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28 June, 2024

NIRMAL BANG
RETAIL RESEARCH

MONTHLY REPORT
July'24 SERIES

RECOMMENDATION

Monthly Report - July'24

28 June, 2024

Market Outlook

FUNDAMENTAL STOCKS	BUY/SELL	CMP	Target	Upside (%)
Fineotex Chemical	Buy	383	483	26%
Shilchar Technologies	Buy	5521	8000	45%

Technical Outlook

TECHNICAL STOCK PICKS	BUY/SELL	CMP	TARGET	STOP LOSS
INFY	Buy	1565	1800	1470
ASIANPAINTS	Buy	2915	3200	2800

Derivatives Outlook

DERIVATIVE STRATEGIES	PREMIUM	TARGET	STOP LOSS
Long Strangle on NIFTY (CMP 24000) Buy NIFTY 11JUL 24200CE at 155 (weekly expiry) Buy NIFTY 11JUL 23900PE at 155 (weekly expiry)	310	500	200
Bull Call Spread on DIVISLAB (CMP 4600) Buy DIVISLAB 25JUL 4600CE at 145 Sell DIVISLAB 25JUL 5000CE at 35	110	290	60

MARKET OUTLOOK

28 June, 2024

- Last month saw Indian market outperforming world market post clarity on election result. Though the election result was not on expected lines but same government and policies are continuing. The outperformance is mainly driven by under performance in pre-election period. Indian market gained 3.7% from 1st Jan to 31st May whereas US market (S&P 500) gained 10.6% in the same period. Thereafter from 1st Jun till date Indian market gained 7.2% whereas US market gained 3.9%. If we see Indian market till date starting from 1st Jan it has moved up by 11.1% where as US market in this period has moved up by 14.9%, so still Indian market is under performing from year to date perspective.

- Last month few of central banks started cutting interest rate where in ECB and Canada Central bank cut the rate. The expectation for rate cut in September meeting by FED is over 60% and there after RBI can also follow suit. US rate cut will start happening without US economy going into recession which was earlier anticipated.

- In July month again there is a bigger event in India wherein Budget will be announced. The President, in recent address to parliament has indicated that the budget will accelerate the reform process. The Budget may be giving road map for next 5 year focus area for growth. Considering the outcome of the recent election wherein existing BJP government was not able to get majority, there could be larger steps for rural economy or pro populist steps.

- July month will also see outcome of Q1 corporate result wherein we may see some disruption on account of election and excessive heat wave in the month of May. Also progress of rainfall will have impact on some of the sectors.

- In all considering the recent run up in last month but still underperforming the US market, forthcoming budget and corporate result; we expect market to see volatility. We expect Nifty to be in the range of 23300-24300 in the July series. Need to be more careful in small cap stock as Q1 is generally a soft quarter and we saw disruption in May month which could have impact on their Q1 performance.

Fineotex Chemicals Ltd.

CMP: Rs. 383| TP: Rs. 483| Upside: 26%

28th June, 2024

Incorporated in 2004, Fineotex Chemical Ltd is a specialty chemicals producer and mainly caters to segments such as – i) Textile chemicals and ii) Cleaning & hygiene. Recently, it has forayed into drilling specialty chemicals for oil & gas. It has established strategic partnerships with EuroDye, HealthGuard, and Sasmira to further enhance its market presence and offer customized technical solutions through its dedicated focus on R&D.

Outperformed overall industry in terms of volumes and profitability

- The company has delivered healthy volume growth of ~25% for FY24. Company's textiles chemicals segment witnessed 20% volume growth while cleaning and hygiene segment saw volume growth of ~25%.
- While the industry players have faced challenges in terms of optimizing or sustaining operating leverage due to various macro events such as Ukrain – Russia war, Red sea issue, etc., Fineotex has been able to generate growth in both volume as well as in value terms. Company's revenue has grown at 24% CAGR between FY22-24 and operating margins improved from the 19.3% in FY22 to 26.1% levels in FY24.

