Post Covid Winners

DALAL & BROACHA STOCK BROKING PVT. LTD.

Unlock theme

Equity Research Desk

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Dear Investors,

Markets have staged a strong rally in the last few months. The benchmark Sensex is up 94% since the beginning of the financial year. The Mid and small cap indices too have staged a strong rally, registering gains of 1.3x and 1.5x respectively. Revival of risk appetite globally has led to a surge in FII flows. Since November 2020, foreign investors have pumped in close to USD 20 bn.

India is amongst the few countries globally to have avoided a second Covid19 wave till date. This has led to a significant improvement in business and consumer sentiments. The start of phase 2 of vaccination will further help to bring down cases of severe illness and therefore fatality rate. We believe as cases of severe illness (and therefore hospitalization) recede in the coming months, business and consumer activity will continue to remain strong.

The theme of this report is to highlight post covid winners. While majority segments of the economy like power consumption, auto sales etc recovered to pre pandemic levels, some segments of the economy remained stressed like hotels, retail, multiplexes etc. We see the next 12-18 months as extremely strong for these sectors as consumers activity returns. Ultra-low interest rates is expected to further boost the prospects for these companies.

Also, the pandemic has forced lot of companies to prune their cost structures. Some portion of these cost savings are likely to be permanent in nature. As a result, we expect companies to report strong operating leverage over the next 12-18 months.

The companies which we have mentioned in this report are well funded with strong balance sheet. An equal weight of all the stocks mentioned in the report would be recommended. The risk to this investment idea would be emergence of a severe second wave of Covid19.

Happy Investing!

Aditya Birla Fashion & Retail Ltd CMP: Rs. 216

ABFRL has formulated a clear 5 year road map with specific targets for each of their business segments including recent acquisitions and partnership with leading designers in the country. ***Management envisions their current revenues to double and EBITDA to triple in next 5 years to ~Rs. 210bn and Rs. 23.5bn respectively. That translates into a 15% and 23% CAGR (FY20- 26e) respectively for revenues and EBITDA. Irrespective of company guidance, we have taken a conservative approach to our numbers, only assuming a 11%/16% CAGR respectively in Revenues and EBITDA in the same period.***

Valuation & Outlook

Currently the stock is undervalued when compared to its peers in the branded apparel space such as Trent and V-Mart. As per our estimates, Trent trades at over ~30x and V-Mart at 15x on FY23e EV/EBITDA basis. Going forward, if ABFRL's management does deliver on its guidance, we believe the stock has potential for further re-rating. **Currently, on EV/EBITDA basis ABFRL trades at 13.1x and 11.7x FY22e and FY23 EBITDA of Rs. 16767mn and Rs. 19212mn respectively. We value the company on SOTP basis and as such arrive at a target price of Rs. 267, i.e. upside of 22%. We maintain BUY.**

Trent Ltd: CMP: Rs. 904

Organized players have definitely gained in these difficult times due to scale and liquidity they could do faster ramp ups and get better sales. Trent's recovery was in-line with the rural centric player i.e. V-Mart despite good presence in Urban areas, metros and malls. **Management aggression towards store expansion returning to Pre-Covid levels with 50 stores already under Fit-out stage is a big positive.** Grocery is on radar for the Tata group as a whole, hence we do feel that this is very positive for the Star-Bazaar platform.

Trent's strong balance-sheet with Net Debt-free status (which has helped it pass through this difficult phase as well) and strong brand-presence across verticals aided with TATA-group's strong focus on consumer business are factors that would support its premium valuations. We believe, due to the pandemic the shfit from unorganised to organised has just accelerated further which has resulted in higher penetrations. National players such as Trent with its Zudio brand and ABFRL with its Peter England red brand are penetrating Tier 4 and beyond towns where earlier only V-Mart in branded and other unorganised players were present.

Valuation & Oulook

Based on SOTP Valuation, target price for Trent is INR 850. ***We recommend Investors to 'Buy on Dips'.***

Inox Leisure & PVR Ltd CMP: PVR: Rs. 1447, Inox: Rs. 326

PVR is currently trading at an EV/EBITDA multiple of 8.5x FY23e EBITDA. With the reduced cost structure, PVR can turn EBITDA positive under 20% utilization levels. While content pipeline in the South region seems to be healthy (Radhesham and Malik expected to release soon and Master already grossing over Rs. 2.5bn in its first 3 weeks of launch), Bollywood is still waiting for the first mover.

Management expects pipeline to improve considerably from April 2021 across the board which in turn should drive EBITDA into positive territory. Better pipeline, coupled with gradual increase in occupancy restrictions (as vaccines start rolling out to masses) should provide additional fire to

EBITDA. We opine that the post-COVID world will see Average Ticket Price and Spend Per head will surpass all-time highs on the back of pent-up entertainment demand and we believe this phenomenon will play out over FY23. ***We retain our BUY rating on the stock, with a target price of INR 1804, based on our FY23 estimates.***

Inox has done well to sustain itself with only ~Rs.300mn of revenues in 9 months of operations. We believe re-starting of capex cycle and opening more screens is coming at the right time and sooner than later, content releases will take place which only further aid in recovery. Management currently expects occupancy and other such matrices going back to pre-Covid levels by H2FY22. We remain positive on the long-term story and scope of the Indian Exhibition Industry. at CMP, on EV/EBITDA basis, the stock trades at 11.7x and 8.3x FY22e and FY23e EBITDA of Rs. 5481mn and Rs. 8136mn respectively. We value the company at 9x FY23e EBITDA to arrive at a target price of Rs. 383 i.e., upside of 18%. We **Maintain BUY.**

Outlook for both companies

Vaccination drive nationwide and worldwide has picked up pace. India has within 1.5 months of vaccine roll out has already vaccinated 25mn people. Further government has already allowed 100% occupancy for exhibitors and most states have followed that guideline. On content releases front, release dates of several movies Bollywood, Hollywood as well as regional are slated for release throughout the year beginning from Q1FY22. Visbililty of Revenue recoveries and normalisation is high.

