



Diwali Picks 2022

By Fundamental
Research team

 BP Wealth

 stoxbox

19th October 2022

Diwali Picks 2022

DLF Ltd

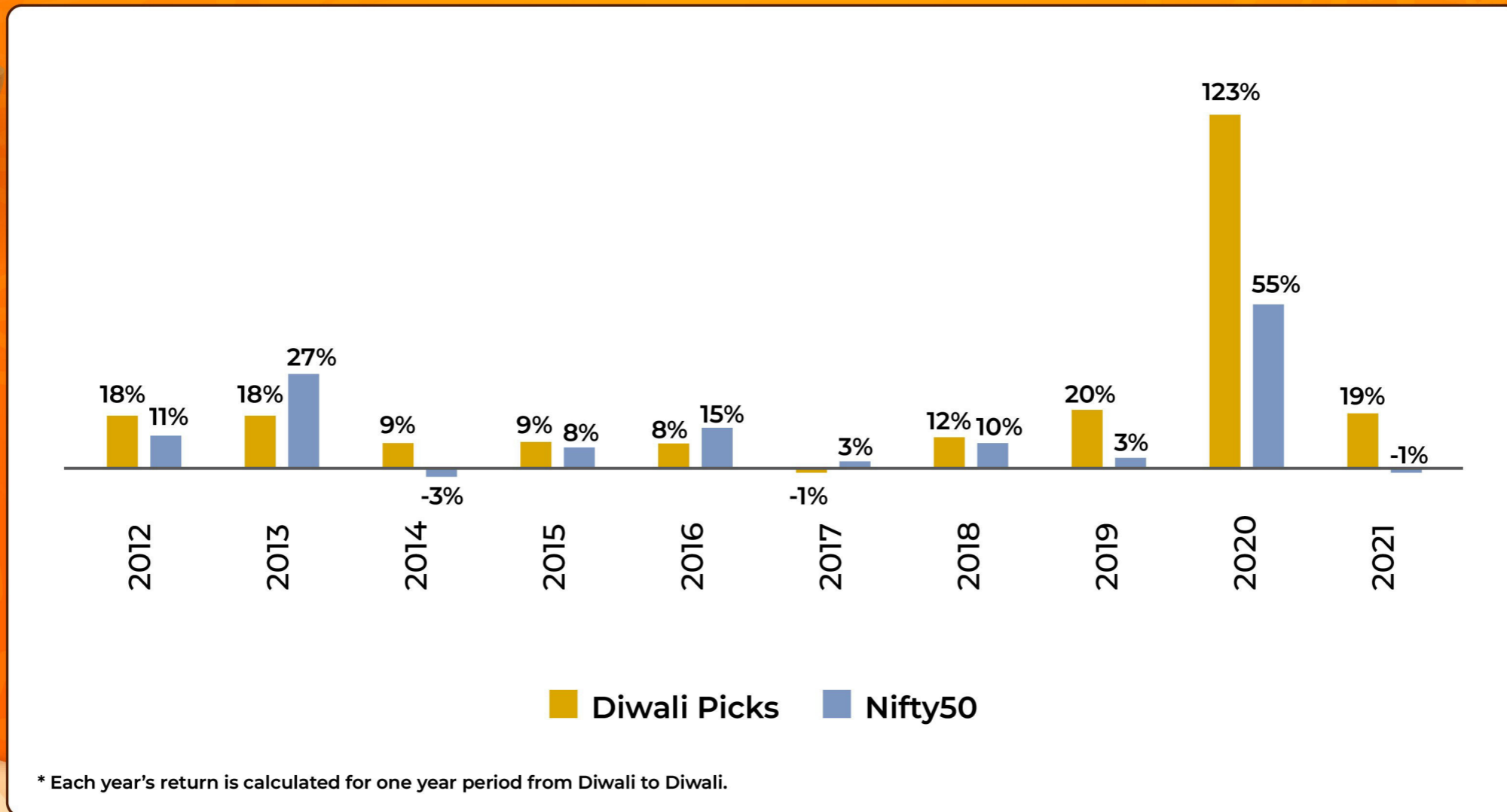
KCP Ltd

**Mahanagar
Gas**

**MTAR
Tech**

**Zydus
Wellness**

Diwali Picks Returns For Each Year



Sector : Realty

Company Background

DLF Ltd along with subsidiaries, associates and JVs is engaged in the business of real estate diversifying into residential, offices, retail and others such as services and hospitality. The company operations span all aspects of real estate development from the identification and acquisition of land, to the planning, execution, construction and marketing of projects. It has developed over 150+ real estate projects with a total of 330 msf+ area developed and another 215 msf+ developmental potentials. The company's business model is unique with its income arising from development and rentals. The company also has a land bank of 150 msf across key geographies.

Investment Rationale

Focus on Generating Robust Cash Flows

DLF reported a healthy operating cash flow of around 2600 cr for FY22, led by the residential business' solid performance on better price realisation and consistent collections. Due to high operating cash flow, net debt was reduced from Rs 421 crore QoQ to Rs 2259 crore in Q1FY23. The company's continuous focus is on creating free cash flow from its core businesses to significantly reduce its debt and fund future expansion.

Residential Housing Continues to Expand

