of its holdings in companies engaged in banking and financial services with the flexibility to invest the balance 20% on a tactical basis in other equity, debt and money market instruments.
- As equity markets trend upwards in the long run, the lenders in the portfolio will add a high beta element to the portfolio and non lenders will add resilience to the portfolio during times of stress, as insurance companies have a lower beta than lending businesses while asset management companies and brokerage businesses do not take balance sheet risk.
- The Scheme invests in Banks as well as NBFC's, Insurance Companies, Rating Agencies, Broking Companies, Microfinance Companies, Housing Finance, Wealth Management, Stock/Commodities Exchange etc.

Market Cap allocation of the fund		Major Sectoral Allocation of Fund	
Large Cap	79.26%	Banks	70.39%
Midcap	10.03%	Insurance	8.09%
Small Cap	5.17%	NBFCs	12.87%

Top 10 Holdings as on October 31st, 2020



Thus, as part of tactical allocation of the equity investment, we recommend investing in SBI Banking & Financial Services Fund which has significant allocation in high growth private sector banks, well capitalized public sector banks, selective NBFC's, Insurance & AMC's with a long term investment horizon.

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Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
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Happy Diwali !!!

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