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MONTHLY

# **R|SEARCH** RECOMMENDATION

May 2022

## LARSEN & TOUBRO LTD. (Previous Close: INR1694.35)

Buying Range: INR1650 – INR1600 | Stop-Loss: Closing Below INR1475 | Target : INR1925

Risk/Reward Ratio- around 1:2

Projected Timeframe - 2 Months

Projected Profit- around 18%

Projected Loss- around 9%

The stock is seen coming down onto the higher edge of the prolonged rising channel that offers a short-term investment opportunity with favourable risk-reward ratio.

### Weekly Chart:



### Technical View:

After reacting down from the recent all-time highs, the stock is seen coming down onto the higher edge of the prolonged rising channel placed around 1600 levels. Leading Indicator stochastic has already reached the oversold zone while the RSI is seen taking support along the midterm descending trend line suggesting the stock is likely to find buyers on dips in the price range of 1650-1600.

Based on the aforementioned explanations, we recommend accumulating LT on dips in the price range of 1650-1600 for the target of 1925.

## LARSEN & TOUBRO LTD. (Previous Close: INR1694.35)

Buying Range: INR1650 – INR1600 | Stop-Loss: Closing Below INR1475 | Target : INR1925

**LT – (1704) -** As per March 2021, Infrastructure segment accounts for ~75% of order book, followed by hydrocarbon (~14%), Power (~4%), Defence engineering (~2%), heavy engineering (1%) and others (4%). Domestic orders accounts for ~79% of order book, followed by Middle East (~13%) and others (~8%). **SERVICE BUSINESS- Info. Technology Segment (~19% of revenues)** - The company's IT segment comprises of IT and integrated engineering services to many customers across the globe.

The company's IT business is divided between its 3 subsidiaries :-

### A. L&T Infotech Ltd B. Mindtree Ltd & C. L&T Technology Services Ltd

**Financial Services Segment (~10% of revenues)-** The company's financial services business primarily comprises of rural finance, housing finance, wholesale finance, mutual fund and wealth management. The business is controlled by company's subsidiary L&T Finance Holdings Ltd.

L&T has partnered with Vodafone India to establish the use case of a private LTE network in India. Towards this end, the company plans to carry out an accelerated proof of concept at the L&T Heavy Engineering complex at Hazira. The companies will also collaborate on IoT (Internet of Things) and 5G.

The tie-up between IOCL, L&T and Renew adds the final dimension to Green Hydrogen readiness. The three companies have signed a binding term sheet for a JV to develop Green Hydrogen. In addition, L&T and IOCL have signed a binding term sheet to form a JV to manufacture and sell electrolyzers to produce Green Hydrogen. The Government is contemplating introducing green hydrogen consumption obligation, at 5% in FY24 and increase to 40% by FY30. Thus, major refiners like IOCL may potentially require 346kt of Green Hydrogen annually by FY30F.

L&T's order book grew 3% YoY to INR3.4t, with the order book/revenue ratio at 3.3x. The international business constituted 24% of the order book. In terms of clientele, the Centre/state governments formed 10%/29%, PSUs 44%, and the private sector 16%. The management said the bid pipeline remains strong, with the overall pipeline at INR3.9t (+48% YoY) for 4QFY22. The Infrastructure sector's prospects stood at INR3.2t.

Hyderabad Metro: Refinancing of debt has aided savings of 2.6% and its impact will be seen from 4QFY22 onwards. Annual interest expense will fall to INR10b from INR14b in FY21, leading to annual savings of INR4b. Ridership is improving (average passengers/day: 55,000/146,000/218,000 in 1Q/2Q/3QFY22). It is looking for financial support from the Telangana government. It is also looking to bring in an equity partner in the asset. Nabha Power: The management is looking for investors. A coal fired Power plant should be hot property in the current environment. It is a very good plant and has PPAs in place, with 16-17 years of annuity income.

Presence in sunrise sectors like 5g & IOT, Hydrogen, Defence and renewable power and traditional businesses like E&C will aid growth and at the same time provide stability to the performance of L&T in the long run. Further coupled with rationalisation of less or unproductive assets will further improve return ratios. The IT subsidiaries merger could also result in many synergy benefits emerging leading to rerating of the IT services stock which have been under pressure during the last few months. The finance business seems to be sitting on cusp of a reversal as well. The core business aided by the sunrise sectors has the potential to surprise on the upside and deliver better than expected growth leading to higher multiples as well- currently base business being valued at a discount to historical average. The overall bid pipeline is strong and the as the NIP takes shape and revives capex in the country LT could be a major beneficiary. We recommend a buy on the company.