Residential housing across the industry continues to grow and the company is being heavily benefitted as its pre-sales in FY22 stood at 7300cr. The company's residential business continues its steady performance and clocked new sales bookings of INR 2040cr reflecting a YoY growth of 101%. The luxury segment of the company has shown a strong demand which has pushed the average selling price by nearly 30% while maintaining steady gross margins of 50% upwards.

Valuation and Outlook

The continuous growth in the housing and realty sector and the company's development strategies spanning across geographies help DLF to expand in the long term. The land bank also has identified nearly 35 msf of launch pipeline over the next few years. DLF is planning to develop a commercial campus on this land to boost its residential demand. We have a positive view on the long-term prospect of the company on the back of its strong inventory portfolio and developmental strategies and value the company based on SOTP basis to arrive at a target price of INR 451 which is 23% upside from current levels.

Stock

Recommendation	Buy at CMP and add on dips
Buying Range (INR)	365-345
Target price	451
Investment Horizon	Till Next Diwali
BSE code	532868
NSE Symbol	DLF
Bloomberg	DLFU IN
Reuters	DLF .BO

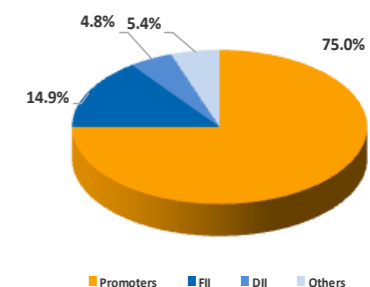
Key Data

Nifty	17,487
52WeekH/L(INR)	450/295
O/s Shares (mn)	2475.31
Market Cap (INR bn)	904.60
Face Value (INR)	2

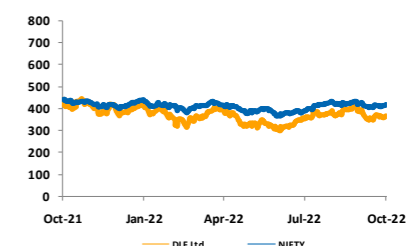
Average volume

3 months	52,68,470
6 months	56,56,810
1 year	64,64,790

Share Holding Pattern (%)