Efficient operational capabilities with sustained return ratios

- Company mainly focuses on sustainable products and it has received ESG badge from Dun & Bradstreet. This recognition highlights company's commitment towards sustainability. Change in product mix, new product launches, cost saving measures along with improved working capital cycle has helped Fineotex deliver healthy financials with sustained margins. With this, it has generated healthy return ratios i.e. ROCE at 34.3% and ROE at 29.9% for FY24.

Expansion through organic as well as inorganic route is expected to drive business growth

- Fineotex is expanding its capacity in a phased manner where phase I expansion is expected to be completed by FY25 end which will add 20K MTPA and further phase II expansion of 20K MTPA is planned. It is in advanced stage of an international acquisition for which it has already raised funds worth Rs. 120 cr in May'24.

Fineotex Chemicals Ltd.

CMP: Rs. 383| TP: Rs. 483| Upside: 26%

28th June, 2024

Peer Analysis

In terms of topline growth between FY20-24, Fineotex has grown ahead of many leading players. High revenue growth of Rossari Biotech is on account of inorganic growth. It has also outperformed in terms of profitability with 26.1% of EBITDA margin in FY24 compared to 14.9% of average of peer performance. Additionally, it has delivered healthy return ratios when compared with its peers. Despite its healthy financial performance, Fineotex is valued at the similar valuation when compared with its peers. We expect re-rating of the stock on account of its strong growth drivers.

FY24 Financials	BASF India	Rossari Biotech	Sudarshan Chemical	Tatva Chintan Pharma Chem	Vinati Organics	Average	Fineotex Chemical
Revenue	13,767	1,831	2,514	394	1,900	4,081	569
CAGR (FY20-24)	16%	32%	10%	11%	17%	17%	31%
EBITDA Margin	6.5%	13.6%	12.6%	17.3%	24.7%	14.9%	26.1%
Asset Turns (x)	1.9x	1.2x	1.1x	0.5x	0.7x	1.1x	1.0x
Wkg Cap Days	30	97	71	182	121	98	92
ROCE	22.9%	17.5%	12.1%	6.6%	16.0%	15.0%	21.6%
ROE	19.0%	13.3%	36.2%	4.1%	13.8%	17.3%	29.6%
Debt/Equity	0.0x	0.1x	0.4x	0.0x	0.0x	0.1x	0.0x
EV/EBITDA	24.1x	19.0x	21.0x	37.5x	41.7x	28.6x	28.4x
P/E	38.8x	35.5x	53.2x	83.0x	60.9x	54.1x	35.4x

Source: NBRR, Company data

Fineotex Chemicals Ltd.

CMP: Rs. 383| TP: Rs. 483| Upside: 26%

28th June, 2024

Valuation

Fineotex has delivered healthy financials over the last few years despite macro challenges that impacted overall chemical industry financials. In FY24, it has delivered healthy volume growth of ~25% where capacity utilization stood at ~72%. While industry has witnessed impact on volumes mainly due to subdued demand from global markets. International revenue contribution maintained at 22% of FY24 revenue.

Recently, Fineotex chemical has received an approval for a fund raise through an issue of share warrants and equity shares worth Rs. 218 cr to fund the company's expansion of business through organic/inorganic growth and working capital requirement. The same is proposed at an issue price of Rs. 387.4 each per unit that gives a positive indication. Overall, the company is expected to dilute 11.6% of its equity in the future.

We have modeled topline growth at 20% CAGR between FY24-26E with operating margins in the range of 27-28%. **Based on this, the stock is currently trading at 29x / 24x to FY25E / FY26E EPS. We assign 30x to FY26E EPS to arrive at a target of Rs. 483/share with an upside of 26% over the CMP.**

Figures in Rs Cr

Year	Revenue	Growth	EBITDA	Margin	PAT	Growth	EPS	PE	EV/EBITDA	ROE
FY23	517	40.4%	113	21.8%	88.32	60.1%	7.97	48.0x	37.7x	28.2%
FY24	569	10.1%	148	26.1%	119.81	35.7%	10.82	35.4x	28.4x	29.6%
FY25E	683	20.0%	184	27.0%	145.83	21.7%	13.17	29.1x	22.8x	27.7%
FY26E	819	20.0%	225	27.5%	178.50	22.4%	16.12	23.8x	18.7x	25.9%

