WILLIAM O'NEIL INDIA

Samvat
2077

Diwali
SPECIAL PICKS

Let the Festival of Lights,
Light your path to
the Right Investments.

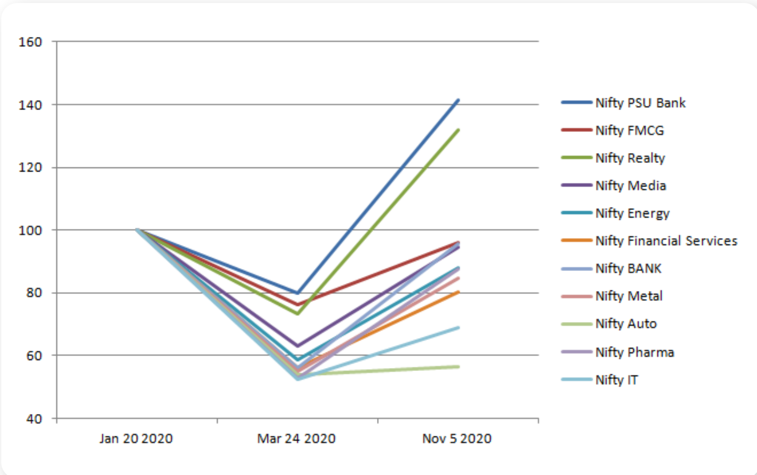
Dear Customers,

Wishing you all a Happy and Prosperous Diwali!

Equity markets worldwide had a roller-coaster ride in Samvat 2076, which inherited slowing GDP, looming NBFC issue, rural consumption slowdown, and geopolitical tensions. However, corporate tax cut and several other supply and demand-side reforms were introduced by the RBI and the government in H1 FY20, giving momentum to the market in Q4 FY20. But, in March, the COVID-19 pandemic, a Black Swan event, triggered a major disruption. The focus from growth was changed to 'jaan hai to jahaan hai.' From the high of 12,430 in January, Nifty tested the 7,500 level in March.

Though the corona cases were increasing, the forward-looking talks around vaccine development, a V-shape recovery in 2021, stimulus packages by the government, pro-active measures by RBI and central banks globally changed the scenario for the financial market. By June, Nifty was back at the 10,000 level. The mantra was changed to 'jaan bhi jahaan bhi.' On November 9, Nifty made an all-time high of 12,474. As we light dias and welcome Samvat 2077, all eyes will be on a vaccine and the revival of the global economy, which market may be pricing in before the numbers speak.

On the sectoral front, Nifty Realty (-48%) and Metal (-47%) declined the most during February/March sell-off. Once the market reversed, Nifty IT (+80%), Nifty Pharma (+77%), and Auto (+70%) showed strength.



Overall, Q2 FY21 results have turned out to be strong and better than expected. There are signs of demand revival in auto sales, GST collection, e-way bill generation, and positive management commentary in Q2 analyst meet by most of the leading firms. Consumer-centric segments, such as FMCG, paints, building material, reflected a sharper recovery and have either reached or are closer to pre-COVID levels. Also, good rainfall, higher water reservoir level, higher MSP, and other government initiatives to boost the rural economy can fuel growth. Nifty50, midcap, and smallcap indices are up 7–10% since last Diwali (till November 9). MSI model portfolio has outperformed, with gains of more than 25%.

There will be multiple growth ideas if the market remains in a Confirmed Uptrend. We, at MarketSmith India, have short-listed a few stocks as our top picks. These stocks may not be trading in their ideal buy range, and hence investors should consider buying them as and when they break out of a proper base pattern or as indicated in the stock-specific chart.

MSI Samvat 2076 stocks	Price in Samvat 2076 Note	CMP (November 09)	% Change
ICICI Bank	451	462	2%
Titan	1330	1285	-3%
Apollo Hospital	1520	2084	37%
Bharat Electronics	115	93	-19%
Indraprastha Gas	372	423	14%
Reliance	1414	2050	45%
ICICI Lombard	1294	1271	-2%
Jubilant Food	1428	2335	64%

	% Return from Diwali 2019 to Nov 9
Nifty50	8%
Midcap100	11%
Smallcap100	5%
MSI Portfolio	26%

Our picks for Samvat 2076 gave a return of 17%. Also, MSI portfolio outperformed all key indices between last Diwali and November 9 this year, with returns of more than 25%

