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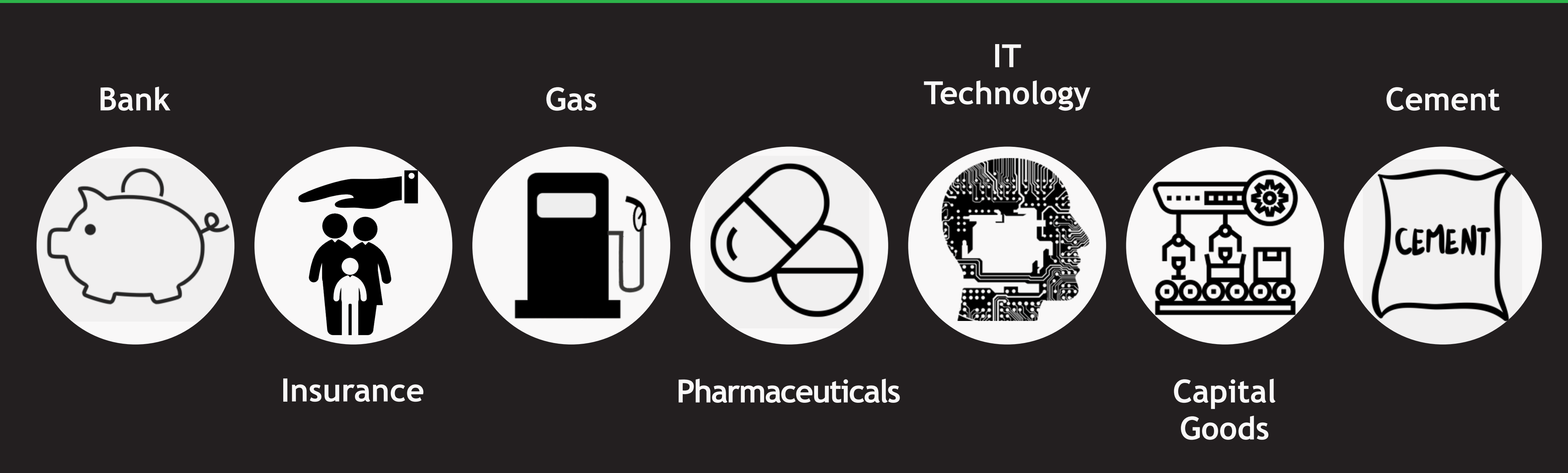
COVID-19: Immunity Stocks



A gradual reopening of the domestic and global economy has brought a cheer in the mind of investors. Rural reforms coupled with normal monsoon forecast amidst lower interest rates are expected to give much fillip to the Indian economy. Some green shoots like the rural economy and agriculture-focused plays are indicating improving prospects. Moreover, India's long-term fundamental stories for discretionary and consumption are intact, and sectors such as IT, Pharmaceuticals, Bank, Cement, Gas, Capital Goods and Insurance are expected to be the new leaders given the starting point of valuations, ownership, and performance. There are many companies that have been least impacted by the outbreak of coronavirus and their prospect looks promising ahead with the improvement in the economy. In this report we are including quality stocks which investors can earn huge return. A buy on dip strategy but in staggered manner may be suggested for investors.

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Kotak Mahindra Bank Ltd

CMP: Rs. 1334.25
Target: Rs. 1576

Upside Potential
18%

2

SBI Life Insurance Co Ltd

CMP: Rs. 742.95
Target: Rs. 850

Upside Potential
14%

3

Petronet LNG Ltd

CMP: Rs. 253.05
Target: Rs. 310

Upside Potential
23%

4

Alembic Pharmaceuticals Ltd

CMP: Rs. 856.55
Target: Rs. 971

Upside Potential
13%

5

NIIT Technologies Ltd

CMP: Rs. 1404.40
Target: Rs. 1589

Upside Potential
13%

6

KEC International Ltd

CMP: Rs. 245.55
Target: Rs. 286

Upside Potential
16%

7

Heidelberg Cement Ltd

CMP: Rs. 176.85
Target: Rs. 217

Upside Potential
23%

8

KEI Industries Ltd

CMP: Rs. 326.35
Target: Rs. 397

Upside Potential
22%

Note: All calls are recommended with a time horizon of 8 to 10 months

Kotak Mahindra Bank Ltd

CMP	Target	Upside Potential
Rs. 1334.25	Rs. 1576	18%

Kotak Mahindra Bank is a full service commercial bank. The bank offers a wide range of products and services including personal, commercial, and corporate banking services, including deposit accounts, loans, and investments. For the quarter ended March 31, 2020 Kotak Mahindra Bank has reported consolidated interest income of Rs 6198.95 crore, up .03 per cent from last quarter Interest Income of Rs 6197.23 crore and up 3.71 per cent from last year same quarter Interest Income of Rs 5976.91 crore. The bank reported net profit after tax of Rs 1951.82 crore in the latest quarter. With sequential CASA growth at 15% and CASA ratio at 56.2% (up 250 bps QoQ), the bank benefitted from flight to safety of deposits during the quarter. This, along with decline in SA rates resulted in ~45 bps QoQ improvement in cost of funds, aiding NIM of 4.7% despite a sharp decline in Loan-deposit ratio. Kotak Mahindra Bank has zero promoter pledge with the recent results showing growth in operating profit with increase in operating margins (YoY).

