IIFL SECURITIES

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New Year Recommendations 2023

Indian Economy Outlook

- The RBI raised policy rate by **35 bps to 6.25%**, expectedly tempering the magnitude after three consecutive hikes of 50 bps..
- Verbals were more hawkish than we expected, as RBI seems worried on sticky core inflation and uncertain path forward, despite downgrading GDP growth
- We think there could be one more hike of 25bps going forward, before a pause to make room for the lag effect of hikes around the world and in India.
- We expect inflation to gradually come off in 2023 and long yields to stay at current levels, based on comfortable fiscal position.
- The governor sounded quite confident on growth — regardless of a downgrade to 6.8% — emphasising the resilience of Indian economy amidst turbulent external macro.
- Strong Government revenues are a silver lining, especially on GST. GST collections have been very robust, with it being above the 1 lakh crore mark for **17 consecutive months and above 1.4 lakh crore mark for the nine straight months.** This has contributed to indirect as well as direct tax revenue growth being robust, and eventual borrowing by GoI may come in below, keeping a tighter lid on rates.
- Forex reserves have again picked up following a sustained period of fall and are now back up to **~$560bn.**
- Considering rich valuations in general, we favour a defensive stance and domestic growth stories, with our top picks coming from Banks, FMCG, Auto and Insurance.

Top Stocks Recommendations for 2023

Sr No.	Stock	CMP	Target	Return Potential	Buy Now
1	**Equitas Small Finance Bank**	53-57	66	20%	Buy now
2	**Indusind Bank**	1170-1210	1428	20%	Buy now
3	**PB Fintech**	450-470	552	20%	Buy now
4	**Emami**	420-440	516	20%	Buy now
5	**Godrej Agrovet**	465-485	570	20%	Buy now

Equitas Small Finance Bank

CMP: ₹53-57	BUY	TP: ₹66	Upside: 20%

- The quarter was characterized by: i) strong AUM (+5% QoQ / 20% YoY) and disbursement growth (+19% QoQ / 22% YoY), ii) strong deposit growth (+7% QoQ / +20% YoY), iii) slight QoQ decline in CASA deposits leading to ~300bps lower CASA ratio to 48.1%, iv) slight margin compression QoQ (5bps to 9.0%), v) higher than expected opex (8% above expectation) and vi) improvement in asset quality. GNPA ratio decreased 19bps QoQ to 3.9%. Restructured book declined to Rs9.9bn or 4.5% of loans (5.8% of loans in 1QFY23). PCR improved ~210bps QoQ to 50.6%. Credit cost or the quarter stood at 1.7% (would have been ~30bps ex one-off).
- The management has given the following guidance: Loan growth of 25% in FY23. Opex growth of ~20-23% in FY23 • Cost-to-income ratio of 60-63% in FY23 and Credit cost of 1.5% for FY23.
- Overall outlook remains strong with management reiterating its 1.5% credit cost guidance for FY23 owing to asset quality normalisation and despite it reducing its loan growth guidance to 25% for FY23. Lower growth and higher opex would however mean that achievement of 2% RoA would be pushed to FY24. Given the expected return profile, valuation at 1.1x FY24ii BVPS appears favourable.

Financial Summary

Consolidated (`bn)	NII	CAR (%)	EPS (`)	EPS growth (%)	P/E (x)	RoE (%)
FY23E	25.2	21.4	4.6	102.9	11.2	12.6
FY24E	31.3	19.2	6.3	38.0	8.1	15.1

