AXIS SECURITIES

AXIS SECURITIES NEW YEAR STOCK PICKS 2020

Markets are changing gears...

Reliance Industries	Larsen & Toubro	Cholamandalam Investment and Finance Company	Minda Industries	KEC International	Security & Intelligence Services (India)	Mold-Tek Packaging

MARKETS ARE CHANGING GEARS

Indian markets have been on the rise gaining more than 12% post the corporate tax rate cuts undertaken by the government. A large chunk of the market run up has been due to the FII inflows on back of easing policies initiated around the same time by the central banks of developed nations; FIIs have invested around $6 bn in last 3 months. The markets have been polarized as few stocks have been driving the markets upwards given the facts that the FII have limited mandate to invest beyond the large caps and quality companies. Investors herding into large cap, quality names have stretched the valuations of the small basket of stocks sought after by the FIIs. With index trading at near all time highs and handful of stocks trading at stratospheric valuations, it is logical that the investments would spill over to the broader market making the rally broad based with participation from quality midcaps.

Equity markets follow the discounting mechanism; being one of the leading economic indicators they factor in the economic changes envisaged ahead of time. Given the divergence seen in the economy and the market conditions, it is quite obvious that the markets have anticipated the measures to be taken both on monetary and fiscal front to ensure that the economy is brought back into accelerated growth path with the target of reaching $5 trillion economy over next decade. The government has taken few measures to rejuvenate the economy, the latest being corporate tax reduction which has put India among boardroom discussions as an investment destination for the companies looking out for shifting their manufacturing bases and supply chains out of China. Having achieved the rank of 63 on Ease of Doing Business, Indian government has to ensure conducive environment to attract industry to invest into India capitalizing on the demographic dividend which would generate employment to the young, educated and burgeoning workforce. Additional reforms viz., the land and labour reforms, rationalization of personal tax rates etc. are likely to follow shortly; as and when these policies are announced and implemented, they would further reinforce India's case as an investment destination for global MNCs. Sectoral measures like announcement of scrappage policy for Auto Sector revival, additional measures to address the woes of NBFCs, public sector banks etc. would revitalize these sectors and restore growth in economy at large. These measures would also aid build up growth in Nifty earnings from FY21 onwards which would drive the markets. Rising employment would lead to more consumption, higher household spend; consecutive good monsoon for last 3 years would be supporting rural consumption. With per capita income crossing $2000, the discretionary consumption is expected to outgrow the basic/ staples consumption.

We expect the upcoming year to be a good year for equity investments esp. the midcaps following the aggressive roadmap of reforms undertaken by the government treading fiscal prudence path. In order to benefit from the expected shift of focus towards midcaps, we have identified a bouquet of stocks for investment over next one year.

Over the past few years, Axis Direct New Year Picks have given mixed results; our recommended portfolios have outperformed the Benchmark indices (Nifty 500) in 2017 (67% returns vs benchmark 38%) but underperformed in 2018 (approx. negative 10.7% return vs benchmark negative 2.5%) and 2019 (approx. negative 10.3% return vs benchmark 4.7%)*.

*Please note: These calculations have been made as on 10th Dec 2019.

AXIS SECURITIES NEW YEAR STOCK PICKS 2020

AXIS SECURITIES

Company	Comments	CMP	Target
Reliance Industries	Stake sale in Oil & Gas business; getting strategic & financial investors in consumer businesses and Listing plans of RJio & Retail are key triggers in the medium term	**1,563**	**1,711**
Larsen & Toubro	A robust order book, strong balance sheet, diversified business portfolio and proven execution capabilities are acting as an economic moat for the Company in the current volatile and challenging economic environment	**1,312**	**1,736**
Cholamandalam Investment and Finance Company	Healthy earnings growth, superior execution track record with sustained asset growth and control on NPAs despite sectoral headwinds	**303**	**387**
Minda Industries	Technology led new product lines, focused on leveraging the connected and autonomous trend of vehicles, will provide for superior growth going forward	**347**	**410**
KEC International	Focus on Non-T&D verticals, geographical diversification and continuous infrastructure push by governments across the globe is expected to augur well for KEC	**304**	**367**
Security & Intelligence Services (India)	Growing outsourced demand for the security services , leading position in Facility management and cash logistics business will help SIS to grow with higher growth momentum.	**937**	**1,100**
Mold-Tek Packaging	Improved volume growth from Paints a positive; rising F&F share to aid margin sustenance	**289**	**351**

CMP as of 23 Dec 2019

RELIANCE INDUSTRIES

AXIS SECURITIES

Reliance Industries Ltd (RIL) is India's largest private sector company. It has one of the largest refining capacity and also largest producer of Petrochemical. RIL has also made significant investments in US shale gas.

