SMIFS LIMITED

LEGACY | TRUST | GROWTH

MONTHLY

RESEARCH RECOMMENDATIONS

September 2022

TECHNO-FUNDA INVESTMENT BUY

ZYDUS LIFESCIENCES LTD. (Previous Close: INR372.50)

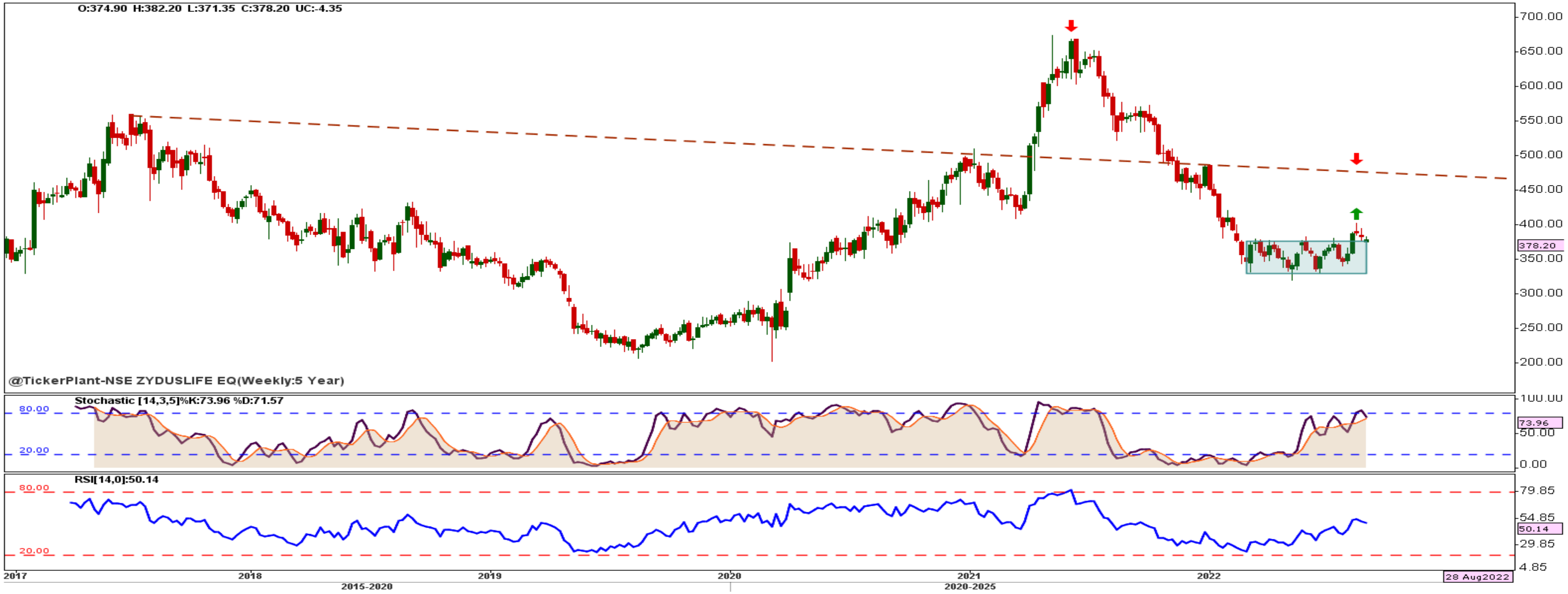
Buying Range: INR370 – INR350 | Stop-Loss: Closing Below INR310 | Target : INR460

Risk/Reward Ratio- around 1:2
Projected Timeframe - 2 Months

Projected Profit- around 28%
Projected Loss- around 14%

The stock is seen breaking out a consolidation that offers a midterm investment opportunity with favorable risk-reward ratio.

Weekly Chart:



Technical View:

After reacting down from 660 levels, the stock has been in a downtrend since past several months. **Recently, the stock is seen breaking out a consolidation, which is pointing towards possibility of a pullback.** Rising stochastic oscillator and RSI during the consolidation implies accumulation suggesting the stock is likely to move higher towards 460 levels.

Based on the aforementioned explanations, **we recommend buying ZYDUSLIFE on dips in the price range of 370-350 for the target of 460.**

ZYDUS LIFESCIENCES LTD. (Previous Close: INR372.50)

Buying Range: INR370 – INR350 | Stop-Loss: Closing Below INR310 | Target : INR460

Zydus is a leading pharma company with family pedigree having a presence in domestic branded formulations, US generics and is in the process of repurposing itself into niche areas of specialty pharmaceuticals, biosimilars and vaccines. The product portfolio of the company includes Active Pharmaceutical Ingredients (API) and human formulations. Zydus is the fourth largest pharma company in India with 14 brands among Top 300 pharma brands in India and nine with ₹100 crore+ sales.