IndusInd Bank

CMP: ₹1170-1210	BUY	TP: ₹1428	Upside: 20%

- Indusind Bank's profit of Rs18.1bn in 2QFY23 was 8% above our estimate, driven by lower than expected provisions (as IIB utilised Rs3.5bn of contingent provisions). The quarter was characterised by: i) strong loan/deposit growth (+5/4%% QoQ), ii) largely stable NIM QoQ (+3bps to 4.24%), iii) healthy fee income growth (+5/24% QoQ/YoY) and iv) improvement in asset quality. GNPA ratio declined 24bps QoQ to 2.11%. Slippages were down 30% QoQ to Rs15.7bn. Restructured loans decreased to 1.5% in 2QFY23 (2.1% in 1QFY23).
- We increase our loan growth estimates to 21.7% Cagr (19.3% earlier). Fee income estimates have been increased by ~5% to account for better fee traction, which is offset by higher opex, leading to largely unchanged PPOP. We lower credit cost estimate for FY23 to ~180bps, FY24 at 165bps (stable) and increase it slightly for FY25 to ~155bps.
- Operating performance has remained strong with reported PPOP margin of 5.7-6.0% over the last 6 quarters. PCR is strong at ~72% and additional provisions at 1.46% of loans could cushion earnings. Management guidance is encouraging with ~20% loan growth for FY23, cost-to-income ratio of 41- 43% and credit cost of 120-150bps. Valuation at 1.5x FY24ii BVPS looks favourable, given the growth outlook and return profile

Financial Summary

Consolidated (`bn)	NII	CAR (%)	EPS (`)	EPS growth (%)	P/E (x)	RoE (%)
FY23E	175.0	17.9	98.2	58.3	12.4	14.9
FY24E	201.2	17.2	115.8	18.0	10.5	15.4

PB Fintech

CMP: ₹450-470	BUY	TP: ₹552	Upside: 20%

- Insurance premium grew 76% YoY/5% QoQ to Rs25.45bn, despite 2Q being modest for the industry given a tough base. Credit disbursals increased 94% YoY to Rs29.2bn. Paisabazaar is currently at a run rate of Rs12bn disbursals and 0.5mn credit card issuances. Over 31mn customers have accessed credit score on the platform, representing ~13% of India's active credit score consumers. Overall revenue grew by 105% YoY to Rs5.7bn, while renewal revenue is annualising at Rs2.9bn and will be a key driver of profitability.
- Insurance premium grew 76% YoY/5% QoQ to Rs25.45bn, despite 2Q being modest for the industry given a tough base. Credit disbursals increased 94% YoY to Rs29.2bn. Paisabazaar is currently at a run rate of Rs12bn disbursals and 0.5mn credit card issuances. Over 31mn customers have accessed credit score on the platform, representing ~13% of India's active credit score consumers. Overall revenue grew by 105% YoY to Rs5.7bn, while renewal revenue is annualising at Rs2.9bn and will be a key driver of profitability.
- Contribution margins improved 220bps QoQ to 24.6%, driven by lower losses in the New initiatives. Core business was profitable for a third straight quarter with Adj. EBITDA of Rs120mn (after absorbing Rs60mn loss from non-Insurance business), while new initiatives reported an Adj. EBITDA loss of Rs650mn (vs Rs710mn in 1Q). Elevated ESOP expenses led to EBITDA margins of -39.4%. Management indicated ESOP expenses likely to come off sharply in 2HFY23 and FY24.

Financial Summary

Consolidated (`mn)	Revenue	Revenue growth (%)	Free cash Flow	P/B (x)
FY23E	22,990	61.3%	(1,709)	3.2
FY24E	31,159	35.5%	905	3.0

EMAMI

CMP: ₹420-440	BUY	TP: ₹516	Upside: 20%

- As the base of OTC and Healthcare sales normalises, sales growth should improve gradually in coming quarters. With input prices easing and expectations of a good winter, Emami has increased brand investments - A&P increasing 34% YoY and clocking 17.4% as a percentage of sales (vs 2Q average of 16.2% pre-Covid). Even as the company continues spending behind brands, management sounded confident of clocking ~27% Ebitda margin for FY23.
- Emami hasn't gone on expansion in 1H, but has consolidated on the efforts in all 8-9K villages added in last two years. The distribution has reached from 32k villages in 1HFY22 to ~42K currently, which helped in saving on van cost. There would be a ~10k village additions every year, hereon.
- With a higher salience of rural and mass end discretionary products, Emami has been impacted disproportionately in the current inflationary times. Moderation in overall price index should therefore, bode well for demand recovery for Emami. We broadly maintain our sales estimates and moderate Ebitda margin to 27%/27.5%/27.5%, resulting in Ebitda downgrade of 2.6%/5.0%/7.4% in FY23/24/25. Our EPS estimates for FY23/24 are upgraded by 9%/11% (lower tax rate for these years).