Investment Rationale

Reliance (Petchem): The company's execution of projects like ROGC, petcoke gasifiers, ethane imports, polyester expansion, coker expansion and downstream integration are expected to fetch it higher Gross Refining Margins and petchem margin than historical levels in an accelerating global growth and IMO environment.

Digital business (RJio): With a subscriber additions of ~ 8 mn per month and ~99% coverage in India R-Jio continue to focus on market share gains, while recent announcement of tariff hike is expected to drive margin improvements. The new tariffs being at a discount to competitors would maintain R-Jio's competitive advantage. EBITDA margin to expand in the long term due to: (i) operating leverage in wireless, (ii) launch of high-margin enterprise business (~60% margin), and (iii) reduction/ removal of Interconnect Charges in the near future.

Retail-profitable expansion: RIL has done rapid expansion in tier 3 & tier 4 cities with focus on consumer engagement, catchment centric segmentation and significant customer activations. However, the company continues to focus on margin by improving operational efficiencies in sourcing/logistics, better store management, strengthening of private label portfolio and early break-even in tier 3 & 4 cities. Sustained store expansion with superior execution capability will drive EBITDA growth in retail business going forward.

Deleveraging may lead to re-rating: Management plans to deleverage the balance sheet with measures like (a) strategic stake sale in Oil & Gas business, (b) getting strategic & financial investors in consumer businesses , (c) Listing plans of Rjio & Retail and unlocking option for real estate investments.

Financial Summary

Y/E March	Revenue (Rs Cr.)	PAT (Rs Cr.)	EPS (Rs)	RoE (%)	RoCE (%)
FY19	5,81,020	39,588	66.8	11.6	9.2
FY20E	6,07,730	47,355	76.5	11.3	9.4
FY21E	6,72,057	60,026	96.9	12.9	10.6

Source: Capitaline, Consensus Estimates, CMP as of 23 Dec 2019

9%

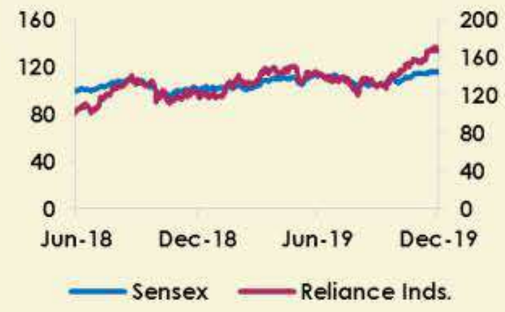
Target: 1,711

Reco Price: 1,563

Stock Data

No. of shares	633.9 Cr.
Market cap (Rs)	9,95,888 Cr.
52 week high/low (Rs)	1,614 /1,055
Avg. daily vol. (6 mths)	39,92,493
Bloomberg code	RIL IN
Reuters code	RELI.BO

Price Performance



LARSEN & TOUBRO

AXIS SECURITIES

L&T is a major engineering, construction, manufacturing, technology and financial services conglomerate with global operations. L&T addresses critical needs in key sectors – Hydrocarbon, Infrastructure, Power, Process Industries and Defence – for customer in over 30 countries around the world.

Investment Rationale

Strong Execution: L&T's strong execution has led to revenue growth of 13% at Rs 66,196 crore during H1FY20. Revenue growth was largely led by Hydrocarbon, Heavy Engineering and Services business. Infrastructure segment, which is the largest contributor in revenue, has grown steadily at 11% in H1FY20 led by strong domestic growth on robust execution. Margins at 12.4% in H1FY20 fell 70bps due to consolidation and higher SG&A expense in Services business. Infrastructure margin has improved in Q2FY20 by 30 bps and we can expect blended margins to remain stable.

Robust & diversified Order Book: With the surge in order intake of Rs 86,991 crore in H1FY20, growing at 16% over the corresponding period of the previous year, the company crossed the Rs 3 lakh crore order book milestone with the consolidated order book at Rs 3,03,222 crore as at September 30, 2019, international orders constituting 22 % of the total order book. Hydrocarbons and Services segments saw strong order inflows during Q2FY20, contributing 31% and 22% respectively to new order inflows (Rs 48,300 cr). Deals pipeline remains strong at Rs 5.2 lakh cr for H2FY20, with 18-20% win run-rate, we feel L&T is well placed to surpass its inflow guidance of 10-12% for FY20.