Polycab

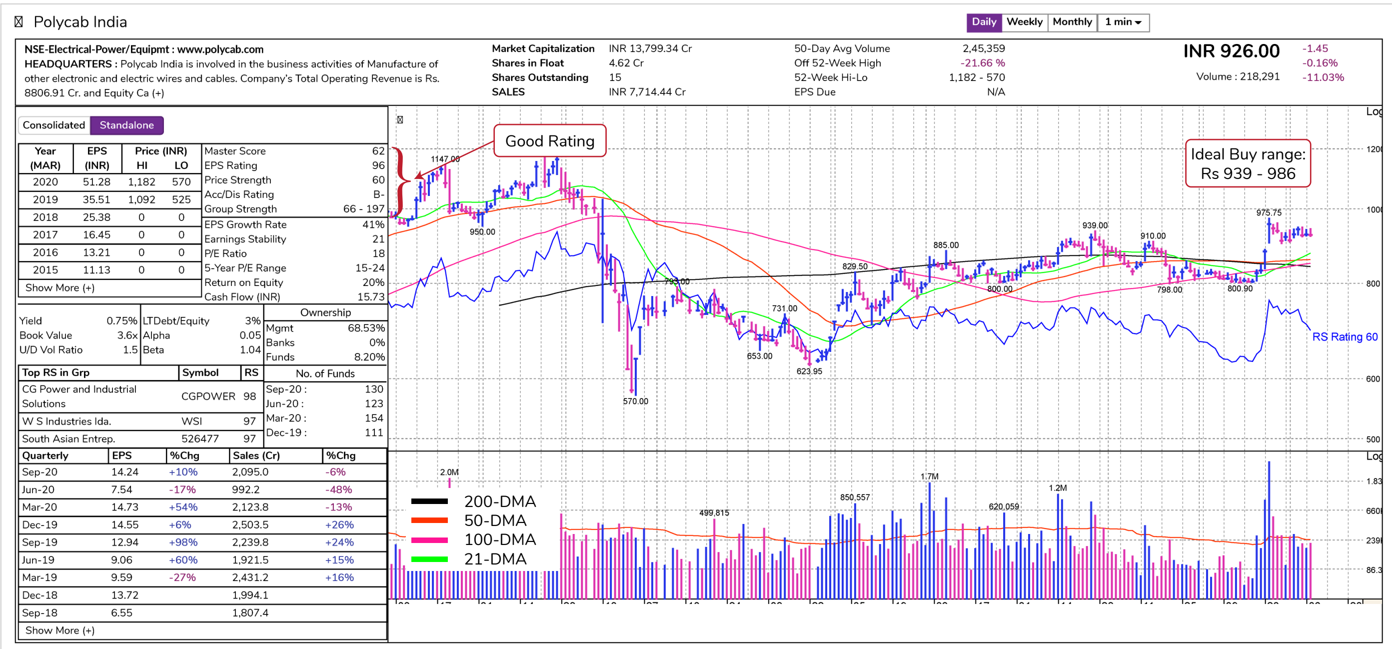
CMP: Rs 926.2 (November 09, EOD)

Polycab India is the top manufacturer of electric cables in India. The company engages in designing, manufacturing, and selling electric wires, cables, and electric wiring accessories. The company has an overall market share of 12% in the domestic wires and cable segment. FY20 revenue by segment: wires and cables, 84%; fast-moving electric goods (FMEG), 9%; other, 7%. The company reported better-than-expected Q2 FY21 results. It has ROE of 20%

-The company has a diversified customer base in sectors like health care, oil and gas, renewable energy infrastructure, etc., providing customers with a variety of wire and cable options. With more than 1B subscribers, India is the second largest telecom network in the world. The advent of 5G, which requires fourfold the current fiber density and 20x more base stations, will boost sales of optical fiber cables and other telecommunication cables.

-The national infrastructure pipeline is a group of 6,500 projects across 23 sectors lined up with private and public investments of $1.4T. Rural electrification programs focus on the electrification of rural areas. This would boost demand from the transmission and distribution sector for wires and cables. It would also create a secondary market for FMEG products, which are bought post-electrification. The Indian governments' housing-for-all initiative, which aims to help 20M households by 2022, and smart cities mission would drive sales growth for a market leader like Polycab in the EPC, wires and cables, and FMEG segments.

- Manufacturing expansion and distribution network could boost growth The company engages in steady investments in setting up new plants, capacity expansion, and automation, which has helped it stay ahead of the competition. The company maintains its quality, efficiency, and logistics through strategic backward integration in its manufacturing process. Polycab has more than 25 manufacturing facilities in strategic locations, of which four manufacture FMEG products, supported by 30 depots across India. Distribution channels, dealers, and distributors contribute 80% of the revenue and cater to retail customers.



Year (MAR)	EPS (INR)	Price (INR) HI	Price (INR) LO
2020	51.28	1,182	570
2019	35.51	1,092	525
2018	25.38	0	0
2017	16.45	0	0
2016	13.21	0	0
2015	11.13	0	0
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Master Score	62
EPS Rating	96
Price Strength	60
Acc/Dis Rating	B-
Group Strength	66 - 197
EPS Growth Rate	41%
Earnings Stability	21
P/E Ratio	18
5-Year P/E Range	15-24
Return on Equity	20%
Cash Flow (INR)	15.73

Yield	0.75%	LTDebt/Equity	3%
Book Value	3.6x	Alpha	0.05
U/D Vol Ratio	1.5	Beta	1.04

Ownership	
Mgmt	68.53%
Banks	0%
Funds	8.20%

Top RS in Grp	Symbol	RS
CG Power and Industrial Solutions	CGPOWER	98
W S Industries Ida.	WSI	97
South Asian Entrep.	526477	97

No. of Funds	
Sep-20 :	130
Jun-20 :	123
Mar-20 :	154
Dec-19 :	111

Quarterly	EPS	%Chg	Sales (Cr)	%Chg
Sep-20	14.24	+10%	2,095.0	-6%
Jun-20	7.54	-17%	992.2	-48%
Mar-20	14.73	+54%	2,123.8	-13%
Dec-19	14.55	+6%	2,503.5	+26%
Sep-19	12.94	+98%	2,239.8	+24%
Jun-19	9.06	+60%	1,921.5	+15%
Mar-19	9.59	-27%	2,431.2	+16%
Dec-18	13.72		1,994.1	
Sep-18	6.55		1,807.4	
Show More (+)				

O'Neil Viewpoint:

- The stock is breaking out of a stage-one consolidation base It is trading above its key moving averages and is actionable in 940-987 zone
- The company has a strong fundamental profile with EPS Rank of 96 and ROE of 20%. It had double-digit earnings growth over the past three years with margin expanding.
- It has RS Rating of 60 and A/D Rating of A-. Volume was low on down days during bse formation and higher on the right side of the base, indicating constructive set up.
- Institutional sponsorship increased 6%q/q in Q2 FY21.