Relative Price Chart



Key Financials					
YE March (INR. In mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	60,828	54,141	57,174	72,897	93,454
Growth (Y-oY)		(11.0%)	5.6%	27.5%	28.2%
EBIDTA	11,350	14,178	17,426	22,744	33,083
Growth (Y-oY)		24.9%	22.9%	30.5%	45.5%
Net Profit	-14,792	4,773	8,436	13,632	21,868
Growth (Y-oY)		(132.3%)	76.8%	61.6%	60.4%
Diluted EPS	(6.0)	1.9	3.4	5.5	8.8
Growth (Y-oY)		(132.3%)	76.8%	61.6%	60.4%
Key Ratios					
EBIDTA (%)	18.7%	26.2%	30.5%	31.2%	35.4%
NPM (%)	-24.3%	8.8%	14.8%	18.7%	23.4%
RoE (%)	-4.3%	1.4%	2.3%	3.7%	5.7%
RoCE (%)	3.0%	3.7%	4.5%	5.7%	7.4%
Valuation Ratios					
P/E (x)	-61.1x	189.3x	107.1x	66.3x	41.3x
EV/EBITDA	80.9x	65.1x	52.8x	40.2x	28.5x
P/BV (x)	2.6x	2.6x	2.5x	2.4x	2.4x
Market Cap. / Sales (x)	14.9x	16.7x	15.8x	12.4x	9.7x

Sector : Cement

Company Background

KCP Ltd is a diversified business group engaged in the businesses of Cement, Heavy Engineering, Sugar, Power and Hospitality. The company has 9 manufacturing plants across geographies in India and Vietnam. The company owns two sugar mills, one downstream distillery, two cement plants and an in-house engineering division among others. KCP's sugar and industrial alcohol business was transferred to a new company, KCP Sugar Industries Corporation. The company has undertaken a joint venture, Fives-Cail KCP Ltd with Fives Group, France to manufacture and supply state-of-art machinery and technology to its clients in the sugar industry in India and abroad. The company has been a pioneer in developing the sugar industry in Vietnam under its subsidiary KCP Vietnam Industries Ltd.

Investment Rationale

Strong Pipeline in Cement Business

With the growth in housing, infrastructure and industrial development, the cement industry will also grow. The company's cement business contributes 75% of the company's revenue. The company is focusing on reducing packing and logistic costs with the aid of the newly built packing plant in Chennai and also it is aiming to expand its cement manufacturing capacity as it also planning to set up a 0.5 million TPA cement plant in Arakkonam, Tamil Nadu.

Consistent Margins in Sugar Subsidiary

The company's sugar business in Vietnam has displayed consistent margins generating a profit after tax of INR 80cr per year. The 2 sugar plants set up in Vietnam have a total crushing capacity of 11,000 TPD. The subsidiary has also received approvals for setting up a plant for producing feul-grade ethanol and a 60MW biomass plant in Sonhoa Province.

Valuation and Outlook

KCP Ltd. is diversified into multiple sectors and also has a foreign presence which provides it with risk mitigation to a greater extent. The company is debt free at the net level and has an implied EV/Ton of USD22 of putting a plant v/s USD 80 as stated by other large peers. With the consolidation in the cement sector, the value of mid and small-cap companies can see a turnaround. We are positive about the long-term prospect of the company and value it at a P/E of 10.4x based on FY22 earnings to arrive at a target of INR 152 which is 24% upside from current levels.

Stock

Recommendation	Buy at CMP and add on dips
Buying Range (INR)	122-116
Target price (INR)	152
Investment Horizon	Till Next Diwali
BSE code	590066
NSE Symbol	KCP
Bloomberg	KCPL IN
Reuters	KCP .BO

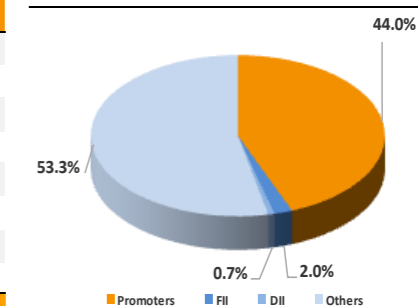
Key Data

Nifty	17,487
52WeekH/L(INR)	149/99
O/s Shares (mn)	129
Market Cap (INR bn)	16
Face Value (INR)	1

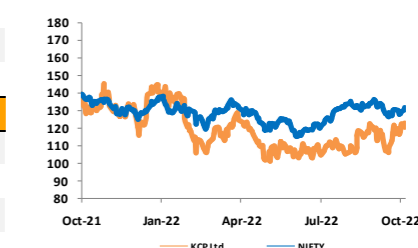
Average volume

3 months	1,97,300
6 months	1,74,200
1 year	2,15,530

Share Holding Pattern (%)



