



# Fundamental Picks This Diwali 2021

## Happy Diwali

Auspicious moments call for auspicious beginnings. Here's a list of fundamental picks for your portfolio, as we step into a new Samvat.

- Heranba Industries
- Indusind Bank
- Jyothy Labs
- Kansai Nerolac
- Tata Motors
- United Spirits

We hereby present our top Fundamental recommendations for this new Samvat 2078.

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## Fundamental Picks 2021

### Heranba Industries

**CMP**  
Rs. 719

**Target**  
Rs. 928



### Indusind Bank

**CMP**  
Rs. 1,177

**Target**  
Rs. 1,423



### Jyothy Labs

**CMP**  
Rs. 153

**Target**  
Rs. 198



### Kansai Nerolac Paints

**CMP**  
Rs. 543

**Target**  
Rs. 727



### Tata Motors

**CMP**  
Rs. 480

**Target**  
Rs. 638



### United Spirits

**CMP**  
Rs. 826

**Target**  
Rs. 995



**Note:** Closing Prices as on 25<sup>th</sup> October 2021.

**Disclaimer:** <https://bit.ly/2RK2tzc>





## Market Outlook

The second lockdown had dampened the businesses as well as consumer sentiments. However, with the gradual easing of COVID restrictions & the vaccination drive, economic activity in India is picking up pace and further upside to growth is expected as the global economy opens gradually. Global institutions such as the World Bank and the International Monetary Fund (IMF) have welcomed India's gradual climb out of the pandemic slump, while ratings agency Moody's upgraded India's outlook from 'negative' to 'stable'.

Normalization of economic activities continued through the month of September. Since the August monetary policy meeting of the RBI, people have become optimistic about spending. The upcoming festive season has also contributed to the release of pent-up demand. The RBI expects economic growth to be around 9.5 % in the current fiscal year. Sustained growth in agriculture, strong rebound in manufacturing industry & resumption of services activities are indicating recovery.

The stock market had a spectacular year on the back of the support from retail investors and domestic institutions. The base of equity investment in the country has also increased with record additions of new Demat accounts. Another encouraging sign is the IPOs. So far, in 2021, over 40 companies have floated their IPOs to raise more than Rs. 70,000 crore. The continuous support from the government to ease the stress of the telecom sector, the production-linked incentives for auto and auto-part manufacturers also helped to lift the mood in the stock market amidst the pessimism.

Market outlook looks promising, our expectations on India's further journey is backed by:

- Vaccination drive picking up pace
- The government's focus on capital expenditure and continued reform push
- Large Foreign Direct Investment flows
- With major restrictions lifted, the jobless situation has improved and low risk of unemployment is expected over the years.
- Production Linked Incentive scheme for the manufacturing sector will further increase domestic demand

However, near term risk can come from rising inflation. India still imports the bulk of its crude oil requirement and gas. Any rise in price will have to be passed on to the consumer. Other commodities like natural gas or coal have also spiked due to shortage issues across several countries.

### Change in Markets from Last Diwali

Sector	Return
Bank Nifty	41.66%
Auto	37.61%
Fin services	40.08%
FMCG	24.51%
IT	65.11%
Media	54.14%
Metal	112.24%
Pharma	18.96%
PSU Bank	99.95%
Pvt Bank	32.22%
Realty	111.17%

Index	Return
NASDAQ	29.75%
FTSE	27.42%
Nikkei	12.87%
SSE	8.23%
NSE	42.41%
Crude	97.78%
Currency (USDINR)	0.39%



# Heranba Industries

CMP: ₹719  
Target: ₹928  
Upside: 29%

## Investment Rationale:

Heranba Industries Limited is an India-based crop protection chemical manufacturer, exporter and marketing company. It manufactures Synthetic Pyrethroids and its intermediates in India. These are used in insecticides, fungicides and herbicides. The company came up with an IPO in March 2021. The company is present in the entire product value chain of the agrochemicals industry i.e. Technicals (15-16 products), Formulations (more than 80 products) and Intermediates (2 products).

Company is in process of developing 2 products of Fungicides, 2 products of Herbicides and 1 product of Insecticides, for which research and development tests have been initiated, for exclusive sale to the European markets after registration with the regulatory authority in EU. Company expects to add 4-5 new molecules every year on an ongoing basis which shall have a better margin profile.

Management has guided for revenue growth of 18-20% CAGR over FY22 sales for next 2-3 years. Historically the company has been growing at ~18% CAGR between FY18 to FY21 aided by registrations in newer geographies & introduction of newer molecules.

Heranba dominates the Indian pyrethroids market, accounting for a share of ~20%. It has a sound foothold in the domestic formulations market through a network of over 9,400+ dealers, and a robust marketing network through over 200+ representatives across India. The company also exports to over 60+ countries across the Middle East Asia, South East Asia and Africa.