# TECHNICAL SHORT-TERM INVESTMENT BUY

## MANGALORE REFINERY & PETROCHEMICALS LTD. (Previous Close: INR73.75)

Buying Range: INR70 – INR60 | Stop-Loss: Closing Below INR50 | Target: INR95

Risk/Reward Ratio- around 1:2

Projected Timeframe - 1 Month

Projected Profit- around 46%

Projected Loss- around 23%

After retracement, the stock is seen breaking out a prolonged triangle that offers a very short-term investment opportunity with favourable risk-reward ratio.

### Weekly Chart:



### Analysis:

After reacting down from the double top, the stock has been in retracement mode since past several months and now seen breaking out a triangle with massive volume growth.

Sharply rising RSI while the RSI has just started trending higher above twenty suggesting bullish reversal and the stock got the potential to move higher towards 95 levels. Direction of the ADX suggesting retracement towards critical supports may again find aggressive buyers.

Based on the aforementioned explanations, **we recommend buying MRPL on dips in the price range of 70-60 for the target of 95.**

# TECHNICAL MEDIUM-TERM INVESTMENT BUY

## ROYAL ORCHID HOTELS LTD. (Previous Close: INR137.50)

Buying Range: INR125 – INR115 | Stop-Loss: Closing Below INR80 | Target: INR200

Risk/Reward Ratio- around 1:2

Projected Timeframe - 3 Month

Projected Profit- around 66%

Projected Loss- around 33%

The stock is seen breaking out an upward trending channel that offers a midterm investment opportunity with favourable risk-reward ratio.

### Monthly Chart:



### Analysis:

After prolonged downtrend from its established tops, the stock is seen making higher high-higher low pattern again. Since last a few months it is seen taking support along the short-term ascending trend line and finally ended the month with an upward trending channel breakout.

Leading indicator RSI is moving higher steadily while the ADX has just started trending higher above twenty suggesting the stock is likely to continue current uptrend, and retracement towards the higher edge of the upward trending channel may again find buyers. Chart pattern suggesting probable short-term trading range likely to be 120-160. Higher resistance are placed around 200 levels, prolonged trend line resistance connecting previous established tops.

Based on the aforementioned explanations, we recommend buying ROYAL ORCHID on dips in the price range of 125-115 for the target of 200.

## RUPA & COMPANY LTD.

CMP (As on 29<sup>th</sup> April 2022): INR528 | Target: INR719 | Upside(%): 36% | Recommendation: Buy | Timeframe – 12 to 18 Months

### Stock Scan

|  |          |
|--|----------|
| Market cap (INR mn)                    | 42,004   |
| Outstanding Shares (mn)                | 79.52    |
| Face Value (INR)                       | 1        |
| Dividend Yield(%)                      | 0.95%    |
| P/E (x)                                | 19.4x    |
| P/B (x)                                | 4.82x    |
| Debt/Equity (x)                        | 0.2X     |
| Beta vs. Sensex                        | 0.89X    |
| 52 Week High/ Low (INR)                | 561/ 288 |
| Avg. Daily Volume (NSE)/3 months (000) | 275      |

Incorporated in 1985, is engaged in the manufacturing, marketing, selling and distribution of men's and women's innerwear, thermal wear and fashion wear across economy, mid-premium, premium and super-premium categories. RUPA owns a bouquet of leading knitted innerwear and intimate wear brands with flagship brands like Frontline, Jon, Air, Macroman, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline etc.

