

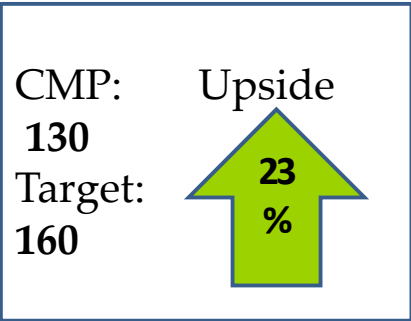
Diwali Picks 2022



Happy Diwali... Happy Investing



Federal Bank Ltd.



CMP as on 14th Oct. 2022

Stock Info	
Sector	Banks
Market Cap (RsCr)	27,502
52 Week High/Low	132/79

Investment Rationale

Improving asset quality trend -The federal bank has reported a highest ever Operating profit and Net profit in Q2FY23. Higher opex from continued investment in business and maintaining a high liquidity ratio which provides an additional buffer cushion to any adverse effect of the sudden spike in slippage. The Federal bank reported strong broad-based credit growth while overall costs have been well managed hence resulting in the highest ever profit. On the asset quality front, the gross non-performing assets improved to 2.46% of the gross advances as of September 2022, from 2.69% QoQ. Besides strong collection mechanism helped the Federal bank's strong recoveries and up-gradations of Rs 329Cr.

Improvement in return ratio: Bank has shifted its focus towards high yielding retail loan book mix. Bank also plans to leverage new partnership with fintech to drive further loan growth. The bank reported an RoA of 1.2% in Q2FY23 and an RoE of 14.4%. Previously, Management has guided to reach RoA of 1.25% in FY23E. The bank has placed well-ahead of its guidance and has already reached 1.2% in Q2FY23.

Valuation - We believe the asset quality is likely to stay stable with gradual improvement in profitability and thus expect it to deliver RoA/ RoE of 1.3%/14.4% by FY24E. At CMP the stock trades at 1.3x its FY23E ABV and 1.1x its FY24E ABV. We assign a BUY rating with a Target Price of Rs 160/share, valuing the stock at a target multiple of 1.4x FY24E ABV.

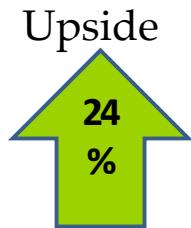
FINANCIAL SUMMARY

Y/E March	NII(RsCr)	PAT(RsCr)	ABV	P/ABV	GNPA(%)	RoE(%)
FY22	5,962	1,844	84.5	1.2	2.8	10.6
FY23E	7,322	2,741	97.8	1.3	2.4	13.6
FY24E	8,748	3,358	113.6	1.1	2.0	14.4

APL Apollo Tubes Ltd.



CMP: 1,121
Target: 1,392



CMP as on 14th Oct. 2022

Stock Info

Sector	Tubes & Pipes
Market Cap (RsCr)	28,050
52 Week High/Low	1,177/750

FINANCIAL SUMMARY

Investment Rationale

Well placed to benefit from rising application of steel tubes – With rising application of structured steel tubes in construction projects, the share of structural steel tubes in India is expected to expand to 22.7mt by 2030 (17% CAGR over CY19-30E). We believe APL Apollo is well placed to grab this massive growth opportunity given pan-India presence, spare capacity (utilization rate of 78%), capacity expansion and new innovative product launches.

Capacity expansion to improve volume and margins by FY25E – APL Apollo is expanding its installed capacity to 4.0mtpa from 2.6mtpa currently at its Raipur plant with a capex of Rs.8,000mn for value-added product (VAP), which is expected to get commissioned in Q3FY23E. Management has guided that Raipur plant would drive up volume to 4mt by FY25E (32% CAGR), improve VAP mix to 70-75% and more than double its EBITDA to Rs. 2,000 Crs by FY25E (Rs. 945 Crs in FY22).

Re-stocking of inventory to drive near-term growth – Demand for APL Apollo's products is recovering with distributors re-stocking their inventories as the HRC price has fallen 21% YoY to Rs.55,952/MT in Sept., 2022 and distributors are not anticipating any further reduction in prices. As a result, APL Apollo's volume growth was 41% YoY/42% QoQ to 602,283MT in Q2FY23 fueled by general structure tubes that increased 72% YoY.

Valuation – The stock is currently trading at 44.0x FY23E EPS and 32.2x FY24E EPS, respectively. We are valuing APL Apollo Tubes at 40.0x FY24E EPS of Rs.34.80 to arrive at a BUY rating with a target price of Rs.1,392.00, an upside of 24%.

Y/E March	Sales(RsCr)	PAT(RsCr)	EPS(Rs)	P/E	EBITDAM. (%)	RoE (%)
FY22	13,063	557	22.3	50.3	7.4	28.2
FY23E	15,215	698	25.5	44.0	7.3	25.7
FY24E	18,221	957	34.8	32.2	8.0	28.3

Praj Industries Ltd.



