



# Diwali Picks 2020 Samvat 2077

## Happy Diwali

Diwali is the festival of lights, also known as the festival that brings prosperity to our lives. Goddess Lakshmi is worshiped across homes during this festival being the goddess of wealth and prosperity. The Indian Stock Exchanges considers it auspicious to invest during this time as the beginning of a new Samvat or Hindu calendar year.



We hereby present our top stock recommendations for your portfolio for this new Samvat 2077.





# Diwali Samvat 2077



Nestle India Ltd.

Target :  
Rs. 20740

CMP:  
Rs. 17332



Polycab India Ltd.

Target :  
Rs. 1120

CMP:  
Rs. 926.45



A Promise for Life

Abbott India Ltd.

Target :  
Rs. 19200

CMP:  
Rs. 15540



Eicher Motors Ltd.

Target :  
Rs. 2610

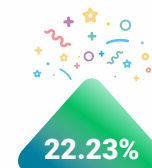
CMP:  
Rs. 2193



Bajaj Finserv Ltd.

Target :  
Rs. 7680

CMP:  
Rs. 6283





# Market Outlook

- The most historical year 2020 of 21st century with the outbreak of COVID-19 and resultant lockdowns across the globe and India, which saw several lockdowns since March'20, which resulted 1) Supply chain disruption, 2) Various industries grounded to a halt, such as travel and manufacturing, 3) Plunge in oil prices, and stress in Financial markets. This disruption led to significant contraction in economic output and volatility in capital markets.
- But Now, India is attempting to go back to the new normal Post relaxation in lockdown, which resulted in the fastest recovery in capital markets after the fastest bear market of all time high. Markets being forward looking- a significant global policy response including from RBI and that coupled with global and Indian governments' economic relief initiatives further supported in economic recovery since April'20 onwards. A reduction in extreme downside risk following bold policy support-cutting interest rate, providing funding to businesses and financial support for individuals. The goal to limit an inevitable recession and try to stimulate fasted recovery.
- Diwali Samvat 2077 Market outlook looks promising, our expectations on India's further journey is backed by.
  1. Thrust on domestic manufacturing with incremental policy initiatives for businesses on this front to spur economic growth
  2. Revamp of health policy and medical infrastructure
  3. Strengthening of the digital ecosystem and infrastructure-For efficient 7 targeted policy delivery and growth of the new age businesses
  4. Growth oriented agenda of government and RBI
  5. Privatisation and improving the productivity of state entities

Market Drivers: Gains or stability in pharma & healthcare, technology, telecom, chemical, cement, FMCG and Auto vs. weakness in BFSI, oil & gas, energy, real-estate, hospitality, and travel & transportation.

## Change in Markets after Last Diwali

Sector	Return
Bank Nifty	-9.50%
Auto	-1.10%
Fin Services	-5.80%
FMCG	-4.20%
IT	4.60%
Media	-18.60%
Metal	-2.50%
Pharma	50.00%
PSU Bank	-43.60%
Pvt Bank	-10.70%
Realty	-18.70%

Index	Return
NASDAQ	40.50%
FTSE	-18.20%
Nikkei	6.50%
SSE	15.80%
NSE	4.60%
Crude	-35.80%
Currency (USDINR)	-3.90%



Target :  
Rs. 20740

CMP :  
Rs. 17332

% Upside :  
19.66% ▲



## Investment Rationale

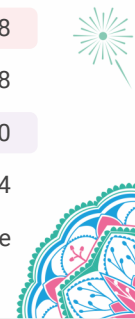
- Nestlé India Limited is one of the strongest players in the Indian FMCG industry with 108 years of presence, enjoying market leadership position in 85% of its product portfolio. The company's diverse range of products comprises Milk & Nutrition Products, Prepared Dishes & Cooking Aids, Powdered & Liquid Beverages and Confectionery offered through a strong portfolio of brands including NESCAFE, NESTEA, BAR-ONE, KITKAT, MUNCH, MILKYBAR, A-PLUS, MILKMAID, NANGROW, CEREGROW, LACTOGROW and MAGGI.
- Despite the slowdown in the economic activity, Nestlé India has fared well amid supply disruption and rebound well in Q3-CY20 with sustained growth in the volume and product mix. For Q3-CY20, Nestlé India reported double digit revenue growth of 10.1% YoY (+16.1% QoQ) to Rs.3,542 Crore.
- The company plans to invest Rs.2600 Crore over the next three to four years to augment their existing manufacturing capacities, as well as towards their new under construction 'state of the art' factory in Sanand, Gujarat. The expansion in the manufacturing plants is done to enhance the production of Culinary, Chocolates, Coffee and Milk & Nutrition Products in order to deliver robust growth in the coming years.
- Overall, the resilient business model of the company with favorable industry outlook, strong brand presence with diversified product mix and market leadership position in majority of the product portfolio augurs well for the company. Further, its capex plan of Rs. 2,600 Crore is reflective of its aggression in driving volumes and we believe the company is well positioned for continued long term growth. We initiate our coverage on Nestlé India Limited (NESTIN) with a BUY rating and a target price of ₹20,302 per share.

