Angel Broking

EK NAYI SHURUAAT

#SmartSaude KE SAATH

STOCK PICKS

FOR THE YEAR 2021

A Promising start to a new year

India's economic recovery from the Covid lows has been quicker than expected and has come as a pleasant surprise for the markets. While India's recovery from the pandemic lows was slow to begin, we have witnessed a strong acceleration in economic activities over the past few months due to reopening of the economy and festive demand. News flow on the vaccine front continues to be positive as various countries like the US and UK have started their vaccination program which gives us hope that the Covid situation should improve significantly by the second half of 2021. Continued monetary and fiscal stimulus by central banks and Governments has led to a global risk-on environment despite sharp increase in Covid-19 cases globally. Given the positive sentiments we see continued momentum in cyclical sectors like auto, banking and consumer durables. We also expect that sectors with strong revenue visibility like chemicals, IT and pharmaceuticals will also continue to do well.

India's economic recovery has been quicker than expected

High frequency indicators like PMI numbers, power demand etc. continues to point to a quicker than expected recovery in the economy. The manufacturing PMI for November at 56.3 points to continued strong rebound in manufacturing. Though this is lower than October's print of 58.9, last three month's PMI numbers point to a strong acceleration in the manufacturing sector. Services PMI at 53.7 for the month of November also points to a solid pace of expansion despite falling from 54.1 in October.

Government stimulus and RBI's easy monetary policy to support recovery

The Government has announced various rounds of stimulus measures including the most recent ₹2.65 lakh Cr. Atmanirbhar Bharat 3.0. The RBI in its latest MPC meeting has guided that they will maintain their accommodative stance well into FY2022 despite high inflation. The various fiscal and monetary measures announced by the Government and the RBI will support the economic recovery.

Vaccination and US stimulus package leading to risk-on environment globally

After months of delay the US Government has successfully passed the second US stimulus package of USD 900bn which is a positive development for the markets. Moreover various countries like the US and UK have started their vaccination program which gives us hope that the Covid situation should improve significantly by the second half of 2021. Positive developments on the vaccine front along with continued fiscal and monetary support from Governments and central banks is leading to a risk on rally despite a surge in Covid-19 cases globally.

We expect the broad based rally to continue for now

The rally in the past few months has become broader with more sectors participating in the rally. We expect the rally in cyclical sectors will continue for now given the risk-on environment globally and expect sectors like auto, BFSI, consumer durables and cement will continue to outperform. While we expect cyclical sectors will continue to do well we also continue to remain positive on chemicals, IT and Pharma given strong revenue visibility in these sectors.

Top Picks

Company	CMP (₹)	TP (₹)
Auto		
Swaraj Engines	1,416	1,891
NRB Bearings	102	118
Banking/NBFC		
Bandhan Bank	413	525
IDFC First Bank	37	44
Chemicals		
Atul Ltd	6,386	7,339
Galaxy Surfactants	2,000	2,284
IT		
Persistent Systems	1,490	1,677
Pharma & Healthcare		
Metropolis Healthcare	1,949	2,593
Narayana Hrudayalaya	441	500
Others		
Gujarat Gas	380	450
Hawkins cooker	5,866	6,776
JK Lakshmi Cement	333	422
Whirlpool India	2,509	3,032

Source: Company, Angel Research

Note: Closing price as on December 29, 2020

India's economic recovery has been quicker than expected

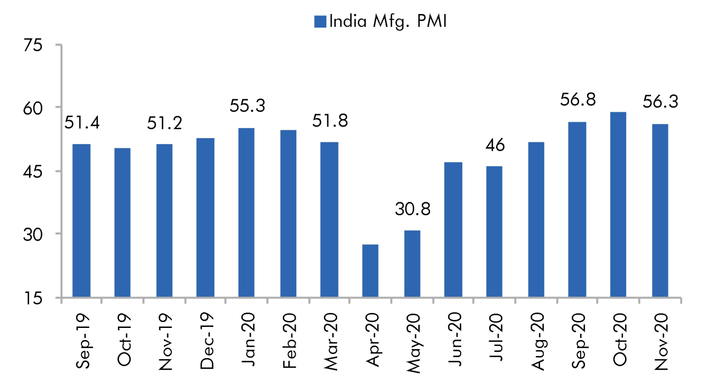
High frequency data point to quicker than expected recovery in economy.