Balkrishna Industries

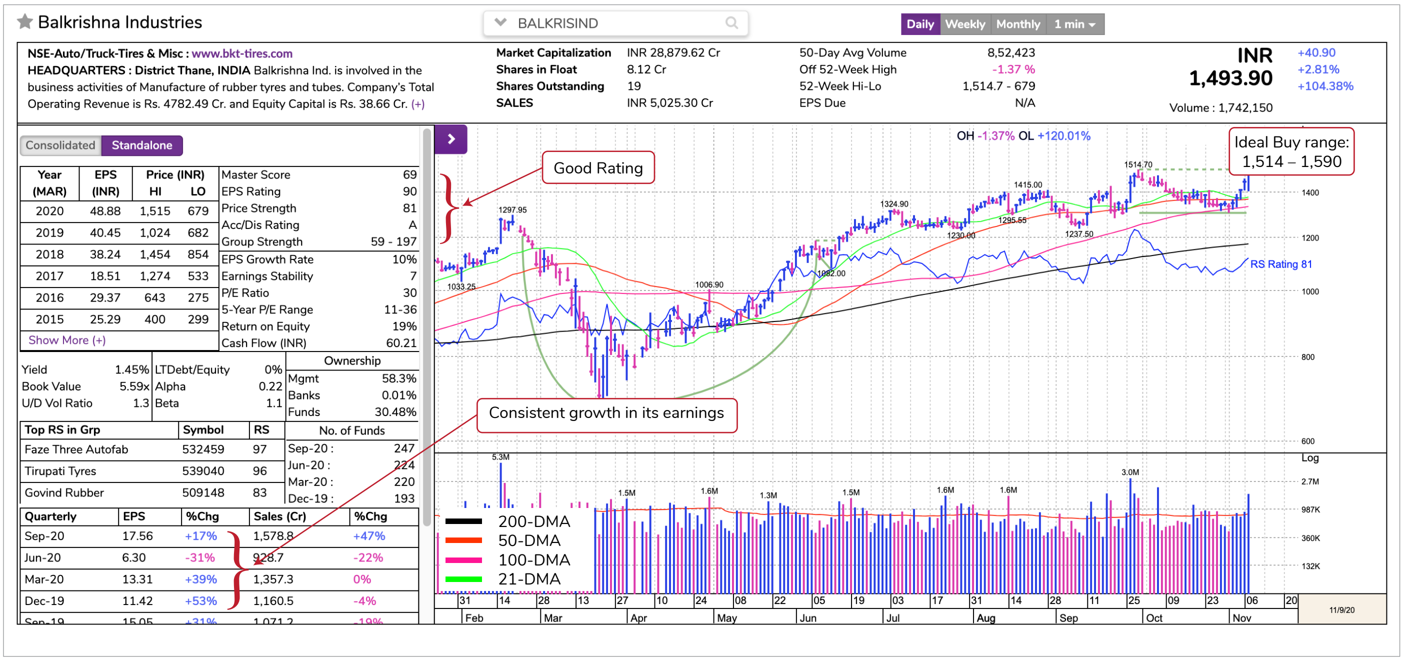
CMP: Rs 1,489.9 (November 09, EOD)

Balkrishna Industries specializes in segments such as agricultural, construction, and industrial as well as earthmoving, port and mining, ATV, and gardening applications. Exports make most of its revenue (81% in FY20), with Europe being its largest market, followed by the Americas. Its sales are predominantly in the replacement market, with 70% of revenue being generated through this channel.

-The company is steadily gaining market share in the industry through lower-priced products compared with peers. It currently has less than 5% market share and targets 10%. Its products meet the international standards, yet they are priced 10-15% lower compared with other major players. Replacement demand from agriculture has been robust this year, driven by domestic as well as key export markets.

- In FY20, it achieved a gross margin of 58%, with nearly 5% expansion. This was aided by low raw material cost as crude derivatives represent 70% of its raw material cost. It expects to maintain a 58-60% gross margin in the long term as well.
- In Europe, drought and heat waves impacted agricultural production in 2018 and 2019. This year, demand has been robust due to favorable weather. . Sales in the U.S. were impacted by the China–U.S. trade war but we expect new opportunities and demand recovery as the U.S. has put additional duty on tire imports from China.

-It has eliminated outside reliance for carbon black, which represents ~20% of raw material cost. This will help to maintain steady quality and avoid price fluctuations due to supply-side disruption. It has less than 10% dependency on China for raw materials and has diversified its supply across the world, which insulates it from supply-side disruptions in China.



O'Neil Viewpoint:

- The stock is breaking out of a stage-two flat base. It is trading above its key moving averages and is actionable in Rs 1,515-1,590 zone.
- The company has a strong fundamental profile with EPS Rank of 89 and ROE of 19%.
- It has an RS Rating of 81 with RS line trending higher and an A/D Rating of A. Accumulation is very good on the right side of a base, indicating constructive set up.
- Institutional sponsorship increased 10% q/q in Q2 FY21.