Financial Summary

Consolidated (` mn)	Revenue	EBITDA	PAT	EPS (`)	P/E (x)	RoE (%)
FY23E	35,335	9,554	7,319	19.3	24.0	34.9
FY24E	39,050	10,743	9,080	22.3	20.8	31.7

Godrej Agrovet

CMP: ₹465-485	BUY	TP: ₹570	Upside: 20%

- While FY23 has been impacted by margin headwinds, the management guided that margins across certain key businesses — such as animal feeds and Standalone Crop Protection — likely to improve from these levels. In Animal Feed, high raw material cost pressures are subsiding and Crop Protection business is likely to witness margin improvement post the receivable cleanup. Vegetable oil margins will also likely improve in FY24, as the company commissions oil refining unit and the solvent extractor.
- Oil Plantations business delivered stellar volume growth. Management highlighted that the season is a bit delayed, hence, a part of the season has moved into 3Q. Thus, it expects the business to deliver a strong quarter in 2HFY23 (with ~20%YoY growth in FFB arrivals). The company is in progress of setting up a ~400MT refinery at an anticipated capex of ~Rs700m. It is also setting up a solvent extraction unit of ~200MTPD. These two projects are expected to be commissioned by Apr'23/May'23, and are likely to improve margins by ~150-200bps.
- We retain our positive stance on the stock, even with the underperformance in 2Q and remain optimistic for margins to mean revert in a couple of quarters across key businesses. Medium-term growth looks encouraging, as key businesses recover from cyclical pressures, and Astec continues to grow strongly. At 21/17x FY24/25 P/E, valuations are attractive vs its peer-set in India; downside risk from these levels is minimal. We think demonstration of healthy earnings growth could potentially spark a re-rating.

Financial Summary

Consolidated (`mn)	Revenue	EBITDA	PAT	EPS (`)	P/E (x)	RoE (%)
FY23E	95,100	6,434	3,372	17.5	28.2	14.4
FY24E	106,572	8,783	4,622	24.1	20.6	18.0

Top Mutual Funds and ETF Recommendations for New Year 2023

Sr No.	Schemes	NAV	Returns			Buy Now
			Year1	Year 3	Year 5	
1	**SBI S&P BSE SENSEX ETF**	668.87	10.2	16.73	15.12	Buy now
2	**ICICI Prudential Bank Nifty ETF**	43.70	17.66	11.61	-	Buy now
3	**Canara Robeco Blue Chip Fund**	5.01	17.11	14.65	11.58	Buy now
4	**ICICI Prudential Focused Equity Fund**	53.89	10.48	22.96	13.67	Buy now
5	**DSP Flexi Cap**	52.55	-0.65	16.21	12.07	Buy now

SBI S&P BSE SENSEX ETF

NAV: ₹668.87	BUY

- The investment objective of the scheme is to provide returns, that closely correspond to the total returns of the securities as represented by holding S&P BSE SENSEX stocks in the same proportion.
- BSE 30 is a market index that consists of the 30 well-established companies which are financially sound, stable, and are performing well in the market.
- These Stocks are spread across twelve sectors (BFSI, IT, Oil and gas, FMCG, Auto, Consumer Durable, Capital Goods, Utilities etc.).
- India's several economic high frequency indicators are looking up. Manufacturing PMI remains robust and Service PMI indicating a rebound in growth with employment seeing sharpest growth.
- With the strength in Government capex and stronger balance sheet of the corporates, India's top companies should continue to enjoy some strength of their own.