Improving return ratio: RoE has been continuously improving from 9.9% in FY16 to 15.8% in H1FY20. Management is confident of achieving RoE target of ~18% by FY21. Company is continuously moving away from noncore and lower margin businesses to increase revenue contribution of high margin Services (IT and Finance) businesses.

Government's thrust on Infrastructure: Govt. announced significant push in infra and sub-sectors including roads, railways, port, airports, and urban infrastructure. The capex outlook for these segments remain strong for the next 3-5 years. With 16% market share in the last five years, L&T has been able to maintain leadership position in the infra space. Apart from infra, Hydrocarbon order inflows so far have been strong and therefore expected to show major contribution in FY20 and FY21. We value L&T at 20x FY21E EPS to arrive at a target price of Rs 1736.

Financial Summary

Y/E March	Revenue (Rs Cr.)	PAT (Rs Cr.)	EPS (Rs)	RoE (%)	RoCE (%)
FY19	135,220	8,905	63.5	14.6	9.9
FY20E	158,152	10,255	73.1	15.6	8.5
FY21E	179,867	12,166	86.8	16.4	8.9

Source: Capitaline, Consensus Estimates, CMP as of 23 Dec 2019

32%

Target: 1,736

Reco Price: 1,312

Stock Data

No. of shares	140.4 Cr.
Market cap (Rs)	1,84,044 Cr.
52 week high/low (Rs)	1607 /1202
Avg. daily vol. (6 mths)	17,32,688
Bloomberg code	LT IN
Reuters code	LART. BO

Price Performance

CHOLAMANDALAM INVESTMENT & FINANCE COMPANY

AXIS SECURITIES

Cholamandalam Investment and Finance Company Ltd (CIFC), part of the Murugappa group, is a mid-sized retail NBFC. It is one of the leading NBFCs in Asset Financing Business and has been in business for over 40 years. CIFC operates from 885 branches across 27 states and has 79% presence across Tier III IV, V, and VI towns.

Investment Rationale

Diversified portfolio mix with niche focus: CIFC has a well-diversified loan book (AUM Rs. 47,700 Cr.) with presence across secured asset segments such as vehicle finance (VF) - 74% of AUM (trucks, cars, tractors, used vehicles) with over three decades experience and more than a decade's experience in Home Equity(HE) - 23% of AUM. The company has also entered into new segments like home loans and SME lending over the last 4-5 years. Overall, this diversity allows for sustained healthy growth visibility for the company.

Improved NIM to support earning performance: CIFC's asset book is ~74% largely fixed rate VF book and a significant proportion of floating rate bank loans (49%) which will result in NIM accretion. The company is present in segments where reasonable pricing power could be achieved (loan-to-value or LTV, rather than interest rates, is the key plank of competition). Funding is primarily wholesale (including 49% from bank loans). Overall, this is a good mix to have in a falling rate environment like the current one.

Asset quality in control: CIFC's control on its non performing assets has been impressive vs. vehicle finance peers facing stress. G/NNPA have come down in FY19 to 2.3/1% from 2.9/1.6% in FY18 with PCR improvement to ~50%. In Q2FY20, even as there was a slight increase in VF GNPAs (largely due to HCV) to 2.3%, Home Equity (HE) fell 15bps QoQ to 4.03%. We expect asset quality to remain largely stable with focus on smaller ticket loans over the past two years and SARFAESI recoveries.

Outlook: Diversification across segments and geographies along-with better access to liquidity on account of parentage and strong credit practices, is helping CIFC to churn out stable performance despite sectoral headwinds. Growth in newer segments and geographies has kept the disbursal momemtum. Even though VF GNPAs have risen in Q2FY20, they remain best in class and in control. In view of its healthy earnings growth, superior execution track record with sustained asset growth and control on NPAs leading to steady ROA, we are positive on CIFC with a target price of Rs 387 (3x FY22 ABV).