Divis Laboratories

CMP: Rs 3,423.75 (November 09, EOD)

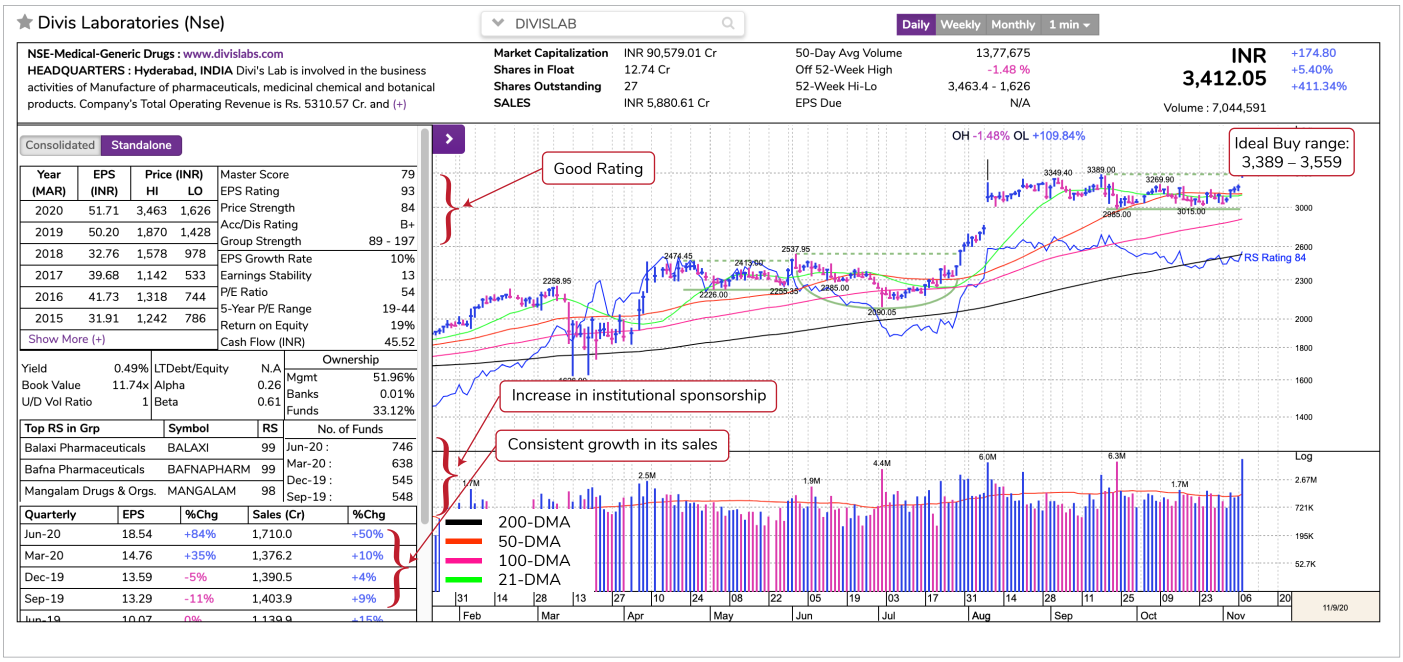
Divis Laboratories Limited is a global manufacturer of active pharmaceutical ingredients (APIs) and intermediates for generic drugs. With a portfolio of more than 120 products, Divis focuses on diverse therapeutic areas. Its nutraceutical division (part of generics business) manufactures more than 65 carotenoid and vitamins, used in dietary supplements, food & beverages, and feed.

- Around 88% of the revenue is from exports. Out of which, America and Europe accounted for 73% of the business. The domestic market accounted for 12%. Over the last 2–3 years, the company had announced a mega capex plan of Rs 1,700 crore out of that ~50% of the capex used in FY20, and the balance would be used in FY21 to increase capacity. This would aid in growth momentum from H2 FY21 onward.

-The recent pandemic across the globe has put India's pharma players into the limelight. Globally, pharma companies that import API from China are looking for an alternative sourcing base, and India being a big player can benefit. This augurs well for API focused companies like Divis. The company has a total of 39 drug master files (DMFs), with USFDA and 22 CEPs (Certificates of Suitability) issued by EDQM authorities. It also has a strong patent pipeline, with a total of 35+ patents filed for generic products.

- The company does not have any pending regulatory hurdles, which will help in continuous growth and attract more investors. In November 2019, the company's plant in Telangana was inspected by the USFDA and concluded successfully with zero observations. In January, the company's plant in Andhra Pradesh had been inspected by USFDA and concluded successfully with zero observations. Also, in Q4 FY21, the company had commenced production at the DCV-SEZ unit at Visakhapatnam.

- The company reported a 12% CAGR in revenue from the FY15 to FY20 period. It was also able to record an EBITDA margin of 30%+. The growth and higher margin were mainly due to the efficient utilization of capacities and additional capacities addition. Also, the company is cash-rich and has implemented a large capex program through internal accruals. In Q2 FY21, it beat estimates on all fronts. PAT was up 46% y/y to Rs 520 crore, and margin expanded 850bps y/y to 42.4%.



O'Neil Viewpoint:

- The stock is breaking out of a stage-two flat base. It is trading above its key moving averages and is actionable in Rs 3,390–3,558 zone.The company has a strong fundamental profile with EPS Rank of 93 and ROE of 19%.
- It has an RS Rating of 84 with RS line trending higher and an A/D Rating of B+. Accumulation is very good on the right side of a base, indicating constructive set up.
- Institutional sponsorship increased 17% q/q in Q2 FY21.