Relative Price Chart



Key Financials			
YE March (INR. In mn)	FY20	FY21	FY22
Revenue	14,236	16,925	21,082
Growth (Y-o-Y)		18.9%	24.6%
EBIDTA	1,994	3,718	3,775
Growth (Y-o-Y)		86.42%	1.53%
Net Profit	271	1,630	1,881
Growth (Y-o-Y)		500.7%	15.4%
Diluted EPS	2.1	12.6	14.6
Growth (Y-o-Y)		500.7%	15.4%
Key Ratios			
EBIDTA (%)	14.0%	22.0%	17.9%
NPM (%)	1.9%	9.6%	8.9%
RoE (%)	3.2%	16.4%	16.0%
RoCE (%)	16.0%	27.6%	24.8%
Valuation Ratios			
P/E (x)	58.0x	9.6x	8.3x
EV/EBITDA	8.6x	4.0x	3.6x
P/BV (x)	1.9x	1.6x	1.3x
Market Cap. / Sales (x)	1.1x	0.9x	0.7x

Sector : Gas

Company Background

Mahanagar Gas Limited (MGL) was incorporated in 1995 as a joint venture between the Gas Authority of India Limited (GAIL) the BG Group UK (formerly British Gas) and the Government of Maharashtra. The company serves PNG (Piped Natural Gas) for domestic, commercial and industrial use and supplies CNG (Compressed Natural Gas) through 292CNG stations. MGL is the sole authorized distributor in Mumbai, its adjoining areas and the Raigad district connecting more than 1.98 million domestic customers over 6285 km through its carbon steel (CS) and polyethylene (PE) pipeline.

Investment Rationale

Under-penetrated Market with High Opportunities

India's per capita energy consumption is lower than the world average, indicating a significant opportunity for growth for the Indian oil & gas and energy sectors. The Government aims to increase the penetration of natural gas in the primary energy mix from the present 6% to 15% by 2030. This provides MGL with a significant opportunity for growth to tap into this ever-growing market size and capture the market by expanding its operations outside Mumbai and Maharashtra.

Strong Market Presence with High Entry Barriers Costs for Third-Party Marketers

MGL has robust management and well-established infrastructure in place and enjoys a first-mover advantage in retail gas distribution in Greater Mumbai (GA1), its expansion areas (GA2) and Raigad (GA3). This dominant position in the industry allows it to supply gas at competitive prices thus creating significant entry barriers for third-party marketers or new entrants. Additionally, the company benefits from strong parentage by GAIL (India) Ltd which has a deep understanding and interest in the domestic gas distribution business

Valuation and Outlook

To reduce the dependence on oil imports, the minister of Petroleum and Natural Gas unveiled a Natural Gas Infrastructure Development Plan to set up 8,181 CNG stations over the next 10 years. This makes the company the direct beneficiary of this change. In FY2022 the company was successful to increase its current compression capacity by 3 lakh kg/ day to 40 lakh kg/day. MGL aims to increase its customer base by adding 10 lakh households, operating a total of 400 CNG stations, and expanding the steel pipeline network to 600 km and the PE pipeline network to over 7600 km in the next 5 years. On the valuation front, we valued the company based on 11x P/E of the FY24e earnings and arrive at a target price of INR 997 which is 25% upside from current levels.