Going ahead, focus on strengthening the balance sheet and building a strong deposit franchise, maintaining risk adjusted returns will benefit return ratios. Kotak Mahindra Bank has been one of the most consistent performers over the years, driven by best in class return ratios & margin profile. Given the government support, MSME advances would occupy significant space for incremental lending in the near term. Based on all these factors, it is expected that the bank would see good growth going forward. Thus, it is expected that the stock will see a price target of Rs.1576 in 8 to 10 months time frame on a current P/BVx of 4x and FY21 BVPS of Rs.393.91.

SBI Life Insurance Co Ltd

CMP	Target	Upside Potential
Rs. 742.95	Rs. 850	14%

SBI Life Insurance Company is one of the leading life Insurance companies in India. The Value of New Business (VoNB) eased 6% to Rs 540crore in Q4FY2020, while VoNB margins improved to 18.7% in FY2020 from 17.7% in FY2019 and 18.3% in 9MFY2020.Total protection new business premium has increased by 10% to Rs 640 crore in Q4FY2020 from Rs 580 crore in Q4FY2019. The share of total protection NBP (individual and group) has jumped to 16.8% in Q4FY2020 from 13.4% in Q4FY2019. AUM has grown by 14% to Rs 160360 crore end March 2020 from Rs 141020 crore end March 2019 with debt-equity mix of 79:21. Approx. 93% of the debt investments are in AAA and Sovereign instruments. The company has posted 5% growth in net premium collection to Rs 11862.98 crore in Q4FY2020, aided by 15% growth in the renewal business to Rs 8130 crore, while new business premium declined 12% to Rs 3800 crore in Q4FY2020.

The company has maintained healthy business growth, supported by strong growth in premium collection and investment income. The management of the company expects share of protection to be in double digits in next three years on APE basis from 8% currently. While, the protection share is expected to touch 15% on NBP basis from 11%. Moreover, the company expects healthy growth in the productivity of banca channel, while aims to achieve 20% growth in banca channel. Thus, it is expected that the stock will see a price target of Rs.850 in 8 to 10 months time frame on a current P/BVx of 8.50x and FY21 BVPS of Rs.99.96.

Petronet LNG Ltd

CMP	Target	Upside Potential
Rs. 253.05	Rs. 310	23%

Petronet LNG is promoting and developing LNG as motor vehicle fuels and for other small scale consumption.The company expects capex of Rs 600-800 crore for FY21-23 out of which Rs 100-200 crore is required for each station commissioning. Total capex guidance for FY21 is Rs 350 crore (Rs 126 crore for installing the terminals and Rs 65 crore for 2 tanks which needs to be built in Dahej). Volumes during the quarter was 233 thousand btu (TBTUs) in Q3FY'20 compared to 202 thousand btu in Q3FY'19 and 250 thousand btu in Q2FY'20. Dahej terminal volume was 222 thousand btu while Kochi terminal handled 11 TBTUs of LNG. Out of total Dahej volumes- 102 TBTUs were from long-term supply, 9 TBTUs were for short-term supply and 111 TBTUs were re-gasification quantities. Current Dahej utilization was 100% compared to 103% in Q3FY19 and 108% in Q2FY20.

The company is well-placed to benefit from rising gas demand supported by its recent capacity expansion to 17.5 mmt at the Dahej terminal and plans to further expand capacity to 19.5 mmt in the next 2-3 years by setting up two storage tanks and a jetty. Thus, it is expected that the stock will see a price target of Rs.310 in 8 to 10 months time frame on a current P/BVx of 3.74x and FY21 BVPS of Rs.82.81.

Alembic Pharmaceuticals Ltd

CMP	Target	Upside Potential
Rs. 856.55	Rs. 971	13%

Alembic Pharmaceuticals Limited is engaged developing formulations and active pharmaceutical ingredients (API). The company has presence in key markets of Europe, Canada, Australia, Brazil and South Africa. The company's business will focus on new launches across key markets. The plants have been successfully audited by key regulatory authorities across the globe. Capex for full year including capital advances was Rs 731 crores, very close to the last year number which was around Rs 650 crores. Cumulative capex, ongoing project under WIP including pre-operative expenses was Rs 1,492 crores. It has filed 25 ANDAs for the year. R&D expenses were at Rs 185 crores for the quarter and for the full year we have spent Rs 645 crores, approximately 14% of sales.   It has launched five new products during the quarter and 22 new products during the year. The company plans to launch approximately 10 products in the first half of this financial year as well.