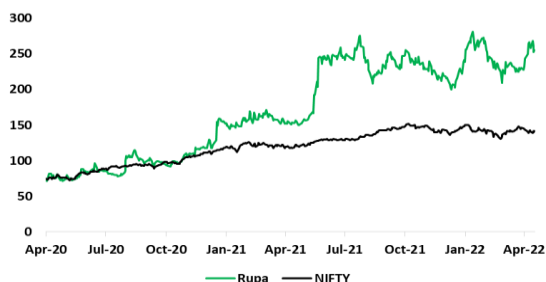
### Valuation & Outlook

- ✓ Currently, the stock is trading at FY24 P/E of 15x. We value the stock on forward P/E multiple of 20x and, thereby, arrive at target price of Rs. 719 per share which offers upside of 36% from current valuations.
- ✓ Therefore, we assign **BUY** rating on the stock.
- ✓ Key risks are (1) Volatile raw material prices (2) Competition from both organized & unorganized players

### Shareholding Pattern (%)

|                        | Mar 2022 | Dec 2021 | Sep 2021 |
|------------------------|----------|----------|----------|
| <b>Promoters</b>       | 73.28    | 73.28    | 73.28    |
| <b>Institutions</b>    | 5.34     | 4.57     | 4.99     |
| <b>Non-Institution</b> | 21.38    | 22.15    | 21.73    |

### Stock vs. Nifty (Relative Returns)



### Financial Performance at a glance

| Particulars (Rs mn)      | FY20   | FY21  | FY22E | FY23E | FY24E |
|--------------------------|--------|-------|-------|-------|-------|
| <b>Net sales</b>         | 9746   | 13127 | 15596 | 18099 | 20320 |
| <b>Growth (%)</b>        | -15.1% | 34.7% | 18.8% | 16.1% | 12.3% |
| <b>EBITDA</b>            | 1137   | 2573  | 2979  | 3475  | 3932  |
| <b>EBITDA margin (%)</b> | 11.7%  | 19.6% | 19.1% | 19.2% | 19.4% |
| <b>PAT</b>               | 619    | 1753  | 2108  | 2482  | 2857  |
| <b>PAT margin (%)</b>    | 6.4%   | 13.4% | 13.5% | 13.7% | 14.1% |
| <b>EPS (Rs)</b>          | 7.8    | 22.0  | 26.5  | 31.2  | 35.9  |
| <b>P/E (x)</b>           | 24.0   | 19.9  | 16.9  | 14.7  | 14.6  |
| <b>P/BV (x)</b>          | 7.3    | 5.8   | 4.9   | 4.2   | 3.6   |
| <b>RoE (%)</b>           | 11.0%  | 26.8% | 26.4% | 26.5% | 26.4% |
| <b>RoCE (%)</b>          | 12.5%  | 29.8% | 30.1% | 31.3% | 32.4% |
| <b>EV/EBITDA (x)</b>     | 38.5   | 16.4  | 14.1  | 11.9  | 10.4  |

## RUPA & COMPANY LTD.

CMP (As on 29<sup>th</sup> April 2022): INR528 | Target: INR719 | Upside(%): 36% | Recommendation: Buy | Timeframe – 12 to 18 Months

### Investment Rationales:

**Diversified Product Portfolio:** The Company caters to all segments, including men, women and kid segment with its wide bouquet of brands. Over the years, the company has created over 18 sub-brands catering to various socio-economic classes. Apart from umbrella brand Rupa, the company has created various sub-brands (Frontline, Jon, Air, Macroman, Macroman M series, Macrowoman W series, Euro, Bumchums, Torrido, Thermocot, Kidline, Footline, Softline, etc) to differentiate each product offering from the other. Going forward, the company can leverage these brands to introduce new products, either under the same brand or in the form of brand extensions.

**Targeting higher sales from premium brands and super premium brands:** Rupa targets higher sales from its premium brands and super premium brands (M-series, FCUK, FOTL). Premium and super premium category have higher potential to grow and the market keeps shifting from the economy segment driven by rising disposable incomes.

**Strong Distribution Reach:** RUPA enjoys a very strong position in the East of India and has gained significant presence in the North followed by the West of India. RUPA has a strong distribution network of 125,000 retail touch-points, 1200 dealers, 4 central warehouses and its products are available on various other e-commerce platforms.

**Asset light efficient business model:** The company primarily focuses on creating brands and has adopted an asset-light business model by largely outsourcing the production of its knitted products. The Company is utilizing the resources to focus more on value addition, product differentiation, branding and distribution.

The stock is trading at attractive valuations, along with this, considering sound fundamentals, we recommend a Buy on the stock for a target price of Rs. 719 (20x FY24e EPS).



## Research catering to client needs

|              | Long term<br>Investing | Medium term<br>investing | Short term<br>Trading | Intra – day<br>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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