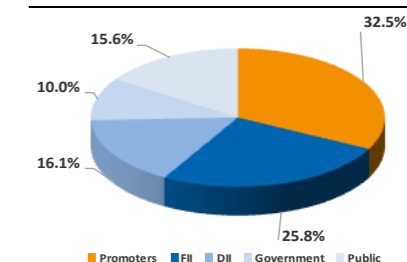
Stock

Recommendation	Buy at CMP and add on dips
Buying Range (INR)	798-758
Target price (INR)	997
Investment Horizon	Till Next Diwali
BSE code	539957
NSE Symbol	MGL
Bloomberg	MAHGL IN
Reuters	MGAS .BO

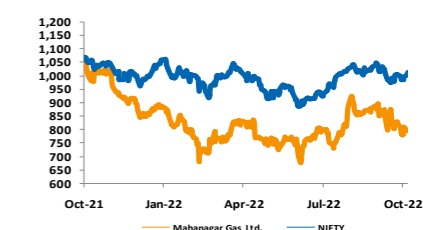
Key Data

Nifty	17,487
52WeekH/L(INR)	1088/666
O/s Shares (mn)	99
Market Cap (INR bn)	79
Face Value (INR)	10
Average volume	
3 months	6,54,670
6 months	5,49,980
1 year	5,96,240

Share Holding Pattern (%)



Relative Price Chart



Key Financials					
YE March (INR in mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	29,721	21,525	35,602	47,422	55,246
Revenue Growth (Y-o-Y)		(27.6%)	65.4%	33.2%	16.5%
EBIDTA	10,526	9,308	9,233	9,911	11,674
EBIDTA Growth (Y-o-Y)		(11.6%)	(0.8%)	7.3%	17.8%
Net Profit	7,935	6,196	5,969	7,350	8,950
Net Profit Growth (Y-o-Y)		(21.9%)	(3.7%)	23.1%	21.8%
Diluted EPS	80.3	62.7	60.4	74.4	90.6
Diluted EPS Growth (Y-o-Y)		(21.9%)	(3.7%)	23.1%	21.8%
Key Ratios					
EBIDTA margin (%)	35.4%	43.2%	25.9%	20.9%	21.1%
NPM (%)	26.7%	28.8%	16.8%	15.5%	16.2%
RoE (%)	26.9%	19.2%	16.6%	17.2%	17.5%
RoCE (%)	35.6%	28.8%	25.7%	23.1%	22.8%
Valuation Ratios					
P/E (x)	9.9x	12.7x	13.2x	10.7x	8.8x
EV/EBITDA	7.3x	7.9x	8.0x	7.2x	5.9x
P/BV (x)	2.7x	2.4x	2.2x	1.8x	1.5x
Market Cap. / Sales (x)	2.7x	3.7x	2.2x	1.7x	1.4x

Source: Company, BP Equities Research

Sector : Engineering

Company Background

MTAR Technologies is an engineering company engaged in the manufacturing of high-precision and heavy equipment, components, and machines for sectors viz. Civilian Nuclear Power, Aerospace, Defence, etc. One of the top facilities in India is housed within the corporation and includes machining, assembly, speciality fabrication, painting, and special processing facilities. It concentrates on intricate, mission-critical projects that are challenging for most service providers, including precise parts with small tolerances (5–10 microns) and vital assemblies that support important projects for the country. Some of its major clients are ISRO, NPCIL, DRDO, Bloom Energy, and Rafael among others. Over the years, the company has also developed import substitutes such as ball screws and water-lubricated bearings that are highly specialized and premium products in Nuclear, Space and Defence.

Investment Rationale

Wide Product Portfolio and Long Standing Relationships with Clients

The company has a diversified product portfolio of critical and differentiated engineered products with a healthy mix of developmental and volume-based production. The company has also developed import substitutes such as ball screws and water-lubricated bearings that are highly specialized and premium products in Nuclear, Space and Defence space. The company also has an established relationship with its major clients which include large MNCs, Government Departments and Large Indian Public and Private sector companies.

Robust Manufacturing Capabilities and Tapping New Industry Opportunities

The company possesses advanced machinery and high state-of-art manufacturing facilities which are strategically located to provide ease of coordination with its customers. The company also manufactures fuel cells and hot boxes in the clean energy segment which have high demand globally and also multiple new products under development.