## Key Financials

(In ₹ million)	CY-18	CY-19	CY-20E	CY-21E				
Revenue	112922.70	123689.00	134193.50	150301.30	Market Cap (₹ million)	1,671,077	Face Value (₹)	10
EBITDA	26166.20	28627.40	32755.40	37544.30	Outstanding Shares (₹ million)	96.42	Dividend Yield (%)	1.97%
EBITDA Margin	23.17%	23.14%	24.41%	24.98%	Shareholding		Debt/Equity	0.08
PAT	16069.30	19695.50	21859.80	25579.80	Promoters	62.76%	Beta vs. Sensex	0.58
PAT Margin	14.23%	15.92%	16.29%	17.02%	Institutional	20.42%	52 Weeks High/Low	18,370/12,200
EPS (₹)	166.66	204.27	227.14	268.38	Others	16.82%	TTM PE	80.64

Source: Ace Equity, Bloomberg Estimates

Closing price as on 9th Nov 2020 close





Polycab India Ltd.

Target :  
Rs. 1120

CMP :  
Rs. 926.45

% Upside :  
20.89%



## Investment Rationale

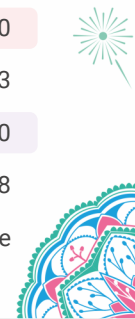
- It is India's largest manufacturer and seller of an extensive range of cables and wires, and a fast-growing player in the fast-moving electrical goods (FMEG) industry, along with an established export presence. It has 3 business segments- Wires & Cables(85%), FMEG(9%), Others inc. EPC(6%). It has 25 facilities at 7 locations and strong backward integration with Trafigura for copper rod manufacturing in Ryker.
- It is the market leader in the domestic wires and cables segment with over 12%-13% of the overall market share and 18%-20% in the organized market. As the share of organised players is increasing, so it is expected that the share of unorganized players will be taken over by Polycab.
- It has 3650+ authorized dealers & distributors, 1,800+ dealers and distributors pan-India exclusively for FMEG, 137,000+ retail outlets, 3 regional offices & 20 local offices across India. Its distribution reach is 52% for FMEG, 30% for Cables and wires and 18% for common among both. It is also appropriately distributed among all regions- West(22%), South(30%), North(27%) and east(22%).
- During Q2 FY2021, domestic distribution channel sales performed better than institutional business with T1 & below towns posting YoY growth. Within domestic distribution channel sales, housing wires business continued its momentum posting a double -digit growth, it has benefitted polycab the most as now it has shifted its major business from B2B to B2C.
- We are optimistic about the company given its leadership position in the industry, cross selling opportunities, rising disposable income, government initiatives-rural electrification and digital connectivity, wide distribution reach, strong manufacturing and R&D capabilities and strong financial trend. We initiate our coverage on Polycab India Limited (POLYCAB) with a BUY rating and a target price of ₹1120 per share.

## Key Financials

(In ₹ million)	FY-19	FY-20	FY-21E	FY-22E				
Revenue	79856	88,300	79,857	97,020	Market Cap (₹ million)	138,021	Face Value (₹)	10
EBITDA	9,528	11,350	9,876	12,631	Outstanding Shares (₹ million)	148.98	Dividend Yield (%)	0.75
EBITDA Margin	11.93%	12.85%	12.37%	13.02%	Shareholding		Debt/Equity	0
PAT	5,026	7,730	6,934	8,536	Promoters	68.53%	Beta vs. Sensex	0.83
PAT Margin	6%	8.75%	8.68%	8.80%	Institutional	18.32%	52 Weeks High/Low	1180/571.70
EPS (₹)	35.39	50.98	46.63	57.46	Others	13.14%	TTM PE	18