CMP: 435
Target: 545

Upside
↑
25
%

CMP as on 14th Oct. 2022

Stock Info

Sector	Engineering
Market Cap (RsCr)	7,991
52 Week High/Low	462/289

FINANCIAL SUMMARY

Investment Rationale

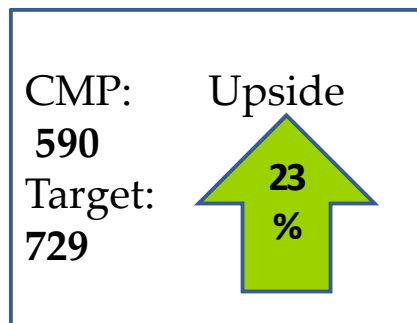
Huge beneficiary of Ethanol blending along with its eye on exports – PRAJ, developer of Ethanol plants in India (65% market share), will be a beneficiary of the government's ethanol blending target of 20% (EBP20) which reduced to 2025 from 2030 earlier. This indicates the requirement of an additional capacity of 10bn liters to meet EBP20 by 2025, off which 5bn liters of capacity is yet to be tendered out, indicates strong demand. PRAJ's order book also grew at 3x (Rs28.8bn in FY22 v/s Rs9.4bn in FY17). Also, Europe will set up 50 units of 2G ethanol plants of 2.8bn liters by 2030. Also, Brazil to install starchy based feedstock (Corn based), thereby translating into an opportunity of 5bn liters over next 5 years.

Opportunities into Bio refineries, CBG, Aviation fuel will boost earnings – PRAJ's has developed 2G cellulosic ethanol technology called 'Enfinity' that can process multiple feedstock. It started, Asia's First 2G Ethanol Bio-Refinery of IOCL at Panipat, Haryana, which is capable of processing 2 lakh tonnes of rice straw annually to generate 30mn litres of Ethanol. It also developed 'RENGAS' that produces 'Compressed Biogas' for auto applications from Agri waste. Further, It has received approval from Indian Air force for its aviation fuel which is an another ~8bn liter opportunity.

Valuations – The stock is currently trading at 37.1x FY23E EPS and 26.3x FY24E EPS, respectively. We are valuing Praj Industries at 33.0x FY24E EPS of Rs.16.50 to arrive at a BUY rating with a target price of Rs.545.00, an upside of 25%.

Y/E March	Sales(RsCr)	PAT(RsCr)	EPS(Rs)	P/E	EBITDAM. (%)	RoE (%)
FY22	2,053	164	9.0	48.6	8.4	17.5
FY23E	3,112	222	11.7	37.1	9.6	22.0
FY24E	3,849	300	16.5	26.3	10.4	25.2

Campus Activewear Ltd.



CMP as on 14th Oct. 2022

Stock Info	
Sector	Footwear
Market Cap (RsCr)	17,967
52 Week High/Low	624/292

Investment Rationale

Further expanding distribution reach will fuel next leg of growth - Campus is aggressively expanding its geographies, currently serving in 650+ cities in India. It has added 190/70 new distributors in FY21/FY22, respectively, to reach a total of 450+ distributors along with 131 EBOs (65% COCO). Further, it has added 9,786 and 2,085 new retail points in FY21 and FY22, respectively, which provides Campus a massive reach to 20,000 retailers across India. Its steps to expand its presence from north region (61% revenue in FY19 to 53% in FY22) to south and west (entered just 3 yr back) are bearing fruit. Campus's D2C online revenue contribution shoot up from just 3% in FY19 to 33% as on Q1FY23 which indicates the strong execution by the company.

Valuation - Campus grows faster than industry and will expand its distribution network and deepen its footprints with specific focus on the western and southern regions of India. These regions are high on growth and also high on per-capita income and focus on premium segment, resulting in strong revenue growth and EBITDA margin expansion. Company has maintained its healthy operating cash flows, asset turnover ratio more than 4x, consistency in EBITDA margins over the years and best in class return profile making it a capital-efficient business model. Campus has reported extremely well on the growth drivers and have a far superior outlook, currently campus is trading at P/E of 45x one year forward FY24E. We assign P/E multiple of 56x to Campus on FY25E EPS, given their higher growth outlook, to arrive at TP of Rs 729.

FINANCIAL SUMMARY

Y/E March	Sales(RsCr)	PAT(RsCr)	EPS(Rs)	P/E	EBITDAM. (%)	RoE (%)
FY22	1,194	124	4.1	143.6	20.2	33.1
FY23E	1,603	178	5.9	100.7	20.3	32.5
FY24E	2,036	244	8.0	73.7	20.9	31.3

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