HDFC Life

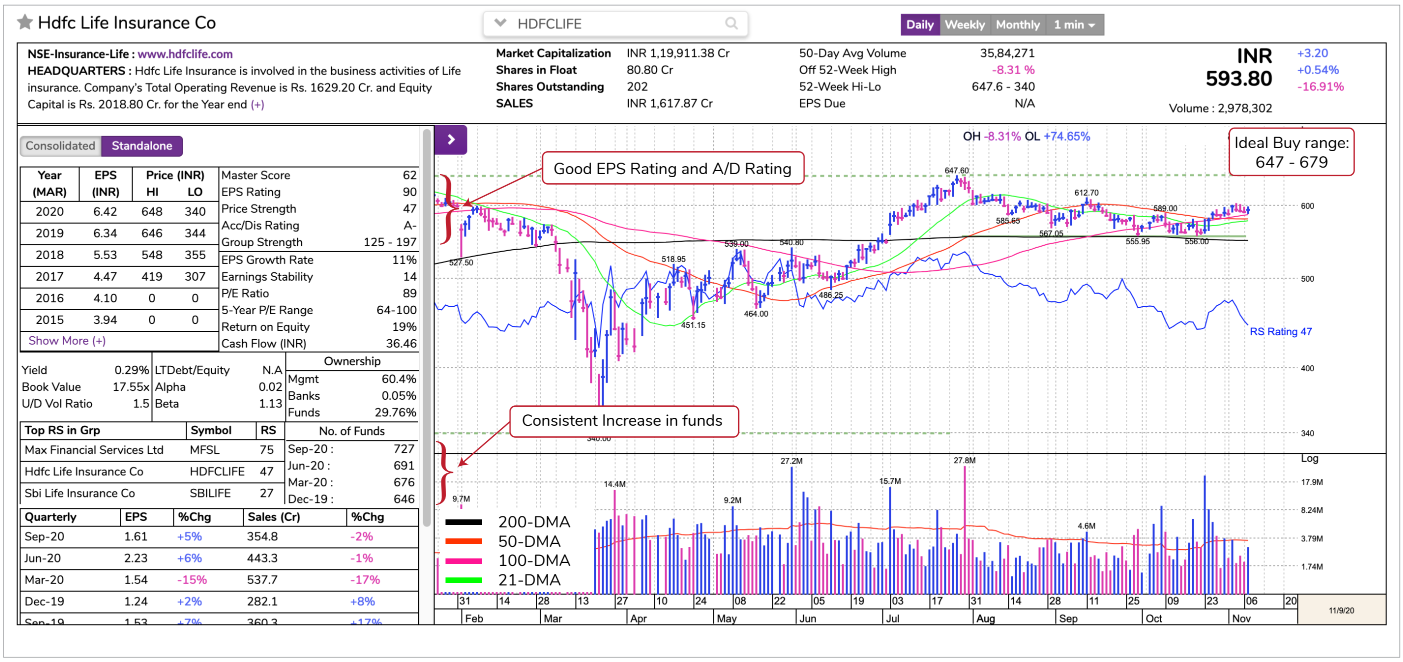
CMP: Rs 592.85 (November 09, EOD)

HDFC Life Insurance Company Ltd. is a joint venture between HDFC Ltd. and Standard Life Aberdeen, a global investment company. The company offers a range of individual and group insurance products such as protection, pension, savings, investment, and health. As of March 31, the company had 37 individual and 11 group products in its portfolio. The company has more than 400 branches across the country. It has a balanced product mix (UL: 23%, Par: 33%, Non-par savings: 30%, Protection: 9%, Annuity: 5%).

-The company's market share in terms of Individual WRP has expanded by 235bps to 17.5% in H1 FY21 from 15.2% in H1 FY20. The company has neutralized its Q1 de-growth and recorded a 2% growth during H1 FY21. This is on a base of 35% growth last year, which is noteworthy. Further, the performance is the best as compared with peers in the private industry, which shrank 11% on a base of 16% growth for H1 last year. The company's market share for the group products and overall new business segments amongst private sector players stood at 27.4% and 23.3%, respectively.

-The renewal premium advanced 22% y/y to Rs 75.5B in H1 FY21 as against Rs 61.8B in H1 FY20, backed by improving MoM collection. However, management is cautious about persistency trends for the next few quarters. Further, new business margin (NBM) has performed steady growth over the last three recent quarters to 25.6% in Q2 FY21 from 24.3% in Q4 FY20. In addition, its solvency position remained healthy at 203% and 190% as of September 30 and June 30, respectively. PAT witnessed a 6% y/y growth to Rs 7.8B in H1 FY21 on the backdrop of stable accretion of backbook surplus and consistent focus on cost management.

-India remains under-insured, both in terms of penetration and density as compared with global peers. The penetration in India stood at 2.8%, while it is 16.5% and 18.3% in Taiwan and Hong Kong, respectively. This provides a huge opportunity to penetrate the underserviced segments, with the evolution of the life insurance distribution model. Further, India's insurable population is expected to touch Rs 750M by 2020 and India's elderly population is expected to double by 2,035 (as compared with 2015). In addition, India has the highest protection gap in the region, as growth in savings and life insurance coverage has lagged behind economic and wage growth. Protection gap growth rate is estimated to show an expansion of 4% per annum.



O'Neil Viewpoint:

- The stock is breaking out of a stage-one flat base. It is trading above its key moving averages and is actionable in the Rs 648–681 zone.
- The company has a strong fundamental profile with EPS Rank of 90 and ROE of 19%.
- It has an RS Rating of 47 and an A/D Rating of A-. Volume on lower days has been lower than average and has found strong support at the 200-DMA, which is constructive.
- Institutional sponsorship increased 5.2% y/y in Q2 FY21.