Source: Ace Equity, Bloomberg Estimates

Closing price as on 9th Nov 2020 close





## Investment Rationale

- Abbott India Ltd (AIL) – a 50.44% subsidiary of Abbott Laboratories, USA – is engaged in the manufacture and marketing of pharmaceutical products. It offers high-quality trusted medicines across multiple therapeutic categories including Women's Health, Gastroenterology, Neurology, Thyroid, Diabetes, Pain Management, General Care, Vitamins and Vaccines.
- It has a strong portfolio of 110 brands for healthcare professionals with a strong distribution network of over 3,000 stockists and more than 175,000 retailers. The company also has a field force of 2,500 medical representatives for better engagement with doctors and patients through technology-led innovative solutions.
- Abbott has 7.7% market share in India and is ranked the No.2 pharma company in India. It also distributes anti-diabetes insulin products from Novo Nordisk, which account for about 38% of its revenue with a distribution margin of 5% whereas its brands business contributes 62% to overall revenues and EBITDA margins of 26-27% which will be beneficial to the company going forward also.
- The company's top 10 brands together registered a revenue CAGR of ~18% in March 2015-20(MAT basis) with most them being the leader in their respective segments.
- OTC business is another key space for Abbott to launch a basket of new products over the next few areas. Connecting with pharmacists is an important part of building a strong OTC portfolio due to the strong influence of pharmacists in this space. We initiate our coverage on Abbott India Limited (ABBOTINDIA) with a BUY rating and a target price of ₹19200 per share.

## Key Financials

(In ₹ million)	FY-19	FY-20	FY-21E	FY-22E				
Revenue	36786	40,931	44,572	50,193	Market Cap (₹ million)	330,214	Face Value (₹)	10
EBITDA	6,040	7,562	9,095	10,662	Outstanding Shares (₹ million)	21.25	Dividend Yield (%)	1.61%
EBITDA Margin	16.42%	18.47%	20.41%	21.24%	Shareholding		Debt/Equity	0.06
PAT	4,503	5,929	7,032	8,291	Promoters	74.99%	Beta vs. Sensex	0.43
PAT Margin	12%	14.49%	15.78%	16.52%	Institutional	7.49%	52 Weeks High/Low	18569/11369.30
EPS (₹)	211.93	279.04	330.95	390.09	Others	17.52%	TTM PE	50.45

Source: Ace Equity, Bloomberg Estimates

Closing price as on 9th Nov 2020 close







## Investment Rationale

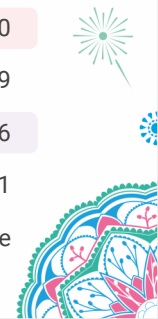
- RE offers one of the most differentiated products in Indian autos, and will be the key beneficiary of premiumization in the maturing 2W industry. It has just 6% share in annual industry volumes, which provides large headroom for growth. While competition will rise with the entry of Bajaj-Triumph, TVS-Norton and Harley over next 2-3 years, we believe taking away meaningful share from RE would be tough given its strong franchise and widespread network. Moreover, entry of new players has potential to expand the market especially as demand shifts towards premium bikes and the long term Premiumization trend remains intact.
- EML premium motorcycle brand in India from the house of Royal Enfield has a prominent market share of 96% in >250 cc segment in India. It's an aspirational brand for the riding enthusiasts specifically in India. RE has successfully managed and upgraded value chain with the new launch of 650 cc interceptor series with many international accolades in its kitty for the said product profile. To expand its reach domestically, it is presently focusing on small format studio stores with 600 such studio stores already up and running as of FY20 end in addition to its 921 full format stores.
- RE is turning more aggressive on product launches and plans to introduce 2-3 new platforms in coming years, along with product upgrades and variants. A big dealer network expansion is also underway, mainly targeting semi-urban and rural markets, which should fuel the next leg of growth. Studio stores will greatly help improve accessibility in tier 2 and smaller towns. Exports offer another area of potential growth and the 650-cc bikes launched in 2019 have seen good traction. Initiatives such as bike customization, digital platform to enhance ownership experience, and raising merchandise sales provide further levers for growth as well as strengthening the franchise. We initiate our coverage on Eicher Motors Limited (EICHERMOT) with a BUY rating and a target price of ₹2520 per share.