The government is supporting the industry with the development and adoption of new technologies and techniques, while facilitating investments in the sector. China's adoption of the 'Blue Sky' program to realize green GDP has led to the shutdown of several chemical plants. This, in turn, is expected to result in higher volumes of pyrethroids being exported out of India. We initiate our coverage on Heranba Industries with a BUY rating and a target price of Rs.928 per share.

## Key Financials

(In ₹ million)	FY20	FY21	FY22E	FY23E				
Revenue	9,514	12,186	14,380	16,968	Market Cap (₹ million)	28,780	Face Value (₹)	10
EBITDA	1,293	2,213	2,603	3,125	Outstanding Shares (million)	40.01	Dividend Yield	0.10%
EBITDA Margin	13.6%	18.2%	18.1%	18.4%	<b>Shareholding</b>		Debt/Equity	0.10
PAT	977	1,542	1,833	2,184	Promoters	74.61%	Beta Vs. Sensex	0.90
PAT Margin	10.27%	12.65%	12.75%	12.87%	Institutional	4.22%	52 weeks High/Low	945 / 602
EPS (₹)	25	38.5	45.8	54.6	Others	21.17%	TTM PE	18.7

**Note:** Closing Prices as on 25<sup>th</sup> October 2021.

**Disclaimer:** <https://bit.ly/2RK2tzc>





# IndusInd Bank

CMP: ₹1177  
Target: ₹1,423  
Upside: 21%

## Investment Rationale:

IndusInd Bank is one of the largest private bank in India with loan book size of INR 3.73 lakh crore. Bank focuses predominantly towards vehicle finance, large corporate finance and becoming an active player in the microfinance lending market. Presently, the bank operates a network of 2,015 branches, 2385 microfinance branches, 821 vehicle financing marketing outlets & 2,870 ATMs. The bank's branch network has nearly doubled in the last 5 years from 1,004 to 2,015.

The management has indicated that their long-term strategy will be to tilt business mix towards retail business and improve granularity in the deposits franchise. Current loan book has a 56:44 mix of Retail: Corporate. On the asset side, focus on the retail segment will not only bring higher margins but will also diversify the risk away from the relatively riskier corporate segment book.

We expect business momentum to pick up from here on with corporate realignment largely achieved. The bank highlighted that collection efficiency is getting better, and normalising much ahead of estimates. Asset quality is expected to improve in FY22E.

The bank has conservatively provided its unsecured, MFI loans and has ample provisions on books, which should reduce earnings volatility, Bank has followed conservative provisioning approach with Net NPA of 0.84% and a surplus provision of Rs 2,050 crore outside this for contingencies if any.

The bank's well-capitalized balance sheet and provision buffer are cushions for profitability. We believe the growth outlook is improving. Moreover, improving corporate exposure and low expected restructuring pipeline indicate that credit cost is manageable, and business normalcy is expected to resume in FY2022E. We initiate our coverage on IndusInd Bank with a BUY rating and a target price of Rs.1,423 per share.

## Key Financials

(In ₹ million)	FY20	FY21	FY22E	FY23E				
Net Interest Income	1,20,587	1,35,279	1,52,219	1,73,648	Market Cap (₹ million)	9,11,750	Face Value (₹)	10
Net Interest Margin(%)	4.14%	4.17%	4.32%	4.41%	Outstanding Shares (million)	774.12	Dividend Yield	0.42%
PAT	44,582	29,301	54,936	73,225	<b>Shareholding</b>		Debt/Equity	7.06
PAT Margin	23.45%	14.63%	24.76%	29.04%	Promoters	16.54%	Beta Vs. Sensex	1.72
EPS (₹)	64.10	39.96	71.23	94.13	Institutional	70.41%	52 weeks High/Low	1240 / 571
BVPS	501.02	546.41	618.69	697.70	Others	13.05%	TTM PE	2.10

**Note:** Closing Prices as on 25<sup>th</sup> October 2021.

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# Jyothy Labs

**MARWADI**  
FINANCIAL SERVICES

CMP: ₹153  
Target: ₹198  
Upside: 29%

## Investment Rationale:

Jyothy Labs is an emerging FMCG player with a pan-India presence and company caters into fabric care (detergent powder and bars), dishwashing (bars and liquid), household insecticides (liquid vaporizer and machine, coil, magic card and incense sticks), personal care and laundry services.

Its portfolio has six popular brands - Ujala (fabric care), Maxo (household insecticides), Exo (dishwashing), Margo (personal care), Pril (dishwashing) and Henko (fabric care). Being the No. 1 in fabric whitener market (82.6% market share), No. 2 in dishwashing bar and liquid market, and No.2 in mosquito repellent coil market, the company, through its diverse product portfolio, has a strong positioning and growth runway in home care, fabric care and personal care segments.