Shilchar Technologies

CMP: Rs 5521 | Target: Rs 8000 | Upside: 45%

28 June, 2024

- Shilchar is a Vadodara based transformer company formed in 1986. It is expanding its capacity by 90% from 4000 MVA to 7500 MVA by end of July 2024 on the back of strong industry demand (mainly renewables).
- Shilchar derives 60% of revenue from domestic and 40% from Exports to North America & Middle East
- Within domestic, 80-85% of revenue accrues from generation transformers for renewables which are complex to manufacture & involve higher level of customisation and thus generate superior margins (15-20%) compared to other players who are mainly present in distribution transformers (10-12%).
- Within exports, bulk of the revenue accrues from distribution transformers. However, international OEMs have high quality standards and vendors have to undergo a long process of approvals & trial runs and after few years, meaningful orders are given. This acts as an entry barrier. (Failure rate of transformers in India is at 15% v/s 2% in developed countries). Exports margins are > 30%.
- Key clients include Tata Power, Larsen & Toubro, Mahindra Susten, Adani Green and Torrent Power.
- Debt free company with high ROCE; will generate Free Cash Flow in excess of Rs. 100 Cr every year.
- Over FY24-26E, we envisage healthy revenue/earnings growth of 37%/36% CAGR along with consistently high ROCE. We value Shilchar at P/E multiple of 36x FY26E (10% premium to our target P/E for midcap capital goods basket, owing to superior growth & ROCE) and arrive at a TP of Rs. 8,000.

Figures in Rs Cr

Year	Revenue	Growth	EBITDA	Margin	PAT	Growth	EPS	PE	EV/EBITDA	ROCE
FY23	280	56%	53	18.9%	43	177%	57	97.7	77.8	47%
FY24	397	42%	113	28.5%	92	113%	120	45.8	36.5	59%
FY25E	575	45%	163	28.4%	130	41%	170	32.5	25.3	53%
FY26E	744	29%	210	28.3%	169	30%	221	25.0	19.6	48%

NIFTY TECHNICAL OUTLOOK

28th JUNE 2024

- The Nifty rallied strongly in June, reaching a life-time high of 24,174. However, after hitting the all-time high, the Bulls continue to be in control, holding strong at higher levels.
- Technically, the Nifty may faces strong resistance near 24,200. A close above 24,200 for two consecutive trading sessions could signal an upward rally towards 24,600/25,000 levels.
- On the downside, the Nifty has strong support at 23,600-23,400. A break below 23,400 on a closing basis could trigger further selling pressure, potentially pushing the Nifty down to 23,000-22,600.
- The daily momentum indicator, RSI, suggests a possible uptrend with a sideways movement in the near term. Given the recent rally, profit-booking at higher levels is likely. Investors could consider booking profits at higher levels and wait for potential dips.
- BANKNIFTY :-The Bank Nifty faces immediate support at 52,200. A close below this level could extend the decline towards 51,700/51,200. Resistance is positioned at 53,340/53,800.

TECHNICAL STOCK PICK

INFY

28th JUNE 2024

INFY BUY- CMP Rs 1565

- Stock is well placed above all the important moving averages on closing basis & Stock is continuously taking support of 100 DMA & 200 DMA.
- Technically, MONTHLY chart suggest that stock has given the cluster resistance breakout of 1500 mark with decent volumes.
- Interesting fact is that's price is rising along with decent volume indicates strength.
- Directional indicator ADX is showing strength.
- BUY INFY above 1565, ADD on dips at 1520 for a Target of Rs 1800 with a strict stop loss of Rs 1470

ASIANPAINTS BUY – CMP Rs 2915

- ASIANPAINTS has given a breakout of downward sloping trend line on weekly chart which indicates potential up move in the coming month.
- Stock is well placed above all the important moving averages & Bottom Fishing is seen at support levels.
- Positive crossover of 50 DMA and 100- DMA is witness suggesting strength in near term.
- Momentum Indicator such as RSI is showing a positive crossover.
- ASIANPAINTS BUY above 2915, ADD on dips at 2850 for a Target of Rs 3200 with a strict stop loss of Rs 2800.