## Key Financials

(In ₹ million)	FY-19	FY-20	FY-21E	FY-22E				
Revenue	97,971	91,536	82,341	107,047	Market Cap (₹ million)	599,192	Face Value (₹)	1
EBITDA	33,465	27,236	17,918	26,356	Outstanding Shares (₹ million)	273.23	Dividend Yield (%)	0.6
EBITDA Margin	34.16%	29.75%	21.76%	24.62%	Shareholding		Debt/Equity	0
PAT	19,619	17,957	14,013	22,360	Promoters	47.00%	Beta vs. Sensex	0.79
PAT Margin	20.02%	19.62%	17.02%	20.89%	Institutional	38.10%	52 Weeks High/Low	2,389/1,246
EPS (₹)	80.7	66.9	51.3	81.81	Others	14.90%	TTM PE	45.11

Source: Ace Equity, Bloomberg Estimates

Closing price as on 9th Nov 2020 close





Bajaj Finserv Ltd.

Target :  
Rs. 7680

CMP :  
Rs. 6283

% Upside :  
22.23%



## Investment Rationale

- Bajaj Finserv is the holding company under which there were three key financial sector business. Bajaj Finserv participates in the financing business through its 52.82% holding in Bajaj Finance and in the protection business through its 74% holding in two unlisted subsidiaries, Bajaj Allianz General Insurance Company and Bajaj Allianz Life Insurance Company. Bajaj Housing Finance, which does mortgage business, is a wholly-owned subsidiary of Bajaj Finance.
- In Q2FY21, amid lockdown and risk aversion, Company's consolidated topline was up 5.8% YoY to Rs 15052 crore, lower compared to earlier run rate, due to moderation in the lending business. While the insurance business witnessed an improvement in earnings, contingent provisioning of Rs 1370 crore impacted consolidated earnings reported at Rs 986 crore, down 18% YoY. Subsequently, NII growth came in at 4% YoY to Rs. 4158 crore. And the pick-up seen in premium accretion in general insurance was at Rs. 4156 crore, down 3% YoY.
- The insurance subsidiaries are likely to outperform the NBFC in the year. Both the insurance subsidiaries are likely to witness improved operations as business momentum improves in key segments. The industry has been witnessing a shift in consumer behavior which is likely to sustain in the near term.
- Company's fundamentals will allow it to play long-term opportunities, and all of BFS subsidiaries are well placed. BFL stands out with its strong balance sheet, comfortable liquidity, high credit rating and well-matched ass-liability management position. It is also well-capitalized as well and has a strong provision buffer that will help it cushion the impact on its balance sheet and profitability. Sound fundamentals of business franchises are likely to sustain during these tough times. We initiate our coverage on Bajaj Finserv Limited (BAJAJFINSV) with a BUY rating and a target price of ₹7680 per share.

## Key Financials

(In ₹ million)	FY-19	FY-20	FY-21E	FY-22E				
Revenue	254,002	324,959	390,450	454,602	Market Cap (₹ million)	999,861	Face Value (₹)	5
EBITDA	81,530	82,992	214,760	253,330	Outstanding Shares (₹ million)	159.14	Dividend Yield (%)	0.1
EBITDA Margin	32.10%	25.54%	55.00%	55.73%	Shareholding		Debt/Equity	220.2
PAT	32,198	33,712	34,149	39,409	Promoters	60.80%	Beta vs. Sensex	1.3
PAT Margin	12.68%	10.37%	8.75%	8.67%	Institutional	14.54%	52 Weeks High/Low	10,297/3,985
EPS (₹)	202.3	211.7	214.6	319.5	Others	24.67%	TTM PE	2.97

Source: Ace Equity, Bloomberg Estimates

Closing price as on 9th Nov 2020 close





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We, Jay Thakkar (Head of Research) and Analysts, MSFL Research Team, hereby certify that the views expressed in this report are purely our views taken in an unbiased manner out of information available to the public and believing it to be reliable. No part of our compensation is or was or in future will be linked to specific view/s or recommendation(s) expressed by us in this research report. All the views expressed herewith are our personal views on all the aspects covered in this report.

## MSFL Investment Rating

The ratings above have been prescribed on a potential returns basis with a timeline of up to 12 months. At times, the same may fall out of the price range due to market price movements and/or volatility in the short term. The same shall be reviewed from time to time by MSFL. The addressee(s) decision to buy or sell a security should be based upon his/her personal investment objectives and should be made only after evaluating the stocks' expected performance and associated risks.

## Ratings Methodology

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>₹300 Billion) and Mid/Small Caps (<₹300 Billion) or SEBI definition vide its circular SEBI/HO/IMD/DF3/CIR/P/2017/114 dated 6th October 2017, whichever is higher and as described in the Ratings Table below:

## Key ratings

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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