

NIRMAL BANG RETAIL RESEARCH

MONTHLY REPORT

Nov'23 SERIES

Market Outlook

FUNDAMENTAL STOCKS	BUY/SELL	CMP	Target	Upside (%)
ITC	Buy	434	518	19%
Venus Pipes & Tubes	Buy	1395	1830	31%

Technical Outlook

TECHNICAL STOCK PICKS	BUY/SELL	CMP	TARGET	STOP LOSS
BSOFT	Buy	541.40	630	500
PURAVANKARA LTD	Buy	142.50	185	120

Derivatives Outlook

DERIVATIVE STRATEGIES	PREMIUM	TARGET	STPOP LOSS
Long Strangle on NIFTY (CMP 19050) Buy NIFTY 09 NOV 19250CE at 85 (weekly expiry) Buy NIFTY 09 NOV 18950PE at 95 (weekly expiry)	180	350	100
Bull Call Spread on PERSISTENT (CMP 6080) Buy PERSISTENT 30 NOV 6200 CE at 160 Sell PERSISTNET 30 NOV 6500 CE at 70	90	210	50

- ❖ Last month we saw good correction in Nifty along with broader market. This was mainly driven by increasing energy prices in recent past driven by Geopolitical issues, increasing bond yields and dollar index, creating uncertainty in US, corporate result performance in India wherein IT sector performance got impacted by lower demand and uncertainty in US, FMCG volume growth got impacted by lower demand especially in rural area and also shift of festival season by one month, BFSI sector on account of tight liquidity condition impacting NIM. Also increasing populist measures by government ahead of election is creating uncertainty about investment in infrastructure sector.
- ❖ Another reason for correction in small cap stocks was their outperformance as compared to Nifty. The BSE small Cap index outperformance was around 22% at one point of time as compared to Nifty which is one of the highest in its history. Also Small cap index saw consistent gain in last 7 months leading to this correction.
- ❖ Going forward from here we expect geopolitical issue in Israel to cool off or get restricted to particular area. We do not expect this to escalate and other countries get involved in this. US corporate performance which up till now remains reasonably strong is now seeing some softness. Whereas in India we started to see some softness in select sectors' performance. The consensus Nifty EPS growth expectation of around 17-18% growth for FY24 seems to be at risk and we may see some downward revision to the same.
- ❖ With the current correction the Nifty, valuation has become reasonable and has come down to historic average whereas mid cap and small cap are still costly. The domestic money inflow through mutual fund and also directly continue to remain strong and is likely to support the market.
- ❖ We expect Nifty to remain range bound in next series and the range can be 18600-19400.

ITC has entered across diversified businesses spanning FMCG, Hospitality, Packaging, Paperboards & Specialty Papers, and Agri-Business since its incorporation in 1910. It is one of the market leader in cigarettes in India.

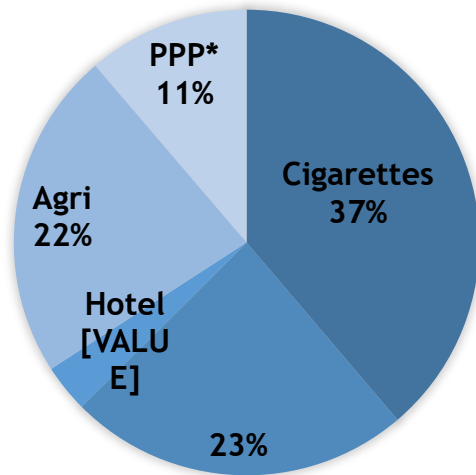
- FMCG Cigarette:** ITC's Cigarette revenue has grown at 11% CAGR over the last 5 years where it contributes ~41% of overall revenue and ~75% of profitability at operating level in FY23. The company has seen challenges in the past to sustain volume growth in this segment due to illicit trade and increase in taxation. However, ITC's efforts on countering illicit trade and negligible tax increase have led to volume growth in the Cigarette segment. We expect healthy growth in Cigarette volume post relatively benign increase in indirect tax over the last few years.
- FMCG-Other:** ITC's FMCG business has delivered revenue growth at 11% CAGR between FY19-23 where operating margin improved at 7% in FY23 vs 3% in FY19. It is present in various categories such as foods, personal care products, education and stationary products, Agarbattis and Matches. ITC focuses on innovation and premiumisation in this segment with digital adoption. The segment contributes ~7% of company's operating profits for FY23 while sharing 25% of overall revenues.