Growing Market

Indian pharmaceutical sector supplies over 50% of the global demand for various vaccines, 40% of the generic demand for US and 25% of all medicines for UK. Besides the United States, India is the only country with the largest number of the USFDA-approved pharma factories, with more than 262 including active pharmaceutical ingredients (APIs), as it produces drugs for a third of the price in the United States and half the price in Europe. The domestic market is expected to grow 3x in the next decade. India's domestic pharmaceutical market stood at US$ 42 billion in 2021 and is likely to reach US$ 65 billion by 2024 and further expand to reach US$ 120-130 billion by 2030. A recent announcement by the government of a $1.3 billion investment to develop three mega bulk drug parks, should help the industry become more self-reliant over the next five to eight years.

COMPANY DEVELOPMENTS

Zydus plans to venture into complex injectable and niche orphan drugs in US from FY24. Zydus is aiming to file and launch 30-35 products every year in the US. It is also working with Medicines for Malaria Venture to develop a single dose cure for malaria. The company launched three new products including complex injectable namely Enoxaparin sodium injection, an in-licensed product, which is the second in-licensed complex injectable product. Zydus has entered into a manufacturing license and technology transfer agreement for its Plasmid DNA based Covid-19 vaccine with Enzychem Lifesciences of Republic of Korea.

GLOBAL FOOTPRINT

The company has a global presence and sells its products in the United States, India, Europe and emerging markets including countries in Latin America, Asia Pacific region and Africa. 44% of its revenue comes form the US markets followed by 15% in the Indian market. The group has manufacturing sites and research facilities spread across five states of Gujarat, Maharashtra, Goa, Himachal Pradesh and Sikkim in India and in the US and Brazil.

FINANCIALS

The company has a CAGR of 24.2% in the past 5 years and the PAT of the company has grown by more than 100% in FY22. The company's sales is expected to grow by 6% and 10% respectively in FY 23 and FY 24. The company's profitability inching up QoQ due to improved products mix, price increases taken in Consumer Health business, and cost optimization measures should enable it to maintain its profitability, going forward. Any strong growth in the US markets, and it's under trial biosimilar products getting launched in China and Mexico markets, can lead to favorable outcomes in the future.

TECHNICAL SHORT-TERM BUY

RBL BANK LTD. (Previous Close: INR122.15)

Buying Range: INR115 – INR105 | Stop-Loss: Closing Below INR85 | Target: INR160

Risk/Reward Ratio- around 1:2 **Projected Profit- around 45%**

Projected Timeframe - 1 Month **Projected Loss- around 23%**

After a sustained downfall, the stock has recovered above the previous established bottom that offers a very short-term investment opportunity with favourable risk-reward ratio.

Weekly Chart:

Analysis:

After a sustained downfall from around 270 levels towards 80 levels, the stock is seen recovering above previous established bottom placed around 105 the weekly. Leading indicator Stochastic and RSI both seen rising straight from the oversold zone while the ADX is seen turning down from the critical descending trend line, which is pointing towards trend reversal.

Based on the aforementioned explanations, **we recommend buying RBL BANK on dips in the price range of 115-105 for the target of 160.**

HINDALCO INDUSTRIES LTD. (Previous Close: INR421.95)

Buying Range: INR430 – INR410 | Stop-Loss: Closing Below INR360 | Target: INR540

Risk/Reward Ratio- around 1:1.9

Projected Timeframe - 3 Month

Projected Profit- around 28%

Projected Loss- around 14%

The stock is seen making an Inverse Head and Shoulders pattern that offers a midterm investment opportunity with favorable risk-reward ratio.

Daily Chart:

Analysis:

After a sharp recovery from around 310 levels, the stock is seen making an Inverse Head and Shoulder pattern with neck line placed around 450 levels. A sharp downfall from its all-time highs followed an Inverse Head and Shoulder formation implies trend reversal and longer-term accumulation. Successful breakout may take the stock towards 540 levels.

13-30 SMA bullish crossover makes this reversal more significant. Both the Leading indicators Stochastic and RSI suggesting buy on dips in the price range of 430-410.

Based on the aforementioned explanations, **we recommend buying HINDALCO on dips in the price range of 430-410 for the target of 540.**

NOCIL LTD.

CMP (INR) (As on 01th Sept 2022): INR 273 | Target: INR 326 | Upside (%): 19.3% | Recommendation: Buy | Timeframe – 12 to 18 Months

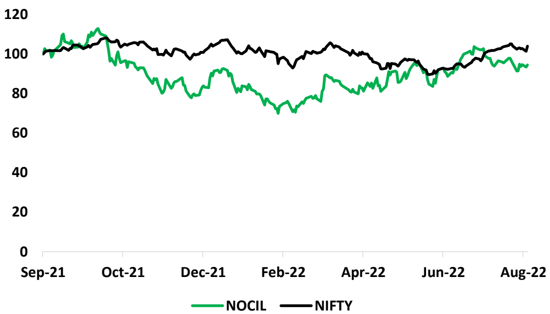
Stock Scan

Market cap (INR mn)	45,577
Outstanding Shares (mn)	166.6
Face Value (INR)	10
Dividend Yield (%)	1.1%
P/E (x)	22.6
P/B (x)	3.0
Debt/Equity (x)	0.0
Beta vs. Sensex	1.2
52 Week High/ Low (INR)	321/191
Avg. Daily Volume (NSE)/3 mth (mn)	2.3