DERIVATIVES OUTLOOK

28 June, 2024

- The Nifty June rollover of 76.25% is higher than its Three months average of 68.88% and its six months average of 74.46%.

- The Banknifty June rollover of 70.68% is lower than its Three months average of 78.62% and its six months average of 76.9%.

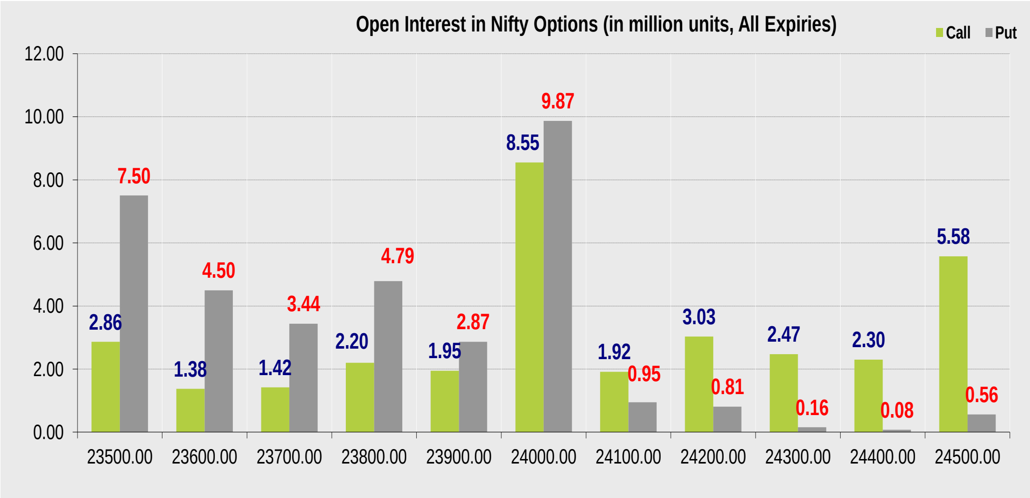
- The market wide rollover of 93.72% is higher than its three months average of 90.53% and its six months average of 91.14%.

- Nifty is opening the series with above average open interest which means index is likely to witness bullish bias but there can be some selling from resistance on the upside in July series.

- The Index options OI for July series is indicating that index is likely to remain positive.

- The PCR and VIX have both moved up indicating negative bias for the July series.

- **View: The index is likely to remain bullish In the July series but there will be bouts of selling from resistance placed at 24500-25000 levels and supports placed at 24000-23500 levels.**



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

SAIL, HDFCBANK, CUB, TATASTEEL, DIVISLAB.

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

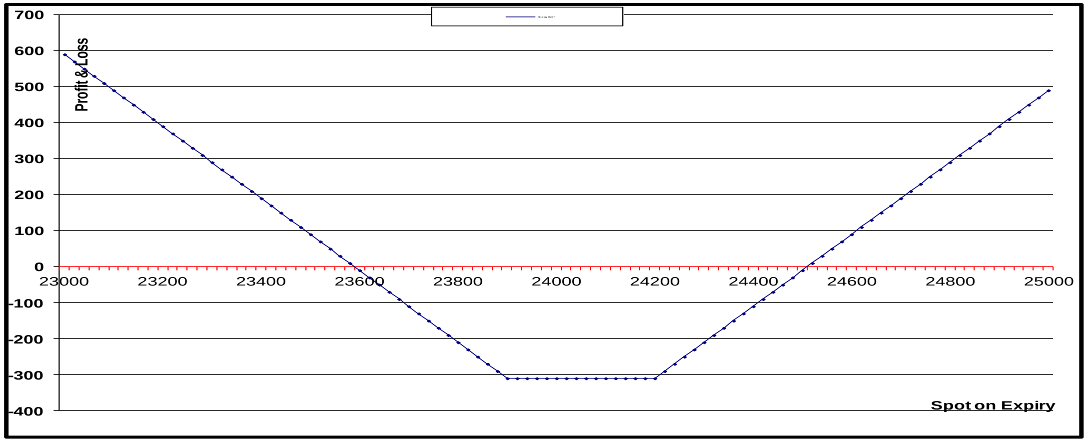
IRCTC, TATAPOWER, HAL, LT.