India's pace of economic recovery has been quicker than expected and has pleasantly surprised the markets. While India's recovery from the pandemic lows was slow to begin, we have witnessed a strong acceleration in economic activities over the past few months due to reopening of the economy and festive demand.

While the economy continued to improve gradually till August there was a significant acceleration in recovery from September onwards due to unlocking of the economy and strong festive demand. Moreover the various stimulus packages provided by the Government is also helping the ongoing recovery process. The November PMI numbers point to continued acceleration in economic activities across manufacturing and services.

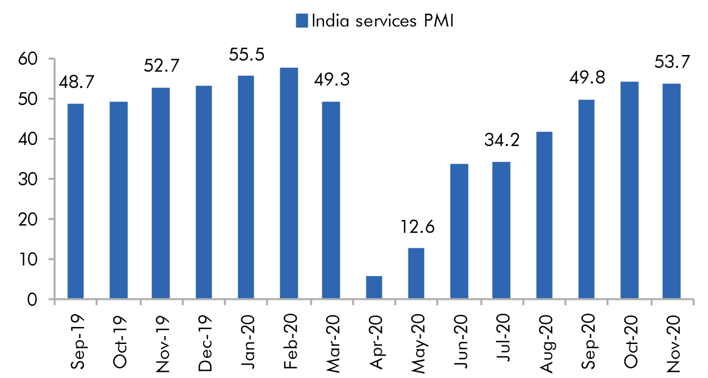
The manufacturing PMI for November at 56.3 points to continued strong rebound in manufacturing. Though this is lower than the reading of 58.9 in October, the last three month PMI numbers point to a very strong acceleration in the manufacturing sector. Services PMI at 53.7 for the month of November also points to a solid pace of expansion despite falling from 54.1 in October.

Exhibit 1: Manufacturing has led the economic recovery



Source: Company, Angel Research, Bloomberg, IHS Markit

Exhibit 2: Services sector gathering momentum



Source: Company, Angel Research, Bloomberg, IHS Markit

Services PMI reading above 50 for two months in a row now

While the manufacturing sector has led the rebound in growth so far the services sector which accounts for ~60% of the economy is still lagging. However with significant portion of the economy being opened up under unlock 4.0 and 5.0 we are witnessing a rebound in the service sector. The Services PMI has now been above the 50 mark for two months in a row and points to green shoot of recovery in the services sector.

We expect the services sector will lead the next leg of the economic rebound

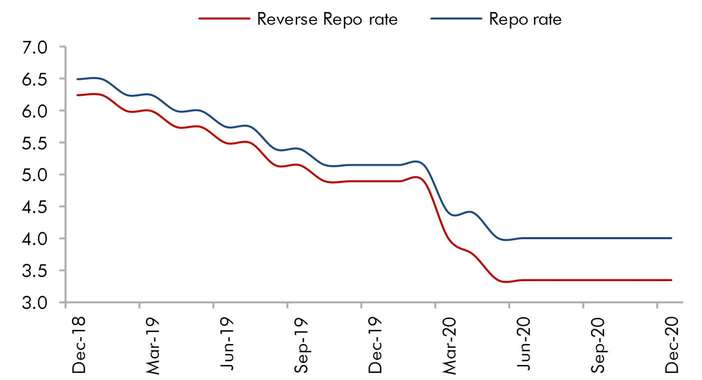
While manufacturing has led the first leg of the economic recovery we expect the services sector will lead the second stage of the recovery. We expect continued improvement in the services sector as demand is coming back for even the worst impacted sub sectors like travel, tourism and hospitality.

RBI's accommodative stance to help transmission of rate cuts

RBI to maintain accommodative stance well into FY2022.

The Reserve bank of India (RBI) in its bimonthly MPC meeting maintained status quo with the benchmark repo and reverse repo rates being left unchanged at 4.0% and 3.35% respectively. This was in line with market expectations which had expected to RBI to maintain rates despite high inflation level of 6.7%. Though inflation is likely to remain at the higher end of the RBI's target range of 2-6% in the foreseeable future the RBI continued with its accommodative stance and has indicated that they are willing to look through higher inflation numbers.

