

Top 5 Stock Picks - June 2020

HDFC Bank

CMP
Rs979

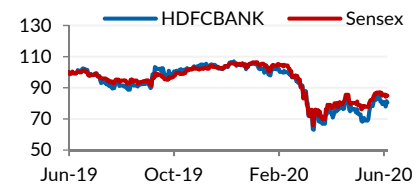
Mcap
Rs537,248cr

Within the Indian financial system, the macro scenario has been playing out in a way that would immensely benefit larger well-governed and well-capitalized private banks having solid outreach and higher brand comfort. In this context, HDFC Bank is set to witness accelerated market share gains in years to come; already visible in its recent resilient loan growth delivery amid anemic system-wide growth. Embedded franchise strengths of diversified retail asset franchise, multiple granular fee streams, solid deposit profile, seasoned mechanisms for leveraging ETB customers and acquire better-profiled NTB customers and robust underwriting & dynamic risk management ensures that HDFC Bank delivers a consistent, capital-efficient and profitable growth. Current valuation of 2.3x P/ABV and 14x P/E on FY22 basis for the core bank is attractive. Strengthening market position and benefits from digitization are making earnings profile resilient in the longer run. We don't expect the impending management transition to impede on the franchise progress or profitability.

Stock data (as on Jun 17, 2020)

Sensex:	33,508
52 Week h/l (Rs)	1306 / 739
Market cap (Rs/USD mn)	5372480 / 70537
Outstanding Shares (mn)	5,486
6m Avg t/o (Rs mn):	14,727
Div yield (%):	-
Bloomberg code:	HDFCB IN
NSE code:	HDFCBANK

Stock performance



(%)	1M	3M	1Y
Absolute return	10.3	0.4	(18.5)

Shareholding pattern (As of Mar'20 end)

Promoter	26.1%
FII+DII	58.4%
Others	15.2%

VST Industries

CMP
Rs3,049

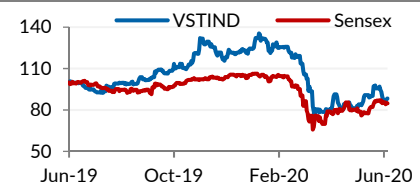
Mcap
Rs4,708cr

While many are looking at ITC as a contra bet, it's worthwhile looking at VST Industries in its place. The 3rd largest tobacco company, with brands like Charms, Charminar Total, has gained market share, growing cigarette volumes by 8% and revenues by 18% in last couple of years. With its dominance in small-sized segment (less than 60mm), it can be expected to have double the industry growth run-rate for next 2-3 years. VST is in a sweet spot - It benefits when people upgrade from bidis and cheap cigarettes, and also some premiumization with its Edition brand selling at Rs10 per stick versus average price point of Rs5-6 for the company. It is also a beneficiary of down trading in tough times like these and when government raises taxes on the industry. Strong cash heavy balance sheet, growing cashflows, high consistent dividend payout of 65%, ROCE 52% (vs 31% for ITC). Trades at multiple of 16.8x FY20.

Stock data (as on Jun 17, 2020)

Sensex:	33,508
52 Week h/l (Rs)	4848 / 2536
Market cap (Rs/USD mn)	47084 / 618
Outstanding Shares (mn)	15
6m Avg t/o (Rs mn):	41
Div yield (%):	3.4
Bloomberg code:	VST IN
NSE code:	VSTIND

Stock performance



(%)	1M	3M	1Y
Absolute return	5.0	(13.9)	(9.9)

Shareholding pattern (As of Mar'20 end)

Promoter	32.2%
FII+DII	21.0%
Others	46.9%

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ICICI Prudential Life

CMP
Rs396

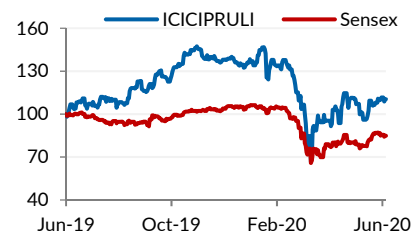
Mcap
Rs56,925cr

We expect Indian Life Insurers to see significant traction (30%+ CAGR) in the protection segment driven by the 'fear for life' sentiment in the current pandemic. On the savings business, we expect a healthy recovery as the economy opens up. With the product mix shifting towards protection, profitability measured in terms of VNB Margins will see significant improvement. ICICI Prudential Life Insurance (IPRU) is our preferred pick to play this theme as we expect it to maintain its strong trajectory in the protection segment (fastest growing in the past three years). Resultantly, we expect highest VNB margin expansion for the company relative to peers. Additionally, in case of a market recovery, ULIPs business will see an improved traction which augurs well for IPRU. EV quality measured as sum of operating variance and assumption changes divided by the opening EV, has improved considerably in FY20, indicating rising focus on getting the assumptions much closer to reality. Valuations of FY22E P/EV of 1.9x is at a steep discount to HDFC Life (3.6x) and SBI Life (2.2x). Valuations are close to regional peers, which have significantly higher balance sheet risk as they have written very high guaranteed return products (adds credit risk to balance sheet).