Long Strangle Strategy on NIFTY (CMP 24000)

Buy NIFTY 11JUL 24200CE at 155 (weekly expiry)

Buy NIFTY 11JUL 23900PE at 155 (weekly expiry)

- Total Premium Outflow & Max Loss: 310 pts, Target: 500 pts, Max Gain : Unlimited, SL:200, Lot size: 25.
- The Vix which is trading at lower levels indicates reversal to be seen which will increase volatility in market. While OI is having a spread in the range of 23800-24200. Either side movement of more than 500 points is likely which will help the strategy gain profits.



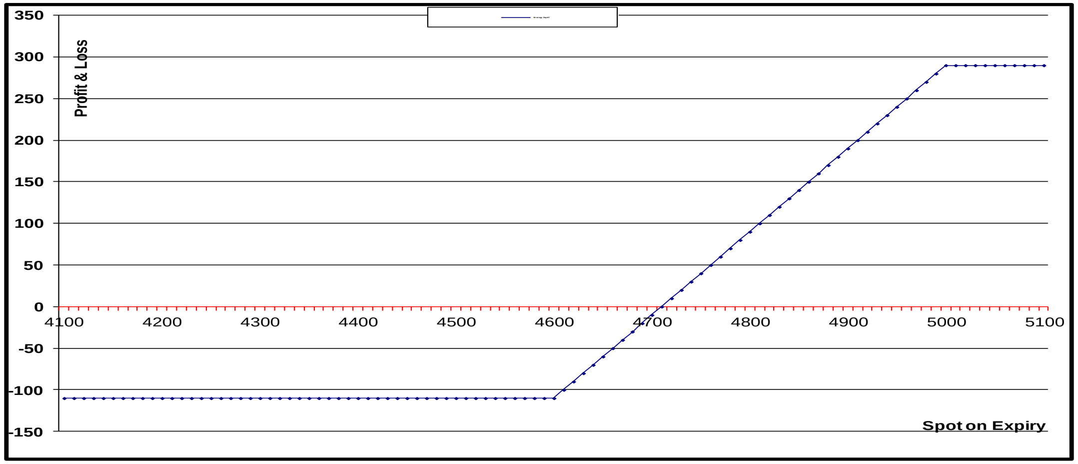
Profit/Loss at different prices	
NIFTY	Profit/Loss
22800	19750
23100	12250
23400	4750
23700	-2750
24000	-7750
24300	-5250
24600	2250
24900	9750
25200	17250
25500	24750

Bull Call Spread on DIVISLAB (CMP 4600)

Buy DIVISLAB 25JUL 4600CE at 145

Sell DIVISLAB 25JUL 5000CE at 35

- Total Premium Outflow & Max Loss: 110 pts, Target & Max Gain : 290pts, SL :60, Lot size:200.
- The Stock is having below the average OI positions and with increase in price indicating positive outcome to be witnessed in coming days of trading session last 2 days of trading session with decrease in iv's and increase in rollover positions indicating a near term breakout .Resistance for stock is at 4600-4650 once this range gets cleared fresh longs will start to get added on which will help strategy to gain profits.



Profit/Loss at different prices	
DIVISLAB	**Profit/Loss**
4200	-22000
4300	-22000
4400	-22000
4500	-22000
4600	-22000
4700	-2000
4800	18000
4900	38000
5000	58000
5100	58000

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