Exhibit 3: Rate cut of 250bps by RBI in current cycle



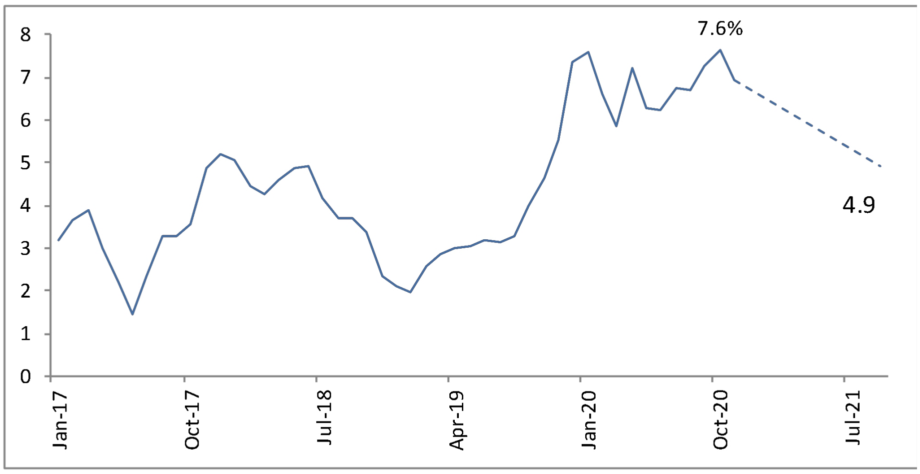
Source: RBI, Angel Research, Bloomberg

Exhibit 4: However full transmission yet to happen

Source: RBI, Angel Research, Bloomberg

While the RBI has cut the repo rate by 250bps since the beginning of the current easing cycle in early 2019, lack of transmission has so far prevented the full benefits from flowing into the hands of the borrowers. This is reflected in very high spreads between the repo rate and the G-Sec rate which is hovering between 180-200bps. This is largely due to elevated inflation and high levels of government borrowings expected this year. However we expect spreads between the overnight rate and the G-Sec rates normalize gradually through FY2022 due to pick up in Government revenues along with fall in inflation levels to 4.6-5.2% by the first half of FY2022 from peak of 7.6% in October 2020.

Exhibit 5: RBI expects Inflation rates to cool off going forward



Source: RBI, Angel Research, Bloomberg

Government Stimulus packages to also help recovery

Government stimulus packages have been focused on key employment generating sectors.

The Government and the RBI have also announced stimulus packages of ₹30lakh Cr. so far. While the RBI has announced monetary measures of ₹12.7lakh Cr. so far the Government too has announced fiscal measure of ₹17.2lakh Cr. so far. The government had announced a fiscal package of ₹11.0lakh Cr. under Atmanirbhar Bharat 1.0 in the month of May'20 post which it has announced various other fiscal packages culminating with the most recent ₹2.65 lakh Cr. Atmanirbhar Bharat 3.0.

Providing support to the rural economy and SME's had been the key focus area for the Government in all the stimulus packages announced so far by the Government. However in the last stimulus package there was a clear focus on boosting domestic manufacturing along with providing support to the real estate sector. The measures announced so o far by the Government should help support the current economic recovery given its focus on critical sectors like agriculture, manufacturing and real estate which are key employment generators.

Exhibit 6: Atmanirbhar Bharat 3.0 package (₹ cr.)

List of major announcement under Atmanirbhar Bharat 3.0 (INR Cr.)	
Boost for Atmnanirbhar Manufacturing (PLI)	1,45,980
Support for Agriculture – Fertiliser Subsidy	65,000
Housing for All - PMAY-U	18,000
Industrial Infrastructure and Domestic Defence Equipment	10,200
Boost for Rural Employment	10,000
Boost for Infrastructure – equity infusion in NIIF Debt PF	6,000
Atmanirbhar Bharat Rozgar Yojana (overall Rs 36,000 cr)	6,000
Boost for Project Exports – Support for EXIM Bank	3,000
Total	2,65,080

Source: GOI, Angel Research

Exhibit 7: Total stimulus so far (₹ cr.)