Shareholding Pattern (%)

	Jun 2022	Mar 2022	Dec 2021
Promoters	33.8	33.8	33.9
Institutions	7.8	6.8	7.2
Non-Institution	58.4	59.4	58.9

Stock vs. Nifty (Relative Returns)



Incorporated in 1975, NOCIL is part of Arvind Mafatlal Group and is the largest manufacturer of rubber chemicals in India. The company has expertise in rubber chemical over 4 decades. The manufacturing facilities are located in Navi Mumbai and Dahej with a cumulative capacity of 1,10,000 MTPA (including intermediates) post recent expansion. As per our estimates, the revenue model is divided into Accelerator(45%), Anti-oxidant(45%), Pre/Post vulcanization inhibitor/stabilizer(10%), Zinc based applications etc. The company has presence in over 40 countries and enjoys long term standing relationships with the tyre majors. It possess strong technical expertise and a diversified product range.

Valuation & Outlook

We feel that strong demand in auto sector and global supply side issues would continue to benefit the company. As the company operates in niche product segment with high entry barriers having market leadership, there is huge possibility of growth with reasonable profitability. We value the stock using EV/EBITDA multiple and arrive at target price of 326 per share (assigning ~12x EV/EBITDA to FY24 projections) which indicates upside of 19.3% from current level. Hence, we maintain **BUY** rating on the stock.

Financial Performance at a glance

Particulars (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Net sales	8,463	9,247	15,713	18,832	20,538
Growth (%)	-18.9%	9.3%	69.9%	19.8%	9.1%
EBITDA	1,782	1,308	2,862	3,651	4,220
EBITDA margin (%)	21.1%	14.1%	18.2%	19.4%	20.5%
PAT	1,307	884	1,761	2,362	2,777
PAT margin (%)	15.4%	9.6%	11.2%	12.5%	13.5%
EPS (Rs)	7.9	5.3	10.6	14.2	16.7
P/E (x)	13.4	33.8	23.6	19.3	16.4
P/BV (x)	1.5	2.3	2.9	2.8	2.5
RoE (%)	11.1	7.2	12.9	15.4	16.1
RoCE (%)	11.2	7.2	12.9	15.4	16.1
EV/EBITDA (x)	9.5	21.8	14.3	11.9	9.9

NOCIL LTD.

CMP (INR) (As on 01th Sept 2022): INR 273 | Target: INR 326 | Upside (%): 19.3% | Recommendation: Buy | Timeframe – 12 to 18 Months

Investment Rationales:

Gross margin contracted sequentially in Q1FY23, sustainability of operating spreads is the key

The company's gross margin contracted by 299bps YoY & 362bps QoQ to 46.4% in Q1FY23. This is largely due to higher raw material prices. EBITDA spreads during the quarter were much higher than the normal range, although lower than last quarter, majorly led by better product mix & sustained realization. However, we feel such higher spreads are difficult to sustain, considering the benefits reaped by the company during the quarter. Accordingly, we model in EBITDA spreads of Rs 58 per kg for FY23E & FY24E respectively which is still in the higher range of the last 3 years. Since, the company works on a competitive pricing model, wherein increase or decrease in input cost prices would be passed on subject to similar approach adopted by competitors in the market. For the coming quarter, one of the major raw material viz. Aniline prices has started to soften and will remain volatile which would eventually lead the company to adopt similar approach in their product basket.

Healthy double-digit volume growth on the cards

Over the last 5 years (FY17-22), NOCIL volume CAGR growth has been ~21%. This was owing to consistent rubber and tyre consumption growth, increasing focus on exports, strong client relationship and diversified product profile. Despite rubber consumption growth of 9.6% YoY in CY21, NOCIL volumes grew by 16.5% YoY in FY22 backed by increasing exports, higher wallet share from existing clients and robust domestic demand. NOCIL has consistently gained market share on the back of strong volume growth and plans to further increase its exports footprint backed by recent capacity expansion and diverse product basket. The company expanded capacity of 55,000 TPA is operating at higher utilization rates. We believe the expanded capacity is likely to reach optimum utilization levels by H1FY24. On the back of this, we expect NOCIL to report volume CAGR growth of 11.5% from FY22-24E.

RESEARCH PHILOSOPHY

Research catering to client needs

	Long term Investing	Medium term investing	Short term Trading	Intra – day Trading
Fundamentals	High	Medium	Low	Absent
Derivatives	Low	Low	High	High
Technicals	Low	Low	High	High

Research Basket

Long-term Investment

- 12 to 18 month perspective – Detailed company reports
- Others – Muhurat Picks and Annual Strategy Picks

Medium-term Investment

- 3 to 6 months perspective
- Technical and Quant Picks

Short-term Investment & Trading

- 1 month investment call
- Positional Momentum Picks
- BTST, STBT on leading stocks

Intraday Trading

- Daily Calls – Cash, Futures and Options

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Analyst holding in stock: **NO**

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