ESCORTS

CMP: Rs 1,355.85 (November 09, EOD)

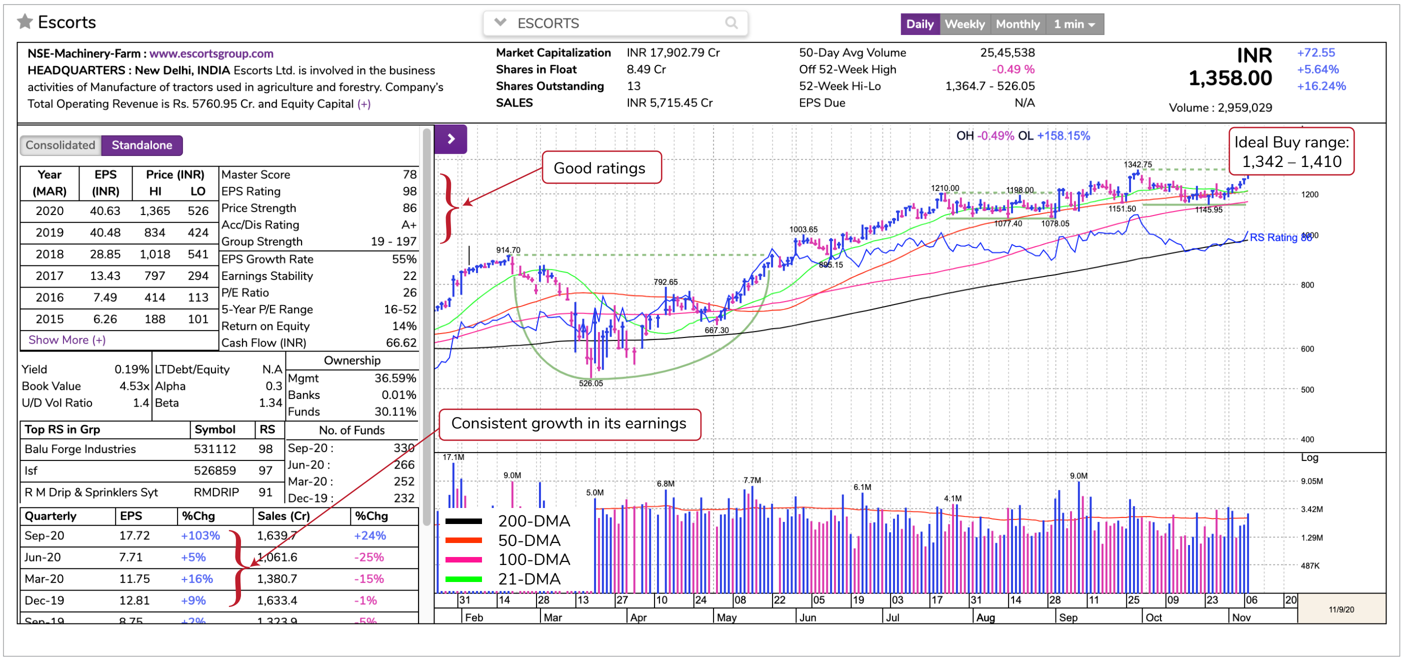
Escorts is one of India's leading engineering companies that operate in the agri-machinery, construction, and material handling equipment, and railway equipment sectors. The Company owns and operates six integrated manufacturing plants in Faridabad (Haryana). The Company also possesses a plant in Rudrapur (Uttarakhand) and a plant in Poland (Europe).

The agriculture sector looks encouraging due to positive rural sentiment, driven by the better-than-expected output of crop and higher reservoir level due to good monsoon. Tractor demand is expected to remain higher in the near term on aggressive procurement of crops by the government and higher MSP. Tractor sales were up 4.4% y/y to 42,591 units in H1 FY21, which is very positive as H1 FY21 had the highest disruption due to pandemic.

Escorts product offerings under joint branding "E Kubota" to the global market started last year. Manufacturing JV will have a capacity of 50,000 units. Production has started for Kubota tractors in Q2 FY21. In H2 FY21, this will have a positive impact on top-line growth.

The Railway segment continues to lead with a growth of 26% y/y in Q2 FY21. Its share in total revenue increased to ~10% from 7.5% y/y. As of September 30, the order book is worth more than Rs 350 crore and has an execution time of 6-8 months. The unprecedented pandemic situation during H1 FY2021 has affected fresh order tendering and order inflow. However, management expects the tendering process to get back to the pre-Covid level by Q4FY21.

Factors like growing population, rapid pace of modernization and consistent government support augur well for the farm sector when it comes to the long-term growth fundamentals. The domestic tractor market, in the next decade, is expected to see double-digit growth, reaching 12-15 lakh units by 2030 from 7.9 lakh units in FY19.



O'Neil Viewpoint:

- The stock is breaking out of a stage-two flat base. It is trading above its key moving averages and is actionable in the Rs 1,343–1,411 zone.
- The company has a strong fundamental profile with EPS Rank of 98 and ROE of 14%.
- It has an RS Rating of 86 and an A/D Rating of A+. Group Rank of 19 indicates it belongs to a strong industry group of Machinery-Farm.
- Institutional sponsorship increased 24% y/y in Q2 FY21.

Muthoot Finance

CMP: Rs 1,278.05 (November 09, EOD)

Muthoot Finance is the country's largest gold financing company in terms of the loan portfolio. Its core service is gold loans. Other services include Money Transfer Services, Collection Services, Personal Loans, and others. As of September, the company has loan assets under management of Rs 470.1B.