Stock data (as on Jun 17, 2020)

Sensex:	33,508
52 Week h/l (Rs)	537 / 226
Market cap (Rs/USD mn)	569252 / 7474
Outstanding Shares (mn)	1,436
6m Avg t/o (Rs mn):	1,219
Div yield (%):	0.6
Bloomberg code:	IPRU IN
NSE code:	ICICIPRULI

Stock performance



(%)	1M	3M	1Y
Absolute return	3.0	18.1	13.0

Shareholding pattern (As of Mar'20 end)

Promoter	75.0%
FII+DII	18.8%
Others	6.2%

CDSL

CMP
Rs268

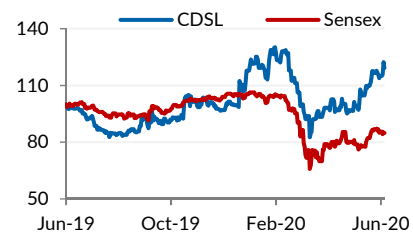
Mcap
Rs2,802cr

CDSL may be another smart bet in the non-lending space. ~1.2mn investor demat accounts opened with the CDSL in March and April alone. This is a big jump in new accounts, compared with 4.2mn opened in 11 months (April 2019 and February 2020). Overall, company witnessed a 22% jump in new accounts in FY20, surpassing competition, for the first time, to reach over 21mn cumulative investor accounts. With a large number of private and unlisted companies admitted, CDSL saw its volume of securities increase 26% yoy, last year. It now has 599 depository participants (vs 280 for competition), offering DP services from over 20,000 locations, representing 94% pin-codes. SEBI recently allowed Aadhaar based e-KYC for account opening, which acts as an enabler for their services. The company has rejigged its top management with new MD & CEO, CTO and CFO as well as its entire Board composition in FY20. Company has witnessed cagr of 12% in the last ten years. Going forward, expenses will be lower in the absence of high provisions made for statutory liabilities and legal matters, helping PAT grow faster. ROCE at 25%; stock trades at 25x FY20 P/E.

Stock data (as on Jun 17, 2020)

Sensex:	33,508
52 Week h/l (Rs)	302 / 180
Market cap (Rs/USD mn)	28027 / 368
Outstanding Shares (mn)	105
6m Avg t/o (Rs mn):	210
Div yield (%):	1.7
Bloomberg code:	CDSL IN
NSE code:	CDSL

Stock performance



(%)	1M	3M	1Y
Absolute return	20.2	26.2	22.7

Shareholding pattern (As of Mar'20 end)

Promoter	20.0%
FII+DII	43.7%
Others	36.3%

Greenlam Industries

CMP
Rs683

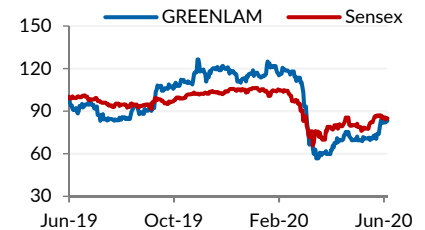
Mcap
Rs1,647cr

Greenlam is the largest laminate player in India with 18% domestic share and third largest globally with huge potential market size of Rs 500 bn. Having a strong track record of revenue/EBITDA CAGR of ~15%/17.5% over FY10-FY19, we believe Greenlam can replicate the same performance over the next decade as well - aided by structural tailwinds both in domestic and overseas market. Company enjoys strong moat in the form of scale benefits as the business requires high working capital requirements, need for strong distribution network and brand awareness which inturn act as barriers for smaller players to scale up. We believe market leader will emerge even stronger post COVID as Greenlam's balance sheet continues to be strong with interest coverage of 6.5x and net debt/equity of 0.4x currently and even with FY21E shock (revenue/EBITDA de-growth of 21%/46% y/y), interest coverage should not fall below 2x. Further, core business of laminates has exceptional operating metrics - EBITDA margins of ~16%/asset turn of ~4x/ROCE of ~28%.

Stock data (as on Jun 17, 2020)

Sensex:	33,508
52 Week h/l (Rs)	1049 / 442
Market cap (Rs/USD mn)	16473 / 216
Outstanding Shares (mn)	24
6m Avg t/o (Rs mn):	4
Div yield (%):	0.6
Bloomberg code:	GRLM IN
NSE code:	GREENLAM

Stock performance



(%)	1M	3M	1Y
Absolute return	19.7	6.9	(12.1)

Shareholding pattern (As of Mar'20 end)

Promoter	54.9%
FII+DII	18.2%
Others	26.9%

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