SAMCO
THE WEALTHY HABIT

Diwali

Rocket Portfolio-

10 Stocks

to Buy in Muhurat

2020

10 November 2020

INTRODUCTION

The year 2020 was filled with a lot of gloom and we hope Diwali – the festival of lights fills your life with abundant brightness. On this auspicious day we wish Goddess Laxmi to shower her blessings and bring wealth to all of mankind. And what better way to start this festive season than investing in the stockmarket – which has delivered over 60% returns to investors in just a span of 8 months, from the lows of 7500 in March. Markets have seen an ever-increasing base of investors and shows resilience despite global challenges and we believe that it continues to offer plentiful investment opportunities.

Keep your shopping bags ready as Samco brings you a portfolio of 10 stocks which can together tide through the uncertainties of the pandemic and deliver 15% returns in one year's time. The portfolio includes a mix of large and quality mid cap stocks which have the ability to withstand volatility and emerge stronger in the next 12 months. Investors can invest in these 10 recommended stocks keeping their liquidity and risk-taking ability in mind.

Make a decent fortune with Samco's recommended Diwali Rocket Portfolio to have a safe and wealthy Samvat 2077.

Wishing Everyone Happy Diwali and Prosperous New Year!

Samco Research expects an upside of 15% on the entire portfolio of 10 stocks

1. HDFC Life Insurance
2. Pidilite Industries
3. Bharat Rasayan Ltd.
4. Larsen & Toubro
5. Bharti Airtel
6. Kotak Mahindra Bank
7. Housing Development Finance Co. Ltd.
8. Dixon Technologies India Limited
9. Marico
10. Ambuja Cement

HDFC Life Insurance

HDFC Life is a strong contender in the life insurance space and even after a weak Q1 performance with a 30% decline in premiums, HDFC Life surpassed its peers with a stellar 21% YoY increase in new premiums in the second quarter. As a front-runner in the protection segment through its banca channel, HDFC Life is efficiently leveraging its first mover advantage.

Favorable product mix and repricing of protection products have also aided in margin expansion. Amidst a pandemic, a 25-26% margin guidance for FY21 by the management seems achievable, hence HDFC Life could be a strong compounding story. Moreover, its moat lies in the powerful brand, qualified management, strong return and persistency ratios, improved solvency ratio and higher operating ROEV.

Pidilite Industries

Pidilite Industries is the leader in the domestic market for adhesives, sealants and construction chemicals. Its product portfolio has high recall among consumers which enable a strong market leadership and demand for brands such as Fevicol, Dr.Fixit and Fevikwik. A recent acquisition of the maker of Araldite is further expected to strengthen its leadership in the adhesive space. Huge scope of growth from the construction chemicals industry builds confidence on Pidilite's future outlook.

A unique moat enables it to deliver robust financial performance with 18% CAGR growth in PAT over 5 years and rich cash flow generation with OCF at Rs 1,280cr and FCF at Rs 827cr seen in FY20. In all, a well-rounded company with an identifiable brand presence and robust financials make Pidilite Industries a wealth generator for investors.

Bharat Rasayan Ltd.

When most industries were impacted due to lockdowns, a few agri-businesses managed to escape. Bharat Rasayan, a leading maker of technical-grade pesticides in India, is one of them. As farming related activities continued, demand for pesticides continued to remain strong which allowed the company to maintain robust operating margins in the 18-23% range. It has also delivered an exemplary revenue CAGR of 23% over the past 5 years with strong cash flow generation.

Bharat Rasayan is expected to grow at the current pace given the growing market opportunity and superior R&D capabilities facilitating innovation and high margin product development. Even amidst a challenging scenario, it has a strong product portfolio, vast distribution network and brand equity which enable steady performance. All these factors coupled with attractive valuations enable strong returns to shareholders.

Larsen & Toubro

L&T is a conglomerate with a wide gamut of businesses across Infrastructure, Defence, Power, IT and Finance. The lockdown impacted its core engineering business but the IT business flourished as digitization and cloud-adoption became the norm for companies globally, resulting in strong financial performance from this segment. What guides L&T's future is its magnificent order book including a Rs. 24,985 Cr deal for developing a 237km-line for Mumbai-Ahmedabad bullet train with long term revenue prospects.

The stock has taken quite the battering which makes it attractive from a valuation perspective and very limited scope for further downside. Attractive margins, stable free cashflows, robust order book, recovery in Engineering business and large opportunities from the Defence segment make L&T a compelling addition to the portfolio.

Bharti Airtel

In the telecom sector's largely duopoly environment, Bharti is well positioned to serve the premium end of the subscriber base and continues to gain market share in top end subscribers, driving superior ARPUs. The recently concluded fund raising of Rs. 5.5Bn via QIP/rights issue and a stake sale of the Africa business aided in making its balance sheet resilient to stressful times.

Bharti can also consider monetizing its 53.51% stake in Bharti Infratel in the future to invest in 5G and future technologies. With a sound business model of a partnership approach rather than an ownership approach, Bharti can leverage its growing partner ecosystem to build digital assets and compete against the mighty Reliance Jio. With rising ARPUs, robust EBITDA performance, contained debt levels, a large asset base, Bharti seems to be in a sweet spot with a strong growth outlook from an investment perspective.

Kotak Mahindra Bank

Kotak is a high-quality liability franchise with a growing deposit base in the past several years. This bank has always maintained a very conservative stance and its actions such as providing for nearly 177% of its total net NPA reflects the same conservative approach which seems adequate amidst a contracting economy.