Figures in Rs Cr

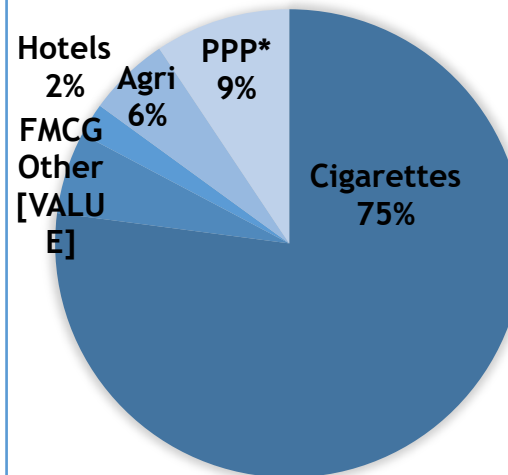
Year	Revenue	Growth	EBITDA	Margin	PAT	Growth	EPS	PE	EV/EBITDA	ROE
FY22	56,341	23.9%	18,952	33.6%	15,058	15.5%	12.1	35.9	28.3	25.0%
FY23	66,043	17.2%	23,976	36.3%	18,697	24.2%	15.0	28.9	22.3	29.0%
FY24E	71,699	8.6%	26,331	36.7%	20,787	11.2%	16.7	26.0	20.3	30.0%
FY25E	79,364	10.7%	29,527	37.2%	23,213	11.7%	18.5	23.5	18.1	32.3%

- ❖ **Hotels Business:** ITC has established its hotels business successfully and made it profitable with substantial investment at intervals. It has observed revenue growth of 13% CAGR between FY19-23. During Q2FY24, it has observed strong growth in Average Room Rate (ARR) while occupancy was flat mainly due to renovations and relatively fewer wedding dates during the quarter. The Board approved the scheme of demerger of Hotels Business under a scheme of arrangement, with ITC holding a stake of ~40% in ITC Hotels and the balance shareholding of ~60% to be held directly by shareholders of ITC proportionate to their shareholding in ITC. This will ensure ITCs control over the hotels business operations and becomes positive in terms of unlocking the value for company's shareholders post demerger, as the company has been witnessing strong growth on account of favourable industry dynamics.
- ❖ **Agri Business:** The segment has delivered healthy revenue growth of 18% CAGR between FY19-23 where it enjoys ~7% of operating margins. It is one of India's top leaf tobacco exporter. ITC's growth strategy focuses on scaling up value added segments such as Spices, Coffee, Aqua, MAPE, etc. Also, digital adoption through ITCMAARS (Metamarket for Advanced Agriculture and Rural Services) which has been scaled up across 9 states to reach ~10.6 lakh farmers.
- ❖ **Paperboards, paper and packaging business (PPP):** The segment contributes to 'Make in India' and Import substitution. The Segment revenue has grown at 12% CAGR between FY19-23 with operating margin at 25% in FY23. It has observed temporary challenges in the segment performance with 8% decline in revenue for H1FY24 with improved operating margins and the situation is expected to recover over the medium term.

**PRODUCT SEGMENT -
 REVENUE BREAKDOWN
 (FY23)**



**PRODUCT SEGMENT -
 PROFIT BREAKDOWN
 (FY23)**



Revenue CAGR FY19-23



Source: Company Reports, NBRR

Valuation: We are positive on company’s cigarette volume growth while FMCG business has been growing well at lower double-digit growth. Company’s return ratios i.e. ROE and ROCE are at healthy levels of 29% and 28.2% in FY23, respectively. We estimate earnings to witness double digit growth over FY23-25E with healthy return ratios. Thus, we believe the company is currently available at reasonable valuation at 23.5x PE of FY25E EPS. **We assign PE valuation of 28x to FY25E EPS to arrive at a target of Rs. 518 per share with an upside of ~19% over the CMP.**

- ✦ Venus is the only pure-play listed player focussed on the high value SS (Stainless Steel) pipe industry.
- ✦ SS pipes are used in critical, high pressure & temperature applications like pressure vessels, heat exchangers, condensers & others. Industry exposure: Cap Goods 50%, Chemicals 33%, Other industries 17%.
- ✦ Thus ASP of Stainless Steel pipes is Rs. 4 L/ton, while Carbon Steel is Rs. 70k/ton.
- ✦ Industry tailwinds (a) BIS certification (b) China discontinued export incentive (c) Anti Dumping Duty
- ✦ Venus offers strong growth visibility with Sales/PAT CAGR of 50%/78% over FY23-25E, driven by -
 - Capacity expansion of 3x from 12k tons to 38k tons by FY25E plus operating leverage thereon
 - Backward integration into manufacture of hollow pipes (from SS billets)
 - Sales through stockists which is 30% mix today is expected to dip below 20% in favor of direct sales
 - Entry in larger diameter pipes: Upto 48” in welded from 8” now; Upto 6” in seamless from 4” now
- ✦ We assign a TP of Rs. 1,830, valuing the company at 25x Sep 2025E (at 10% discount to target multiple for Ratnamani Metals & Pipes).