Indian Railway Catering & Tourism Corporation Ltd. CMP: Rs. 2027

There is immense potential in non-convenience revenue (~ INR 90 Cr as of 9MFY21 revenue), i.e. Advertising, Payment Gateway, Net Banking and Co-branded Credit Cards. Transactionary Revenue from Payment Gateway and Net Banking stood at approximately INR 23-24 Cr in FY21 (from 17-18 Cr in FY20) and has potential to grow multifold over the next few years. Additionally, massive opportunity exists if the Payment Gateway is taken to other Government Websites (already applied for permission and confident of expanding). **Along with their current partnership with SBI Cards to create co-branded credit cards, IRCTC is also exploring potential tie-up with HDFC Bank & Canara Bank.**

In terms of Rail Neer, current capacity is at 14-15 lakh litres per day which will expand to 18 lakh litres per day by end of FY21 and 28 lakh per day by end of FY22. **Commencing operations of Tejas Trains which are privately run from mid-February along with commencement of operations of their luxury train Golden Chariot will benefit IRCTC in terms of Tourism which will see an uptick post vaccination drive.** IRCTC has guided for INR 200-250 crore capex for development of budget hotels. In total, 4-5 land parcels have been purchased in Lucknow, outskirts of Lucknow, Kevadia among other places. Company will develop 4-5 budget hotels in the next 2-3 years which will be a huge booster for tourism revenue.

Valuation & Outlook

IRCTC is trading at 41.3x / 35.6x FY22e / FY23e at an EPS of INR 49.5 FY22e & INR 57.2 FY23e. **We assign a multiple of 50x FY23e arriving at the target price of INR 2860.** ***We give a BUY Rating on the stock as are extremely positive on the company's long term prospects and believe it to be a strong long-term compounder.***

State Bank of India: CMP: Rs388

State bank of India (SBI), one of the largest lenders in the country, has suffered huge credit losses in the last credit cycle. However, the bank has substantially work on its asset quality and credit underwriting standers in last few years and because of which bank's overall stress assets (in percentage term) is much lower than the industry average.

What we most like about SBI is:

1) Lower slippages and fewer restructured assets in Q3FY21

2) Well provided for legacy assets with a ~68% coverage ratio on pro forma NPLs

3) Strong recovery in loan growth

4) Stability in key operating metrics.

Valuation & Outlook

In our opinion, SBI is well poised for an earnings recovery over the next few years, supported by a strong liability franchise, better capital position and stable margin along with improving operating efficiencies. Bank's subsidiaries in asset management, insurance and capital market segments are well-positioned in their respective domains and continue to report sturdy performance. SBI is well focused on the cross-sell opportunity with bank customers (total 437.8 million) and its subsidiaries' products. At CMP the stock trades at 1.5x its FY22E Adj BV and 1.3x its FY23E BV. ***We value SBI at FY23E P/ Adj BV multiple of 1.5x to arrive at target price of Rs 447/ share, with a 'Buy on Dips' rating on the stock.***

Can Fin Homes Ltd: CMP: Rs. 550

Can Fin Homes has reported strong profitability over the years (5yrs Avg ROE of 20% and ROA of 1.9%), supported by a stable margin, better operating efficiency and lower credit cost. We believe that the company is one of the safest bet in HFC space due to its strong balance sheet (negligible builder loan exposure), robust liquidity position (see banks offering funding at even finer rates) and better growth prospects when demand recovers (supported by lower base and strong presence in Tier 2-4 markets).

Valuation & Outlook

We believe in the near term the asset quality will remain under pressure, with higher delinquency and increased credit cost. However, we expect the company's actual loan loss will be lower due to higher proportion of salaried customers, with reasonable presence in non-metro. We remain positive on the stock given its favorable loan mix, sustained margins, comfortable liquidity position & robust CAR (24%). At CMP the stock trades at 2.3x its FY22E Adj BV & 1.9x its FY23E Adj Bv, which way lower than its five-year historical average of 2.8 times and peak valuation of 5.7 times book value. ***We value Can Fin Homes at FY23E P/ Adj BV multiple of 2.2x to arrive at target price of Rs 592/ share, with a 'Buy on Dips' rating on the stock.***

Indian Hotels: CMP: Rs. 126

Revenue recoveries have surprised positively with a mere 7% in the month of April 2020 to 60% in December 2020 domestically. Occupancy has also reached 85% in certain locations. As of 31st January, 2021 the company has 19404 rooms across 165 hotels globally In which 86% of the portfolio is in India. ***Revenue per available room (RevPAR) has increased 143% QoQ in its domestic portfolio led by improvement in occupancy levels. Currently it is the best performing hotel company with its RevPAR at 1.6x to its industry average. This same ratio was at 1.4x when seen on pre-covid basis.***

Outlook

We believe with the current pace of vaccinations taking place in India, demand re-surgence is in sight. Corporate travel which is a significant portion of company's revenues, is expected to re-bound strongly. Further, rise in weddings and other such social events will aid demand. ***We are positive on the current and long term prospects of the company and thus recommend investors to BUY the stock with a target price of Rs. 150, i.e upside of 20%.***

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