Financial Summary

Y/E March	PAT (Rs Cr.)	EPS (Rs)	Book Value (Rs per share)	RoAE (%)	RoAA (%)	Net NPA (%)
FY19	1186.2	15.2	79.0	21.1	2.3	1.2
FY20E	1447.1	18.5	95.6	21.3	2.3	1.4
FY21E	1901.3	24.3	117.5	22.4	2.6	1.5

Source: Company, Axis Securities, CMP as of 23 Dec 2019

28%

Target: 387

Reco Price: 303

Stock Data

No. of shares	78.2 Cr.
Market cap (Rs)	23,752 Cr.
52 week high/low (Rs)	334/218
Avg. daily vol. (6 mths)	678,759
Bloomberg code	CIFC IN
Reuters code	CHLA.BO

Price Performance

MINDA INDUSTRIES

AXIS SECURITIES

Minda Industries Ltd (MIL) is a leading tier 1 solutions provider for Indian OEM's with a highly diversified product portfolio which includes switches, lighting systems, sensors, air bags, infotainment, batteries, blow moulded parts etc. It has 62 manufacturing facilities in 7 countries and 15 global technology partnerships.

Investment Rationale

From suppliers to an integrated systems provider: The company's shifting stance of becoming an end to end systems provider to OEM's by collaborating and leading in the research, design and technology of building a component, instead of just providing the end components as per specifications. Thus, providing it with an adequate moat that will make its relationships with OEM's more deep rooted and long term.

New products to drive revenue growth in FY21: With increasing contribution coming from new product lines like sensors & controllers, telematics and alloy wheels the company is well position to tap on the shifting trend of automobiles becoming connected and autonomous modes of transport. Further, revenue additions from companies like Harita Seating Systems (HSS) and Delvis from FY21 will give a boost to its FY21 revenues.

Fighting the slowdown and focusing on growth: MIL has focused extensively in getting into new models and products of OEM's to arrest its revenue decline in H1FY20 and had also started cutting costs from Dec 2018 onwards in light of the slowdown. As a result, their top line has declined much less as compared to its peers in H1FY20, while EBITDA margins have remained healthy at 12% levels. This reflects that Minda Industries has a strong management team which executes its strategies well.

Outlook: While near term challenges of the auto industry will impact overall revenue profile of Minda Industries in FY20, its multiple technology led growth levers from new product lines will provide it a superior growth in FY21. Further, its long term strategy to focus on building integrated solutions that support a connected and autonomous vehicle augurs well for its long term growth. Backed with a strong management which has a good history of execution, we recommend a BUY on this stock with a target price of Rs 410.

Financial Summary

Y/E March	Sales (Rs Cr)	PAT (Rs Cr)	FDEPS (Rs.)	RoE (%)	RoCE (%)
FY19	5,908	285	10.9	19.7	21.8
FY20E	6,242	327	12.5	19.0	17.7
FY21E	7,790	452	17.2	22.0	21.2

Source: Company, Axis Securities, CMP as of 23 Dec 2019

18%

Target: 410

Reco Price: 347

Stock Data

No. of shares	26.2 Cr.
Market cap (Rs)	9,098 Cr.
52 week high/low (Rs)	392/256
Avg. daily vol. (6 mths)	91,781
Bloomberg code	MNDA IN
Reuters code	MNDA.BO

Price Performance

KEC INTERNATIONAL

AXIS SECURITIES

KEC International Limited, headquartered in Mumbai, India, is the flagship company of the RPG Group. An Engineering, Procurement, and Construction (EPC) major, KEC has delivered several iconic infrastructure projects in more than 100 countries. The Company is delivering projects in key sectors such as Power Transmission & Distribution (T&D), Railways, Civil, Solar, Smart Infra, and Cables.

Investment Rationale

Diversifying business risk: KEC has successfully diversified its business concentration from T&D business by venturing its EPC business into Railways, Civil, Solar and manufacturing of Towers and Cables. Non-T&D business revenue contribution has more than doubled from 17% in FY16 to 34% in FY19. KEC has worked to electrify 40% of total Indian Railway network and has doubled its revenues to Rs 1,918 Crore in FY19 compared to Rs 844 cr in FY18, focus is on civil business to replicate railway's growth. Management has guided composite revenue growth of 15-20% in FY20, and 10-15% in FY21 to be led by pick up in execution and strong order backlog.

Robust Order Book provides visibility: KEC order book has grown at a CAGR of 21% over FY16-19 and currently stands at Rs 18,085 cr (Q2FY20), additionally it has ~Rs 5,000 cr L1 order book. Green Energy Corridor projects of Rs 13,000+ cr have been awarded via Tariff based competitive bidding (TBCB); these projects are targeted to be completed by December 2020, which is expected to drive order inflows for KEC in H2FY20.