Total Stimulus so far (NR Cr.)	
Fiscal package announced by the Government	
Pradhan Mantri Garib Kalyan Package (PMGKP) +	1,92,800
Atmanirbhar Bharat Abhiyaan 1.0	11,02,650
PMGKP Anna Yojana – extension of 5 months from Jul - Nov	82,911
Atmanirbhar Bharat Abhiyaan 2.0 (12th October)	73,000
Atmanirbhar Bharat Abhiyaan 3.0	2,65,080
Fiscal Measures announced by RBI so far	
RBI measures announced till 31st Oct 2020	12,71,200
Total	29,87,641

Source: GOI, Angel Research

We expect increase in direct Government spending going forward.

The stimulus packages have been in line with the Governments strategy of providing targeted support to the most critical sectors given the lack of fiscal space to provide direct stimulus to the economy in the form of large cash spending. However we believe that more needs to be done in the form of direct spending by the Government and expect that the Government will step up its direct spending in the next few months of FY2021.

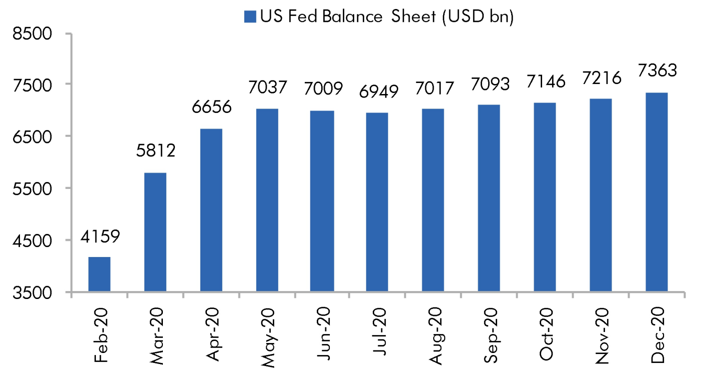
Positive global sentiments will lead to continued strong FII flows

Second US stimulus package is a positive development for markets.

After months of delay the US Government's has successfully passed a USD 900bn second stimulus package. This is a positive development for the markets especially in the backdrop of a surge in Covid-19 cases in Europe and the US. The surge in Covid-19 cases has led to many countries implementing restrictions and social distancing guidelines which are expected to lead to a pullback in global economic activity in the fourth quarter of 2020.

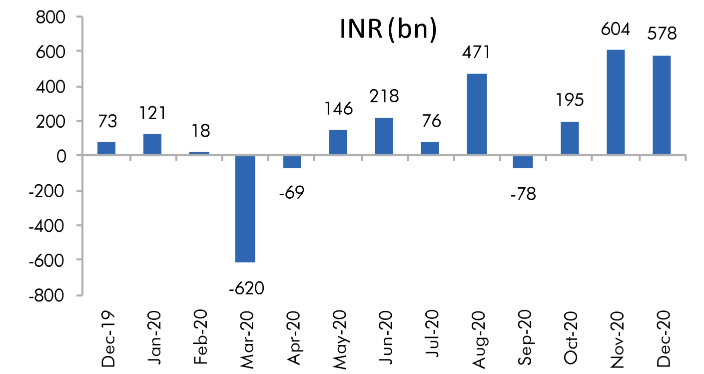
The US Fed too has stepped up its quantitative easing program post the US elections. This will lead to continued surge in global liquidity which will result in continued FII flows into emerging markets including India.

Exhibit 8: US Fed stimulus driving global flows



Source: Company, Angel Research, Bloomberg

Exhibit 9: India has attracted record FII flows in FY21



Source: Company, Angel Research, Bloomberg

Market view and outlook

We believe that opening up of the economy along various stimulus measures announced by the Government and the RBI should lead to continued improvement in the economy. Global sentiments are expected to remain buoyant given that development on the vaccine front has been better than market expectations. Moreover continued fiscal and monetary support from Governments and central banks will also provide support to the markets despite a surge in Covid-19 cases globally.

We expect broad based rally to continue for now.

The rally in the past few months has become broader with more sectors participating in the rally. We expect that the rally in cyclical and beaten down sectors will continue for now given the risk on environment globally. We believe that auto, BFSI, consumer durables and cement should continue to do well. We also expect the rural, essential and digital theme to continue playing out over the next few quarters given revenue visibility and strong growth prospects. We therefore continue to maintain our positive outlook on sectors like chemical, IT, and Pharmaceuticals.