Going forward, the management aims to focus on its asset engine for growth while maintaining a resilient capital position. Not only does Kotak have robust NIMs, comfortable asset quality and a top-notch liability franchise, it also has adequate margin levers. RBI's ruling on restructuring of loans and deferment in reporting NPLs post August will surely delay the true asset deterioration but even then Kotak seems to have a upper hand in managing its assets well with prudent risk management. It seems to be hitting all the right nerves to be regarded as a strong contender to ride the Covid wave.

Housing Development Finance Corporation Limited

This NBFC mammoth has a long-standing track record of operations, adequate capitalisation levels, strong resource raising ability, stringent underwriting standards and top-notch risk management procedures. Despite facing a hard hit in its retail lending business due to national lockdowns, HDFC has efficiently managed to bring about recovery in its numbers this quarter. Infact the disbursements in October 2020 were the second highest in HDFC's history.

The environment down the road seems conducive for the housing finance sector given the low interest rates, softer property prices, reduction in stamp duty in certain states and inherent strong demand for home loans and HDFC seems to be in a comfortable liquidity position to benefit from these macros. It is undoubtedly a strong brand to hold in an investor's portfolio.

Dixon Technologies India Limited

Dixon Tech is India's largest Electronic Manufacturing Player and is currently witnessing a confluence of rising demand, import substitution and booster in the form of the PLI Scheme by the Government. Under the scheme, the company will get an incentive of 4% to 6% on incremental sales of goods manufactured in the country. The management also expects an eight-fold jump in its mobile revenues in FY22.

Dixon is currently in the growth phase and undergoing an aggressive scale-up across product segments. This along with a backward integration model, fungible capacities and a focused approach will drive its growth going ahead. Being the only listed EMS player in the organized space, Dixon is richly valued however with a strong order book and a leaner working capital cycle, growth is expected to meet expectations in the upcoming quarters. Hence, Dixon can be looked at from a portfolio perspective.

Marico

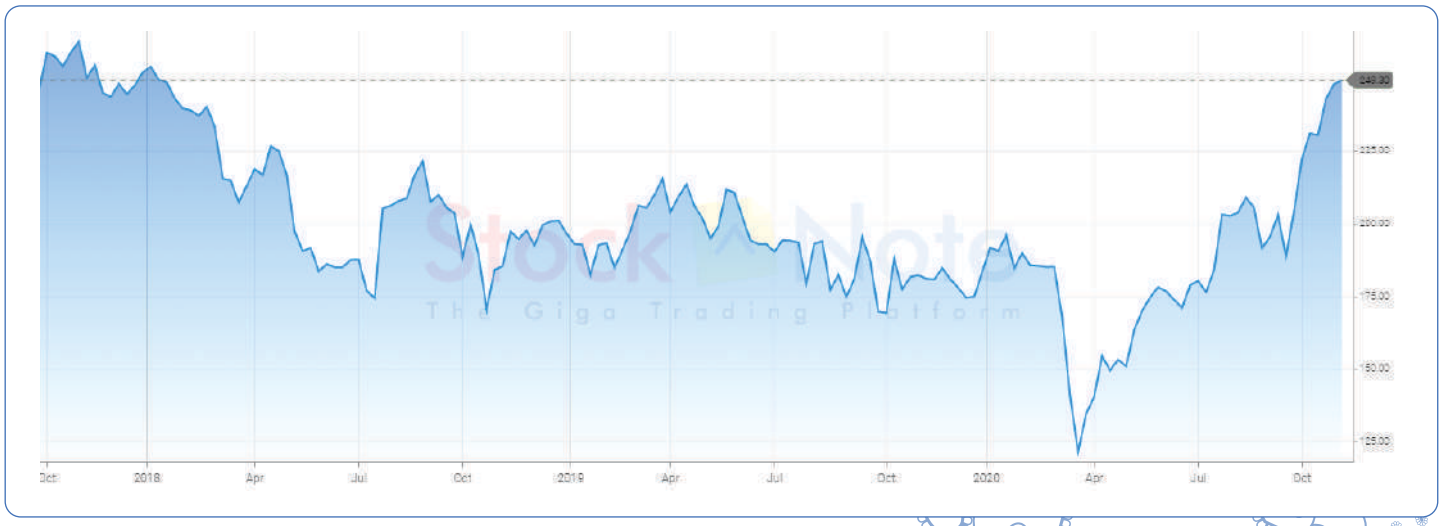
Marico is a robust FMCG player and one of the major beneficiaries of the unprecedented rise in the in-home consumption of products during the first half of FY21. With double digit growth in its India business in Q2 and a strong momentum in its Parachute, Saffola and other major brands, the Company is on its path to deliver strong growth especially from rising rural demand.

On an international front, its Bangladesh business is clocking hefty volumes and the company also plans to replicate the same strategy in Vietnam. In the medium term, Marico aims to deliver a mix of healthy top and bottom-line growth with a 19-20% operating margins. All these factors bode well for shareholders who have been receiving an average ROE of 35% in the past 5 years and a dividend yield of 1.8%. Considering all the tailwinds, Marico seems like a good fit from an investment perspective.

Ambuja Cements

Ambuja combined with ACC and the Holcim group is the second largest cement player in India with an individual capacity of 29.7 MT. It has a strong hold in the North and Central markets and a respectable presence in the eastern markets which was the least impacted from the pandemic. Compared to ACC and Ultratech, Ambuja fared better in its Q2 realization levels.

Moreover, the Company has also undergone stringent cost cutting measures to deliver efficient operational performance. Its next leg of growth consists of adding new capacities at Marwar and expansion in the central region. With the infra boost by the Government, Ambuja seems to be well placed to ramp up a few orders and boost sales. To summarize, Ambuja is a cheaply valued stock trading at a one year forward EV/EBITDA of 7x with strong potential to benefit from the upcoming infra boom in India.



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