Financial Summary

Expense Ratio	Returns			Ratios
	Year1	Year 3	Year 5	Standard Deviation
0.07	10.2	16.73	15.12	22.45

Canara Robeco Blue Chip Fund

NAV: ₹43.19	BUY

- Launched in 2013, Canara Robeco Blue Chip Fund aims to invest in high quality blue chip companies across Large and Mid Cap Space.
- The fund holds a spectacular long-term performance track record that speaks for its success.
- The portfolio is well diversified thus it has an ability to control the losses during the falling market is high.
- It invests >80% in the Large cap stocks (Top100 companies by the Market Capitalization). It also aims to combine consistency of large caps as well as mid cap ideas.
- The fund has been a category leader when it comes to downside protection measure metric.
- The investment strategies followed by the fund have earned it the tag of being a consistent performer that has rewarded long-term investors well across various market phases.

Expense Ratio	Returns			Ratios		
	Year1	Year 3	Year 5	Standard Deviation	Beta	Sharpe
1.86	5.01	17.11	14.65	19.27	0.85	0.74

ICICI Prudential Bank Nifty ETF

NAV: ₹43.70	BUY

- The scheme represents the stocks of Bank Nifty as per its weightage in the Public Sector Banks and Private Sector Banks.
- In the ensuing period, banks are very well placed with supportive monetary stance, healthy capitalisation, improved liability profile, diversified asset mix and healthy asset quality along with strong coverage ratios. Core income to see further improvements with fee income generating activities picking up.
- We see the Loan growth to pick up from 12.5% CAGR from FY18-22 to ~18% CAGR in FY22-25, driven by strong continued strength in growth from retail and service segments.
- Margins to remain stable over FY23 - 25, NIM for large banks improved by ~20-80bps, driven by lower cost of funds, higher share of retail and lower interest reversal.
- Asset quality for the sector has also improved with significant improvement in GNPA ratio down to 5.9% as of FY22 from its peak of 11.2% in FY18.
- The scheme gives an opportunity for the investors to invest in to one of the fastest growing sector contributing to growth of the Indian economy for their long term capital growth.

Financial Summary

Expense Ratio	Returns			Ratios		
	Year1	Year 3	Year 5	Standard Deviation	Beta	Sharpe
0.15	17.66	11.61	-	33.52	1.01	0.37

ICICI Prudential Focused Equity Fund

NAV: ₹53.89	BUY

- Launched in 2009, ICICI Prudential Focused Fund is an open ended equity scheme investing in maximum 30 stocks across market capitalization. The large cap stocks represents established enterprises selected from the Top 100 stocks by market capitalization, the mid- and small-caps represent business entities with higher growth potential. The allocation will be decided on a tactical basis rather than any predetermined ratio.
- The scheme follows a bottom-up approach for identifying stocks that have robust business financials, above-average profitability and sustained competitive advantages.
- The scheme will remain sector agnostic and will maintain overweight stance on select high conviction themes/sectors that are expected to outperform in current economic cycle
- The scheme is suitable for investors who are seeking long term capital appreciation and diversified exposure across market cap with an investment horizon of 5 plus years.

Financial Summary

Expense Ratio	Returns			Ratios		
	Year1	Year 3	Year 5	Standard Deviation	Beta	Sharpe
1.95	10.48	22.96	13.67	19.56	0.82	0.96

DSP Flexi Cap

NAV: ₹52.55	BUY

- The fund invests flexibly across carefully selected companies of different sizes- Large, Mid and Small Cap.
- It aims to own quality business, growth potential and reliable management.
- The Investment Manager prefers adopting a top-down approach with regards to investment in equity and equity related securities. This approach encompasses an evaluation of key economic trends, an analysis of various sectors in the economy leading to an outlook on their future prospects and a diligent study of various investment opportunities within the favoured sectors.
- The Investment Manager will conduct in-house research in order to identify both value and growth stocks. The analysis will focus, among other things, on industry and company fundamentals and valuation metrics. The quality or strength or management would be a key focus area.
- Investing in a flexi cap fund is a smart way of owning multiple businesses selected by the fund managers instead for hunting top stocks, the fund offers potential to grow wealth by diversifying the portfolio across market cap which can help the investor build a strong portfolio and consistent returns.

Financial Summary

Expense Ratio	Returns			Ratios		
	Year1	Year 3	Year 5	Standard Deviation	Beta	Sharpe
1.85	-0.65	16.21	12.07	22.72	0.97	0.61

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