Improved margins to sustain: KECs focus on execution and cost reduction incentives has led to significant improvement in margins. EBITDA margin has grown to 10.5% in FY19 vs 7.9% in FY16 (H2FY20 EBIDTA margins at 10.4%) while PAT margin of 4.7% in FY19 has improved from 1.7% in FY16 (H2FY20 PAT margins at 4.2%) primarily driven by internal efficiencies in T&D and pick up in Railway businesses. Working capital has improved over the years with reduction in debtors. KEC is confident of maintaining operating margins at current levels while PAT margins would be driven by corporate tax cut, lower interest rates and better forex management.

Strong financial performance: Revenue and PAT has grown significantly over the year which has helped KEC reduce its debt thus improving RoCE from 27% in FY16 to 35% in FY19. Pick up in execution and order backlog of 1.9x FY19 revenue provides strong visibility. We estimate revenues/PAT to grow at 14%/24% CAGR over FY19-21E. We value KEC at 13x FY21E EPS to arrive at a target price of Rs 367.

Financial Summary

Y/E March	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs.)	RoE (%)	RoCE (%)
FY19	11,001	496	19.3	21.6	35.1
FY20E	12,607	622	24.2	22.7	35.6
FY21E	14,346	726	28.2	21.7	34.3

Source: Company, Axis Securities, CMP as of 23 Dec 2019

21%

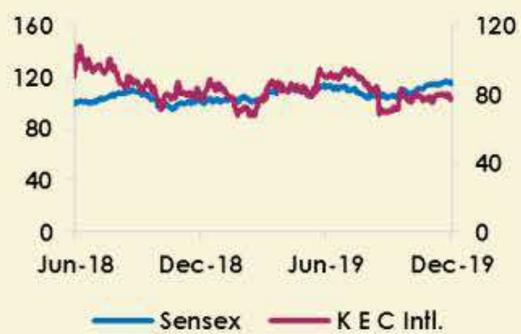
Target: 367

Reco Price: 304

Stock Data

No. of shares	25.7 Cr.
Market cap (Rs)	7,822 Cr.
52 week high/low (Rs)	341 /230
Avg. daily vol. (6 mths)	1,91,271
Bloomberg code	KECI IN
Reuters code	KECL. BO

Price Performance



SECURITY & INTELLIGENCE SERVICES (INDIA)

AXIS SECURITIES

Security and Intelligence Services (India) Ltd (SIS), is a leading security services company in India and Australia with leadership positions in cash logistics and facility management services. The SIS group has expanded its footprint not just across 29 Indian states, but also across a widespread network in Australia.

Investment Rationale

Security Services in India are growing with high momentum: SIS is one of the leading security services provider in India, with 177 branches and 1,49,200 employees across India. The company is covering more than 14,800 sites in 29 states in India. The security services market in India is witnessing high growth due to improved economic environment, increasing concerns about crime and terrorism, inadequate public safety measures, and growing industrial zones. The security services in India is likely to grow with more than the current growth rate (20%) on accounts of the growing concerns for security, technological advancement, penetration of foreign players through FDI, rise in number of banks and expanding ATM network.

Strong presence in Australia: MSS (SIS Australia) is one of the leading private security provider in Australia providing services across different verticals such as Aviation, Commercial property, Energy & Resources, Government, Industrial Logistics etc. Overall growth in the sectors like Healthcare , Industrial growth are likely to grow by more than 3.4% in next two years. Australian security services demand is likely to outpace the growth in the other sectors.

Facility management Industry growing exponentially: The Indian Facilities Management services market is estimated at Rs 58,500 cr. and is slated to grow at a CAGR of 25%, much higher than the global trend. Moreover, various initiatives by Indian government to provide housing for all citizens and development of smart cities in India are further expected to positively influence India facility management market in the coming years. SIS with leadership position in facility management will likely to get benefitted with the growing demand.

Rising demand for electronic security services in India: The electronic security services market in India has recorded growth at a CAGR of 25% from FY16-19; the segment is projected to grow at a CAGR of 34%, from Rs 7,000 cr (approx.) in CY18 to reach Rs 17,000 cr (approx.) by CY21. SIS has built various technology solutions to improve productivity and operational efficiencies at various levels. SIS is also focused on the technology enhancement in terms of providing upgraded security services viz., turnkey services, surveillance solutions, reduction in pilferage etc. which would help it gain market share in future.