Valuation and Outlook

MTAR niche product offering and strong client portfolio coupled with high barriers to entry in the aerospace and defence sectors provide the company with a strong advantage to expand further. The company received an order worth approx \$22mn in the clean energy segment in Q1FY23. The company displayed a 68% growth in its revenue in Q1FY23. The management has maintained its EBITDA growth guidance for the year at 30% plus minus 100 bps. With government policies pushing more and more towards clean energy, MTAR can exponentially grow in the long term. We value the company at a P/E of 50.5x based on FY24e earnings and arrive at a target price of INR 1948 which is 22% upside from current levels.

Stock

Recommendation	Buy at CMP and add on dips
Buying Range (INR)	1587-1507
Target price	1,948
Investment Horizon	Till Next Diwali
BSE code	543270
NSE Symbol	MTARTECH
Bloomberg	MTARTECH IN
Reuters	

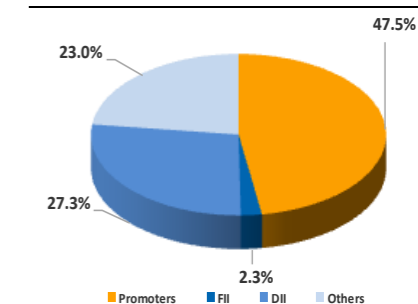
Key Data

Nifty	17,487
52WeekH/L(INR)	2,563/1,205
O/s Shares (mn)	30.76
Market Cap (INR bn)	48.9
Face Value (INR)	10

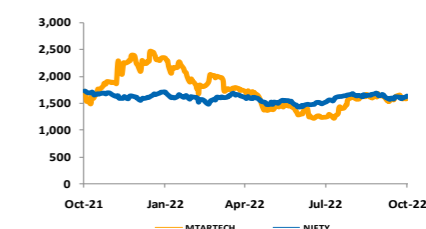
Average volume

3 months	1,99,050
6 months	1,70,770
1 year	2,11,800

Share Holding Pattern (%)



Relative Price Chart



Key Financials					
YE March (INR. In mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,138	2,464	3,220	4,444	6,310
Growth (Y-oY)		15.3%	30.7%	38.0%	42.0%
EBIDTA	580	831	944	1,400	1,861
Growth (Y-oY)		43.3%	13.7%	48.2%	33.0%
Net Profit	313	461	609	818	1,186
Growth (Y-oY)		47.1%	32.1%	34.3%	45.1%
Diluted EPS	10.2	15.0	19.8	26.6	38.6
Growth (Y-oY)		47.1%	32.1%	34.3%	45.1%
Key Ratios					
EBIDTA (%)	27.1%	33.7%	29.3%	31.5%	29.5%
NPM (%)	14.7%	18.7%	18.9%	18.4%	18.8%
RoE (%)	13.9%	9.7%	11.7%	13.6%	16.6%
RoCE (%)	22.8%	17.0%	15.9%	21.3%	25.0%
Valuation Ratios					
P/E (x)	156.4x	106.3x	80.5x	59.9x	41.3x
EV/EBITDA	84.6x	56.8x	51.9x	35.3x	26.4x
P/BV (x)	21.8x	10.3x	9.4x	8.2x	6.8x
Market Cap. / Sales (x)	22.9x	19.9x	15.2x	11.0x	7.8x

Sector : FMCG

Company Background

Zydu Wellness Limited (ZWL) is a consumer-based company involved in the development, production, marketing, and distribution of its personal care, nutrition, and consumer wellness products. Their product portfolio includes flagship brands such as Sugar-Free, Everyuth, and Nutralite, and acquired brands such as Glucon D, Complian, Nycil, and Sampriti Ghee. As of Q1FY2023, the overall availability of Zydu Wellness products crossed 2.5 million stores with an equal split between urban and rural distribution. On the global scale, ZWL is present in 20 countries and 3 continents.

Investment Rationale

Focus on Higher Scalability and Better Risk Mitigation Practices

Zydu aims to widen its direction distribution from 0.6 million to 1 million by FY2025 and make its products available in 3 million outlets from the existing 2 million plus outlets. To mitigate risk and ensure business continuity, the company revisited its manufacturing footprint and focused on redistributing the manufacturing of the same products in different geographies. Additionally, Zydu ceased the operations of its Sitarganj plant to achieve its objective of having leaner operations under the Transformation 2.0 strategy.