Figures in Rs Cr

Year	Revenue	Growth	EBITDA	Margin	PAT	Growth	EPS	PE	EV/EBITDA	ROCE
FY23	552	43%	69	12.5%	44	40%	21.8	64.1	42.2	17%
FY24E	800	45%	122	15.2%	72	63%	35.5	39.3	23.9	21%
FY25E	1245	56%	211	17.0%	129	78%	63.4	22.0	13.8	27%
FY26E	1550	24%	269	17.3%	168	30%	82.6	16.9	10.8	29%

- ❖ The Nifty experienced a selling pressure in October, after hitting an all-time high of 20,222.45 in September. The sentiment on Dalal Street, was cautious to negative. Profit-booking had seen across all the sectors.
- ❖ On Technical front, the Nifty is trading below the Golden Ratio i.e. 61.8% of Extension which is at 19,370 levels, indicating caution. Looking at the technical set up, the immediate support lies at 18,800. If it fails to hold this support, i.e. 18,800 on a closing basis, then we may see further sell-off, potentially taking the Nifty towards 18,500/18,200.
- ❖ Nifty is currently facing strong resistance at 19,370. Once Nifty manages to trade above 19,370 we may witness a pullback rally towards 19,500/19,700 mark
- ❖ The daily momentum indicator i.e. RSI is showing oversold zone, indicating a potential pull back may be seen in the index.

.BANKNIFTY :-

Technically, the Bank Nifty has immediate support at 42,200. A close below 42,200 may extend the fall towards 41,600/41,000. On the flip side, resistance is positioned at 43,200 i.e. 200 DMA. Beyond that, the Bank Nifty may witness a positive move towards 44,000-44,800 levels.



BSOFT BUY- CMP Rs 541

- Technically, Monthly chart suggest that stock is trading in higher tops and higher botom pattern
- Daily chart indicates that stock is trading above it's major important moving averages and a potential up move is expected in the coming sessions.
- Momentum indicator ,RSI shows positive crossover in its Weekly charts.
- BUY BSOFT above 541, ADD on dips at 520 for a Target of Rs 630 with a strict stop loss of Rs 500



PURAVANKARA BUY - CMP Rs 141.80

- Monthly chart suggests that stock is on the verge of giving the cluster resistance breakout suggesting potential up move in near term.
- Momentum indicator, RSI is showing positive crossover.
- PURAVANKARA has taken a support of its 20 DMA and is well placed above all its important moving averages.
- PURAVANKARA BUY above 142.20, ADD on dips at 132 for a Target of Rs 185 with a strict stop loss of Rs 120.



- ✦ The Nifty Oct rollover of 83.39% is higher than its Three months average of 79.31% and its six months average of 74.78%.
- ✦ The Banknifty Oct rollover of 79.31% is lower than its Three months average of 80.02% and its six months average of 79.87%.
- ✦ The market wide rollover of 92.11% is higher than its three months average of 91.09% and its six months average of 91.65%.
- ✦ Nifty is opening the series with average open interest which means not many shorts in the system which is a positive indication.
- ✦ The Index options OI for Nov series is indicating that index is likely to witness bounce back for the first part of the series.
- ✦ The PCR and VIX are both starting with low numbers indicating positive bias.
- ✦ **View:** The index is likely to witness buying in the first half of Nov series with important supports placed at 18800-18500 levels and resistance at 19300-19500 levels.

- ✦ Stocks likely to remain positive through the month; based on Rollovers analysis are as follows:

ONGC, GNFC, TVSMOTORS, HDFCLIFE, TATAMOTORS.

- ✦ Stocks likely to remain negative through the month; based on Rollovers analysis are as follows:

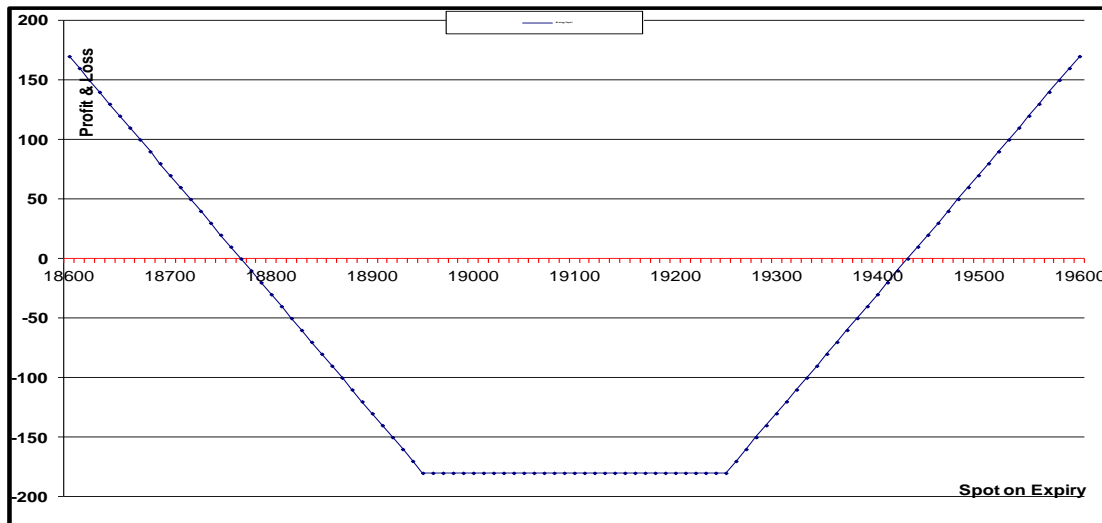
INDIACEM, INDHOTEL, TATACOMM, ADANI PORTS, ABCAPITAL.

Long Strangle on NIFTY (CMP 19050)

Buy NIFTY 09NOV 19250CE at 85 (weekly expiry)

Buy NIFTY 09NOV 18950PE at 95 (weekly expiry)

- ◆ Total Premium Outflow & Max Loss: 180 pts, Target: 350 pts, Max Gain : Unlimited, SL:100, Lot size: 50.
- ◆ Nifty is having strong resistance at 19300 strike with major addition of Call & Put writers at 19000 strike indicating heavy volatility in index in coming trading sessions which will lead this strategy to gain decent profit.



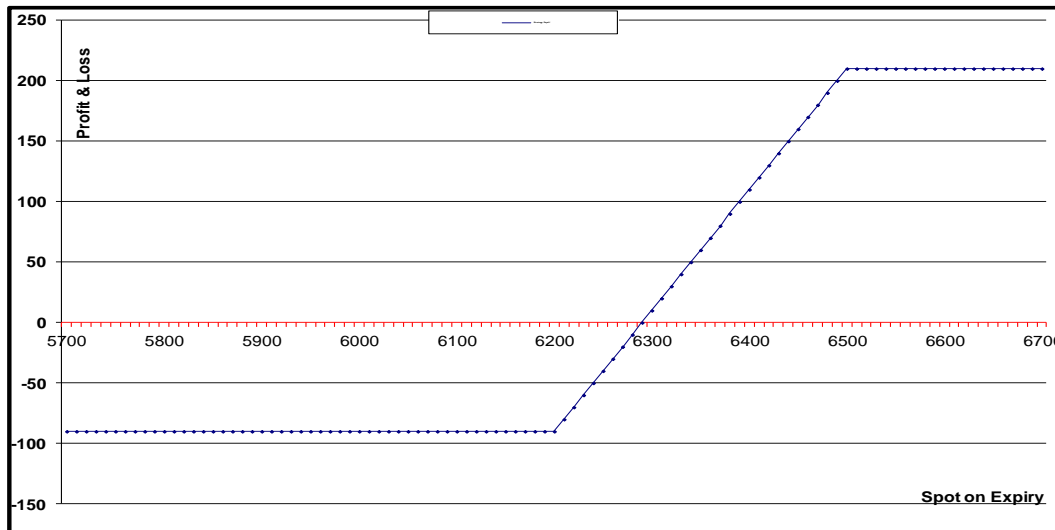
Profit/Loss at different prices	
NIFTY	Profit/Loss
18300	23500
18500	13500
18700	3500
18900	-6500
19100	-9000
19300	-6500
19500	3500
19700	13500
19900	23500
20100	33500

Bull Call Spread on PERSISTENT (CMP 6080)

Buy PERSISTENT 30 NOV 6200CE at 160

Sell PERSISTENT 30 NOV 6500CE at 70

- ◆ Total Premium Outflow & Max Loss: 90 pts, Target & Max Gain : 210 pts, SL :50, Lot size:175.
- ◆ The Stock has witnessed addition of fresh long OI positions with additions of Iv's on call buyers front against put buyers indicating positive outlook for the stock. The stock is likely to witness good buying in the current month leading to good profits in the strategy.



Profit/Loss at different prices	
PERSISTENT	Profit/Loss
5880	-15750
5960	-15750
6040	-15750
6120	-15750
6200	-15750
6280	-1750
6360	12250
6440	26250
6520	36750
6600	36750

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