Financial Summary

Y/E March	Revenue (Rs Cr)	PAT (Rs Cr)	EPS (Rs.)	RoE (%)	RoCE (%)
FY19	7,093	365	29.48	19%	17%
FY20E	8,512	511	42.20	20%	19%
FY21E	10,450	581	49.80	19%	20%

Source: Capitaline, Consensus Estimates, CMP as of 23 Dec 2019

17%

Target: 1,100

Reco Price: 937

Stock Data

No. of shares	7.3 Cr.
Market cap (Rs)	6,871 Cr.
52 week high/low (Rs)	994 /702
Avg. daily vol. (6 mths)	19,303
Bloomberg code	SECIS IN
Reuters code	SECR.BO

Price Performance

MOLD-TEK PACKAGING

AXIS SECURITIES

Established in 1986, Mold-Tek Packaging (MTEP) today is the leader in In-Mold Label (IML) Packaging segment of the Indian Rigid Packaging Industry. It's in-house technological prowess in manufacturing robots and IML labels is unmatched globally and domestically. MTEP's products find application in Food & FMCG, Paints, Lubes, Oil and other fast moving sectors.

Investment Rationale

IML a game changer and continuing to drive Revenue/Earnings growth: Value share of IML in total Revenues for MTEP stood at 0% in FY12 which in FY19/H1FY20 stood at 63% /65% respectively. We believe, IML share is only expected to rise going ahead as management remains confident of achieving Rs. 200cr revenue target for this division by FY22E. To achieve this, MTEP is consistently working on new product development, new customer addition and growing wallet share from existing customers. Testimony to this is, a 2nd (new) product developed for Hindustan Unilever after having successfully delivered on the initial product order.

Strong Clientele: MTEP, which created IML pail packaging market in the Paints industry in India, has been successful in replicating the same for Lubes, Food & FMCG (F&F) industry and Edible Oil industry now. It has a leadership position across all the sectors like Paints, Lubes, F&F. Being the only IML based packaging player in F&F segment, it leads peers (small scale of operations) by a far margin and has strong relationships with companies like MNCs like Hindustan Unilever, P&G, Asian Paints, Kansai Nerolac, Berger Paints, Shell, Castrol, Mondelez, Britannia, ITC, AMUL, Hatsun Agro, MTR, etc.

Higher contribution from F&F segment a margin driver: F&F segment in FY14 contributed 1% to total revenues and since then it increased consistently to 21%/23% in FY19/Q2FY20. This we expect will form ~20%/25% of Total Revenues in FY20E/21E. Further owing to rising F&F contribution we expect MTEP to report EBITDA/kg in the range of Rs. 34-35/kg by FY21E.

Valuations: Over FY14-19 the company reported Revenue/PAT at 9%/17% CAGR. We believe, rising F&F contribution, strong growth from paints sector, technological edge (developing bio-degradable packaging solutions), limited competition from peers and consistent increase in share of IML products, MTEP can report 15% / 29% Revenues / Earnings CAGR over FY19-FY21E. We assign an 18x P/E basis its FY21E EPS.

Financial Summary

Y/E March	Revenue (Rs Cr)	PAT (Rs Cr)	EPS (Rs.)	RoE (%)	RoCE (%)
FY19	406	32	11.3	16.4	17.5
FY20E	477	44	16.5	20.4	19.0
FY21E	534	53	19.2	20.7	20.4

Source: Company, Axis Securities Estimates, CMP as of 23 Dec 2019

21%

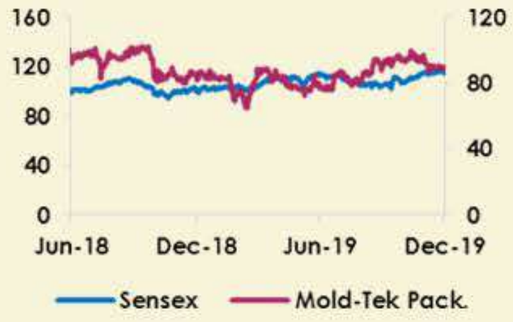
Target: 351

Reco Price: 289

Stock Data

No. of shares	2.8 Cr.
Market cap (Rs)	802 Cr.
52 week high/low (Rs)	322/202
Avg. daily vol. (6 mths)	20,696
Bloomberg code	MTEP IN
Reuters code	MOLT. BO

Price Performance



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AXIS SECURITIES

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DEFINITION OF RATINGS

Ratings	Expected absolute returns over 12 months
BUY	More than 15%
ADD	Between 5% to 15%
REDUCE	Between 5% to -10 %
SELL	More than -10%

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