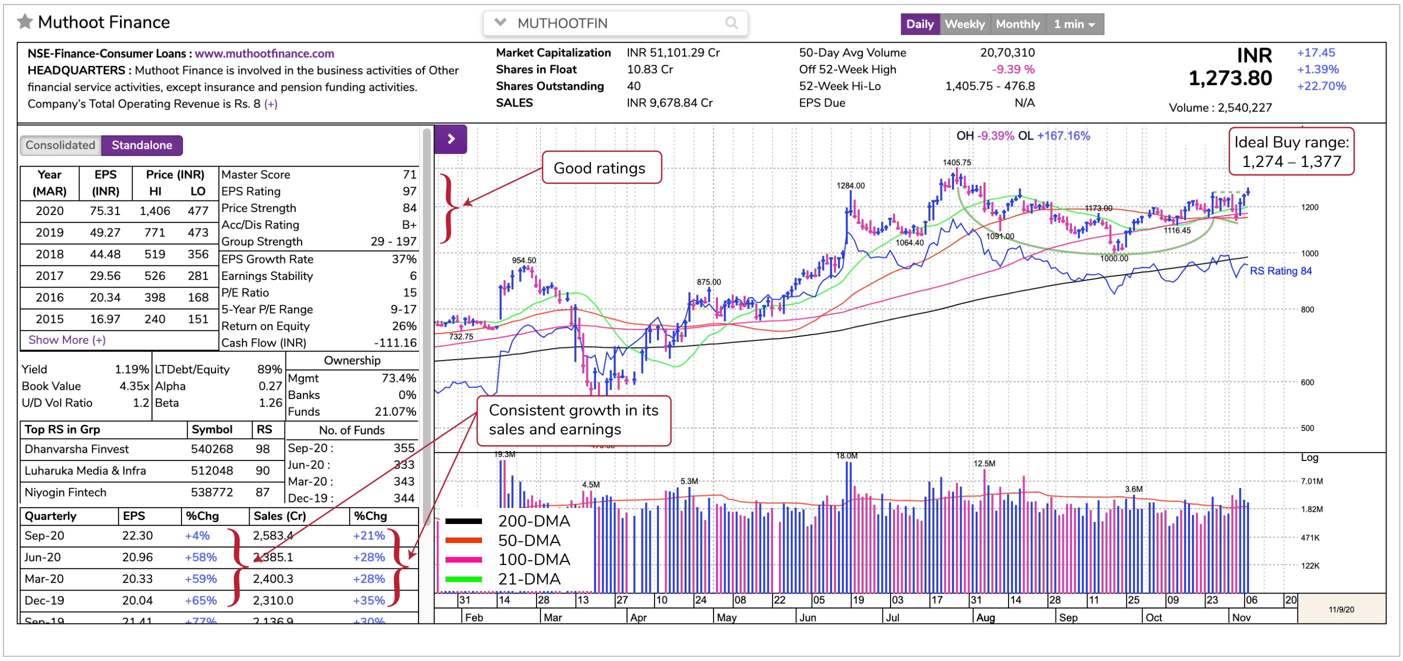
- Net interest margins for the company kept on increasing in the last five years. NIM increased to 15.52% in FY20 from 9.52 in FY15, 10.47 in FY16, and 12.74, 15.29, and 14.47 in the following years.

- The company has been able to raise capital at lower interest rates due to its financial position and brand proposition. It has a diversified funding profile, borrowings from Banks/FIs at 42% of the total borrowings.

- Around 65% of the total gold stock in the country is in rural areas. The rural population is an under-served market when it comes to credit access. Unorganized lending happens in rural areas, where interest rates are as high as 20–60%. This is a major hindrance for the rural population who want to set-up businesses. Muthoot Finance caters to these under-served rural and semiurban markets through a strong presence. As of September, it has 4,607 retail branches with 60% of them concentrated in the South.

- To take out regional headwinds, the company is diversified across the country. The company has also ventured into non-gold businesses such as insurance, foreign exchange, and money transfer, among others.

- Being a market leader in the gold-financing segment, the company enjoys higher profit margins when compared to its peers. It also offers a wide range of products to cater to diverse customer demands. This also helped the company retain its market leadership.



Year (MAR)	EPS (INR)	Price (INR) HI	Price (INR) LO
2020	75.31	1,406	477
2019	49.27	771	473
2018	44.48	519	356
2017	29.56	526	281
2016	20.34	398	168
2015	16.97	240	151

Quarterly	EPS	%Chg	Sales (Cr)	%Chg
Sep-20	22.30	+4%	2,583.4	+21%
Jun-20	20.96	+58%	2,385.1	+28%
Mar-20	20.33	+59%	2,400.3	+28%
Dec-19	20.04	+65%	2,310.0	+35%

O'Neil Viewpoint:

- The stock broke-out from a stage-one cup-with-handle base on strong volume, turning actionable.
- EPS Rank of 97 and ROE of 26.5% indicates a strong fundamental profile.
- Technical indicators are strong, with an RS Rating of 84 and A/D Rating of B+.
- Number of funds holding the stock increased 6.6% to 355 last quarter.

Vaibhav Global

CMP: Rs 1,995.8 (November 09, EOD)