The company has undertaken below-the-line (BTL) marketing activities such as dealer boards and in-shop boards, which enhanced Henko's visibility. It also tied up with electronic chains to offer free samples on purchase of new washing machines to attract new customers. We expect the overall Ujala brand to grow in high-single digit over the next two years, mainly driven by the brand extensions (Ujala Crisp & Shine, Ujala Fast Wash Bar and Ujala IDD).

Jyothy Labs has turned net debt free for the first time in FY21. The company has taken a 2-3% price increase in Detergents and Soaps and reduced trade schemes. The company is reporting market share gains across categories.

The management is aiming for higher EBITDA margin by increasing revenue contribution of the personal care category. The company wants to increase its market share by pushing smaller packs in rural areas so as to increase discretionary products sales in rural areas.

Aggressive marketing push and a strong distribution network would help JLL to drive volume growth going ahead. Further margin cushion in the near term would stem from an improvement in the product mix. We initiate our coverage on Jyothy Labs with a BUY rating and a target price of Rs.198 per share.

## Key Financials

(In ₹ million)	FY20	FY21	FY22E	FY23E				
Revenue	17,112	19,091	21,344	23,511	Market Cap (₹ million)	56,460	Face Value (₹)	1.00
EBITDA	2,511	3,145	3,205	3,800	Outstanding Shares (million)	367.21	Dividend Yield	2.60%
EBITDA Margin	14.67%	16.47%	15.02%	16.16%	<b>Shareholding</b>		Debt/Equity	0.08
PAT	1,741	2,229	2,255	2,755	Promoters	62.89%	Beta Vs. Sensex	0.46
PAT Margin	10.17%	11.68%	10.56%	11.72%	Institutional	28.61%	52 weeks High/Low	187 / 128
EPS (₹)	4.74	6.07	6.13	7.50	Others	8.50%	TTM PE	30.0

**Note:** Closing Prices as on 25<sup>th</sup> October 2021.

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# Kansai Nerolac Paints

CMP: ₹544  
Target: ₹727  
Upside: 34%

## Investment Rationale:

Kansai Nerolac Paints is the largest industrial paint and third largest decorative paint company in India. The company manufactures a diversified range of products, ranging from decorative paints coatings for homes, offices, hospitals, and hotels to sophisticated industrial coatings for most of the industries. Kansai Nerolac manufactures its various products at the company's six plants which are strategically located near its major OEM's thereby lending a strong competitive edge.

The decorative paint space contributes ~55% and industrial paint space contributes ~45% to the topline of the company. In the Auto OEM industry, Kansai Nerolac Paints is the dominant player with ~60% market share. This segment accounts for ~70% of its industrial business. The company has identified auto-refinish as a key growth driver for its industrial vertical. It has been consistently gaining market share in the auto-refinish segment.

Company being the market leader in industrial paints, it is a pure play on auto and industrial recovery. The consumer durables sector has witnessed an uptick in demand. The path-breaking PLI scheme launched by the government will boost the local production of consumer electronics, auto components, etc. and Kansai Nerolac being the leader in industrial paints is likely to be one of the biggest beneficiaries. Revival in passenger vehicle sales and strong demand momentum in industrial paints would help in a recovery in 45% of KNL's revenue portfolio.

We are optimistic about the company given its leadership position in the industrial paint business, launch of innovative products, cost control measures, stabilized gross margins & improving operational efficiencies due to increased utilization. We initiate our coverage on Kansai Nerolac Paints with a BUY rating and target price of Rs.727 per share.

## Key Financials

(In ₹ million)	FY20	FY21	FY22E	FY23E				
Revenue	52,504	50,743	61,949	70,096	Market Cap (₹ million)	2,92,690	Face Value (₹)	1.00
EBITDA	8,045	8,633	9,903	12,027	Outstanding Shares (million)	538.92	Dividend Yield	0.60%
EBITDA Margin	15.32%	17.01%	15.99%	17.16%	<b>Shareholding</b>		Debt/Equity	0.04
PAT	5,210	5,297	6,160	7,684	Promoters	74.99%	Beta Vs. Sensex	0.74
PAT Margin	9.92%	10.44%	9.94%	10.96%	Institutional	16.74%	52 weeks High/Low	680 / 493
EPS (₹)	9.67	9.83	11.42	14.25	Others	8.27%	TTM PE	54.8

**Note:** Closing Prices as on 25<sup>th</sup> October 2021.

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**CMP:** ₹480  
**Target:** ₹638  
**Upside:** 33%

## Investment Rationale:

Tata Motors is a leading global automobile manufacturer; it offers a wide and diverse portfolio of cars, sports utility vehicles, trucks, buses and defense vehicles to the world. It is the leader in commercial vehicles in each segment, and among the top three in passenger vehicles with winning products in the compact, midsize car and utility vehicle segments.