Increasing Global Presence

In FY22, Zydu extended its global presence and entered new markets such as Hong Kong, Lebanon, Zimbabwe, Muscat, Ethiopia and Australia. The international business continued to grow at high double digits and the management has set the target to derive 8-10% of total revenue from the international business over the next 5 years. Currently, Sugar-Free and Complian brands constitute 93% of international business.

Valuation and Outlook

With India expected to be the fifth largest FMCG market by 2025, Zydu is well-positioned in the industry with a strong management track record and is a market leader in five out of the six categories. The company focuses on increasing its market share through various product innovations, media campaigns, sales promotions and digital initiatives. Additionally, there is promoter buying despite Zydu already having a high promoter stake of 64.5% which we view as a positive sign. On the valuation, front we valued the company based on 28x P/E of the FY24e earnings and arrive at a target price of INR 2132 which is 23% upside from current levels.

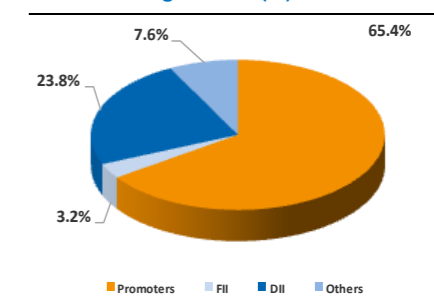
Stock

Recommendation	Buy at CMP and add on dips
Buying Range (INR)	1729-1643
Target price (INR)	2132
Investment Horizon	Till Next Diwali
BSE code	531335
NSE Symbol	ZYDUSWELL
Bloomberg	ZYWL IN
Reuters	ZYDS .BO

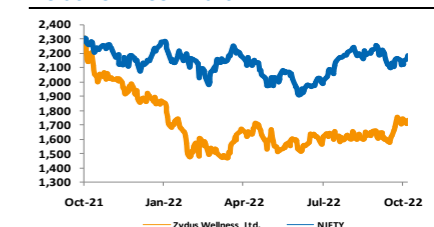
Key Data

Nifty	17,487
52WeekH/L(INR)	2332/1430
O/s Shares (mn)	64
Market Cap (INR bn)	110
Face Value (INR)	10
Average volume	
3 months	65,350
6 months	56,900
1 year	53,960

Share Holding Pattern (%)



Relative Price Chart



Key Financials					
YE March (INR. In mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	17,668	18,667	20,091	22,259	24,841
Growth (Y-oY)		5.7%	7.6%	10.8%	11.6%
EBIDTA	3,211	3,444	3,425	4,051	4,695
Growth (Y-oY)		7.3%	(0.5%)	18.3%	15.9%
Net Profit	1,417	1,187	3,089	3,962	4,844
Growth (Y-oY)		(16.2%)	160.1%	28.3%	22.3%
Diluted EPS	22.3	18.7	48.5	62.3	76.1
Growth (Y-oY)		(16.2%)	160.1%	28.3%	22.3%
Key Ratios					
EBIDTA (%)	18.2%	18.4%	17.0%	18.2%	18.9%
NPM (%)	8.0%	6.4%	15.4%	17.8%	19.5%
RoE (%)	4.1%	2.6%	6.4%	7.6%	8.5%
RoCE (%)	6.4%	6.7%	6.6%	7.5%	8.0%
Valuation Ratios					
P/E (x)	77.6x	92.7x	35.6x	27.8x	22.7x
EV/EBITDA	38.7x	32.8x	32.7x	26.8x	22.5x
P/BV (x)	3.2x	2.4x	2.3x	2.1x	1.9x
Market Cap. / Sales (x)	6.2x	5.9x	5.5x	4.9x	4.4x



Happy Diwali

May the glow of lamp illuminate
your life and brings you joy,
Prosperity and happiness.

 BP Wealth

 **stobox**



Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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