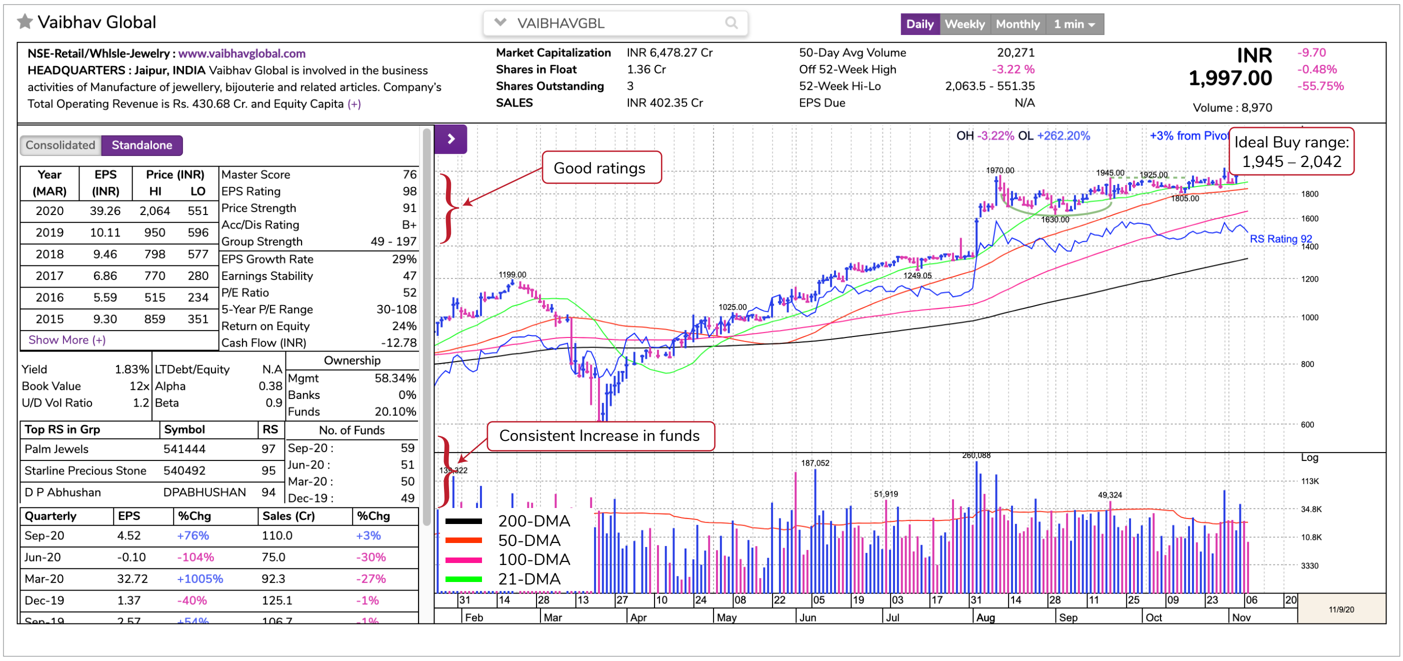
The company was incorporated in 1989 and evolved into a vertically-integrated electronic retailer of fashion jewelry and lifestyle products in the U.S. and U.K. on its TV Shopping channels - ShopLC, USA, and The Jewellery Channel (TJC), UK. Today, it reaches around 100M households through its above two channels.

A distinctive business model is a key moat. The company has created a niche for itself in the global retail (jewelry, accessories, and lifestyle) product segments in two of the largest economies of the world - the U.S. and the U.K. The company has a strong operational and financial standing and is willing to 'improvise, adapt, and overcome.' It also offers deep discounts and value offerings for its customers. Most of the company's products are built in such a way, the customers feel they want them.

The company's strategy of a wider catalog, deepening omnichannel engagement in the U.S. and the UK, proven order fulfillment capability, reputed logistics partners, and specialist call center operations should result in an expanded customer base and growing revenue. Also, a 4R strategy to strengthen Reach, Registrations, Retention, and Repeat Purchases can work well for the company.

The non-jewelry business such as fashion accessories and lifestyle products, which earlier contributed 9% to B2C revenues in FY 15-16 had contributed 32% in H1 FY21. This indicates reduced dependence on jewelry revenue in calculating total B2C revenue. Similarly, non-budget revenue currently accounts for 36% of the total B2C revenue as against a contribution of 8% in FY15-16.

The current disruption brought about by the pandemic has threatened business continuity for traditional retail formats while opening massive home-shopping format opportunities. The post-pandemic retail world would comprise of changing consumption patterns, a transition to home-shopping avenues (teleshopping and digital platforms), and the consolidation of retailers, decisively altering the competitive landscape. Vaibhav Global, already having an omnichannel sales platform, can benefit.



Year (MAR)	EPS (INR)	Price (INR) HI	Price (INR) LO
2020	39.26	2,064	551
2019	10.11	950	596
2018	9.46	798	577
2017	6.86	770	280
2016	5.59	515	234
2015	9.30	859	351
Show More (+)			

Master Score	76
EPS Rating	98
Price Strength	91
Acc/Dis Rating	B+
Group Strength	49 - 197
EPS Growth Rate	29%
Earnings Stability	47
P/E Ratio	52
5-Year P/E Range	30-108
Return on Equity	24%
Cash Flow (INR)	-12.78

Yield	1.83%	LTDebt/Equity	N.A
Book Value	12x	Alpha	0.38
U/D Vol Ratio	1.2	Beta	0.9

Ownership	
Mgmt	58.34%
Banks	0%
Funds	20.10%

Top RS in Grp	Symbol	RS
Palm Jewels	541444	97
Starline Precious Stone	540492	95
D P Abhushan	DPABHUSHAN	94

No. of Funds	
Sep-20 :	59
Jun-20 :	51
Mar-20 :	50
Dec-19 :	49

Quarterly	EPS	%Chg	Sales (Cr)	%Chg
Sep-20	4.52	+76%	110.0	+3%
Jun-20	-0.10	-104%	75.0	-30%
Mar-20	32.72	+1005%	92.3	-27%
Dec-19	1.37	-40%	125.1	-1%
Sep-19	2.57	+54%	106.7	-1%

O'Neil Viewpoint:

- The stock broke-out from a stage-one cup-with-handle base on strong volume, turning actionable.
- EPS Rank of 98 and ROE of 24% indicates a strong fundamental profile.
- Technical indicators are strong, with an RS Rating of 95 and A/D Rating of B+.
- Number of funds holding the stock increased 16% q/q in Q2 FY21.

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Out of the Diwali special picks; Balkrishan Industries, Muthoot Finance, Escorts, Vaibhav Global, and Divis Laboratory are part of MSI model portfolio. We might add others depending on market conditions any time in the future.

Analyst Disclosures: No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Disclosure of Interest Statement	Companies where there is interest
Analyst ownership of the stock	No

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