Exhibit 10: Rationale – Angel Top Picks

Company	CMP (₹)	TP (₹)	Rationale
Auto			
Swaraj Engines	1416	1,891	Strong recovery in the tractor industry (due to robust Rabi crop, hike in MSP & a normal monsoon) will benefit players like Swaraj Engines.
NRB Bearings	102	118	We expect company to post strong recovery in topline led by rebound in demand in domestic auto sector. Exports to also register strong growth led by existing as well as new customers.
BFSI			
Bandhan Bank	413	525	Strong deposit base & low cost of funds coupled with diversification away from West Bangal and MFI along with stable NIM's and RoE's will lead to a retaing for the bank
IDFC First Bank	37	44	We believe efforts to built retail liability franchise, fresh capital infusion and provision taken on the wholesale book will help to tide over this difficult time.
Chemicals			
Atul Ltd	6,386	7,339	Atul has very strong chemistry skill sets and will be one of the biggest beneficiaries due to shifting of production from China
Galaxy Surfactants	2,000	2,284	We expect strong growth for the company due to exposure to personal and home care segment and recovery in the specialty segment
IT			
Persistent Systems	1,490	1,677	Company has won deals worth USD 150mn in Q1Y21 and management has highlighted strong deal pipeline which will drive growth in H2FY21.
Pharma & Healthcare			
Metropolis Healthcare	1,949	2,593	We are positive on the company given expected long term growth rates of ~15% CAGR, stable margins profile and moderating competitive intensity.
Narayana Hrudayalaya	441	500	We are positive on the hospital sector with Narayana Hrudayalaya well placed for growth of 10-15% CAGR. We expect capex to be very limited in the near future and cash flows to improve significantly.
Others			
Gujarat Gas	380	450	Company witnessing strong demand growth from the Industrial sector due to fall in gas prices and also due to environmental concerns of using petcoke as a feedstock in manufacturing sector
Hawkins cooker	5,866	6,776	Gaining market share with peer, strong demand post Covid-19 and increase in penetration of cooking gas to drive higher growth.
JK Lakshmi Cement	333	422	It is trading at a significant discount compared to other north based cement company such as JK Cement as well as historical valuation.
Whirlpool India	2,509	3,032	Going forward, we expect healthy profitability on the back of a strong brand, wide distribution network, capacity expansion & strengthening product portfolio.

Source: Company, Angel Research

Exhibit 11: Top Picks Valuation Table

	Market Cap (₹ cr)	CMP (₹)	Sales (₹)		PAT (₹)		ROE (%)		P/E (x)	
			FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
Auto										
Swaraj Engines	1,718	1,416	774	899	66	86	16.2	17.1	25.9	19.9
NRB Bearings	985	102	697	898	33	72	6.8	13.2	29.7	13.8
Chemicals										
Atul Ltd	18,943	6,386	3,946	4,981	697	837	17.8	18.0	27.2	22.6
Galaxy Surfactant	7,092	2,000	2,797	3,223	272	324	21.4	21.2	26.0	21.9
IT										
Persistent Systems	11,391	1,490	4,077	4,645	408	513	15.2	16.7	27.9	22.2
Pharma & Healthcare										
Metropolis Healthcare	9,960	1,949	990	1,163	173	217	26.3	26.4	57.6	45.8
Narayana Hrudayalaya	9,015	441	2,643	3,930	(60)	235	-	18.5	-	38.4
Others										
Gujarat Gas	26,179	380	9,428	12,522	1,442	1,517	33	26	18.2	17.3
Hawkins cooker	3,102	5,866	658	750	59	80	32.5	42.4	52.4	39.0
JK Lakshmi cement (Standalone)	3,923	333	4,151	4,505	315	333	14.5	17.0	12.5	11.8
Whirlpool India	31,843	2,509	5,607	6,448	337	485	18.4	26.5	94.5	65.7

Source: Company, Angel Research

Exhibit 12: Top Picks Valuation Table – Banking/NBFC

Particular	Market Cap (₹ Cr)	CMP (₹)	NII (₹ Cr)		PAT (₹ Cr)		EPS (₹)		ROE (%)		P/BV (x)	
			FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Bandhan Bank	66,516	413	13,019	15,179	3425	4725	21.3	29.3	20.8	24.0	3.8	3.1
IDFC First Bank	20,818	37	7,138	9,139	76	1793	0.1	3.2	0.5	8	1.2	1.1

Source: Company, Angel Research

Note: CMP is Closing price as of December 29, 2020

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