The management of the company is very confident that the trend would sustain for the next 3-4 quarters at least for sure. Pharma is an area for which demand hasn't really changed because of lockdown and so, market-wise, not seeing any changes. For the US, with the aggressive R&D and capex, the management has signaled its long term strategy for the next five to six years. This includes a foray into niche areas like oncology, injectables, derma, etc.

NIIT Technologies Ltd

CMP	Target	Upside Potential
Rs. 1404.40	Rs. 1589	13%

The Company is engaged in application development and maintenance, managed services, cloud computing and business process outsourcing to organizations in several sectors such as banking and financial services, insurance, travel and transportation and logistics, manufacturing and distribution and government. NIIT Technologies reported a 11.4 percent rise in consolidated net profit at Rs 113.6 crore for the March 2020 quarter and said strong tech capabilities and sharp execution helped the company in winning large deals. The company had posted a net profit of Rs 102 crore in January-March 2019 quarter. The company has recorded one of its best annual performances ever in FY'20, which has come on the back of a similarly strong performance delivered in the preceding year.

The Company continues to plan predictable, robust and profitable growth in future. Restructuring of leadership, strong compensatory scheme and focused strategy for growth have been the key differentiating in string performance of the company. Strong order wins coupled with healthy order pipeline would give on visibility of revenue growth momentum.

KEC International Ltd

CMP	Target	Upside Potential
Rs. 245.55	Rs. 286	16%

KEC International is a global infrastructure engineering, procurement and construction (EPC) major. Capex will be about Rs 100 crore for FY21 as against earlier planned Rs 200-250 crore. Order Intake in Q4FY20 stood at Rs 2765 crore and that for FY20 was Rs 11331 crore. Of the FY20 order intake 78% was domestic orders with 22% international. Further the company received orders worth Rs 739 crore so far in FY21. Order book including L1 orders stands at about Rs 24000 crore. Of the order book about 36% is international with balance domestic. Of the order book T&D is 54% (SAE 5%; T&D 49%), civil 13%, railways 29%. Considering it robust and well diversified order book the company is confident of delivering a strong performance in FY21.

The company has received approvals to resume work at few domestic sites in phased manner and has also applied for others. KEC's overseas facilities viz., Mexico and Brazil were categorized under essential services and hence, have been operational over last month. Going ahead, management expects healthy ordering from domestic as well as international market especially from African region, SAARC countries and MENA regions.

Heidelberg Cement Ltd

CMP	Target	Upside Potential
Rs. 176.85	Rs. 217	23%

Heidelberg Cement is one of the world's largest building materials companies. The Company's product portfolio includes Portland Pozzolana Cement (PPC) and Portland Slag cement (PSC). The company is in the process of expanding its capacities through debottlenecking in Imlai (Madhya Pradesh) and Jhansi (Uttar Pradesh) located in central India. These plants are running at nearly 100% capacity utilisation and with the commissioning of the additional grinding capacities (Imlai: 0.5mmt, Jhansi: 0.55mmt), HCIL intends to cater to incremental volumes. With the healthy profitability, strong balance sheet, robust return ratios and strong retail presence. Company's ability to maintain its operating parameters amid the inherent cyclical trends in the demand and supply of cement.

According to the management of the company, prices would be firm on low volumes. The company continues to operate at negative working capital. Besides NCDs of Rs.125 crore repaid in FY20, the company is repaying Rs.125 crore in FY21 and Rs.120 crore in FY22 from internal accruals. The company has taken a slew of measures to cut down its production costs which will bore well going ahead.

KEI Industries Ltd

CMP	Target	Upside Potential
Rs. 326.35	Rs. 397	22%

KEI Industries is a cable manufacturing company. It offers high and low tension cables, control and instrumentation cables, house wires and stainless steel wires, and high-technology specialty cables. Order backlog as end of March 31, 2020 was 3244 crore (EPC Rs 1233 crore; EPC EHV 731 crore; cables Rs 1116 crore; Exports 164 crore). In addition the company have and L1 order of Rs 16 crore (EPC EHV) taking the total orders to Rs 3260 crore. The company expects to close the fiscal with either flat or marginally lower sales compared to last fiscal. Considering strong order book the company believe in turning in better topline growth numbers than industry average. For any guidance, has to watch for another couple of months. Dealer network as end of March 31, 2020 stood at 1650 and it grew by 13% in FY20.

The company caters to Power, Industrial, Infra, Railways, Metro Rails, Oil & Gas, Upstream, Aluminum, Refineries, Steel and Exports. It is working on increasing exports. It is exploring more business from Africa and Middle East. KEI can be a major beneficiary of the increasing demand from power, infrastructure and real estate sector. The company has been focusing on expanding its dealer network as this sales channel offers better margins. Institutional sale growth has been encouraging and management expects this division to grow in double digits, going forward. Thus, it is expected that the stock will see a price target of Rs.397 in 8 to 10 months time frame on a current P/BVx of 1.98x and FY21 BVPS of Rs.200.64.

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