The company has announced the setting up of a wholly owned subsidiary dedicated to EVs and infusion of Rs75bn from TPG in an unincorporated subsidiary. Company outlined its aggressive stance for EV business with \$ 2Bn investment over next 5 years on product, platform, drive trains, technology charging infra and manufacturing. It plans to launch 10 EV products by FY26.

The EV industry will be driven by government incentives and PLI schemes focused on EVs. Further, it believes that new emission norms and rising fuel prices will lead to increased cost ownership of ICEs; which will necessitate EV adoption by OEMs.

The management expects the EV industry to grow 2.5-2.7x in FY22 vs 1.5-2x every year between FY17-FY21. Also, EV business currently contributes Rs 5-6bn to the company's revenues and is expected to breakeven EBITDA by next year. Management reiterated that ~20% of their volume will come from EVs as against industry penetration of ~10% in FY26.

Tata Motors to benefit from improving macro-environment in India and globally, post normalization of economy, The company is generating strong free cash flow, which will help it pursue its business plans and reduce high debts. We believe it is taking the right steps towards increasing its focus on the EV business in India. The funding from external investors would help the company to aggressively develop and launch EV models. We initiate our coverage on Tata Motors with a BUY rating and a target price of Rs.638 per share.

## Key Financials

(In ₹ million)	FY20	FY21	FY22E	FY23E				
Revenue	26,10,680	24,97,948	29,52,565	36,09,884	Market Cap (₹ million)	17,16,880	Face Value (₹)	2.00
EBITDA	1,79,871	3,05,553	3,43,349	4,95,483	Outstanding Shares (million)	3,320.31	Dividend Yield	0.0 %
EBITDA Margin	6.89%	12.23%	11.63%	13.73%	<b>Shareholding</b>		Debt/Equity	2.57
PAT	-91,994	3,076	34,310	1,31,581	Promoters	46.41%	Beta Vs. Sensex	1.64
PAT Margin	-3.52%	0.12%	1.16%	3.65%	Institutional	25.90%	52 weeks High/Low	532 / 128
EPS (₹)	-26.58	0.85	7.84	34.57	Others	27.79%	TTM PE	-

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# United Spirits



CMP: ₹826  
 Target: ₹995  
 Upside: 20%

## Investment Rationale:

United Spirits is the leader in the Indian spirits market, with ~33% volume share. The company manufactures, sells, and distributes a wide portfolio of premium brands such as Johnnie Walker, Black Dog, Black & White, VAT 69, Antiquity, Signature, Royal Challenge, McDowell's No.1, Smirnoff and Captain Morgan. The company has nine brands in its portfolio which sell more than a million cases every year, of which one brand sells more than 25 million cases each annually.

The company activated 2,000 outlets for Scotch over the last one year. Due to this initiative, it expects a significant part of this demand to sustain once overseas travel returns to normalcy. With the recovery in on trade, off trade channels are expected to recover with lifting up of night/weekend curfews and restricted timings.

India is the largest whiskey market. With United Spirits dominating volume market share of the whiskey segment in India, the company is well placed to ride on the rise in consumption of alcoholic beverages in India, driven by the underlying demographic advantage and the change in perception towards alcohol.

The company's focus on premiumisation, de-focussing of popular category brands, debt reduction, digital push, cost optimization, better product mix and supply chain management are well reflected in the higher margins and superior growth rate of the company. The outlook appears promising with: a) on-trade channel returning to normalcy; b) increased occasions for home indulgence; c) the ongoing strategic review of half of the Popular portfolio to be concluded by Dec'21, which would offer further primacy to the Prestige & Above (P&A) segment; d) potential success in the P&A segment in terms of both growth and margin. We initiate our coverage on United Spirits with a BUY rating with a target price of Rs.995 per share.

## Key Financials

(In ₹ million)	FY20	FY21	FY22E	FY23E				
Revenue	93,254	81,313	95,881	1,07,720	Market Cap (₹ million)	6,00,420	Face Value (₹)	2.00
EBITDA	15,723	10,527	15,444	18,623	Outstanding Shares (million)	726.64	Dividend Yield	0.00%
EBITDA Margin	16.86%	12.95%	16.11%	17.29%	<b>Shareholding</b>		Debt/Equity	0.24
PAT	5,923	4,479	9,107	11,580	Promoters	56.76%	Beta Vs. Sensex	0.74
PAT Margin	6.35%	5.51%	9.50%	10.75%	Institutional	28.92%	52 weeks High/Low	926 / 495
EPS (₹)	8.35	6.32	12.45	15.91	Others	14.33%	TTM PE	88.2

**Note:** Closing Prices as on 25<sup>th</sup> October 2021.

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**Source:** Company, Marwadi Research, Ace Equity, Reuters.

