



Sharp rally in small and mid-cap companies since last one year had led to creation of froth in some pockets of this small and mid-cap universe. As a result, valuations of some companies in small and mid-cap segment had moved up far higher than their fundamental or intrinsic value.

Last few days of drubbing in small and mid cap companies have opened-up opportunities in some well run companies as valuations have come down to levels where investments can be made from longer term perspective as their business fundamentals remain unchanged. We have identified bunch of few good quality companies which have become attractive for long term investments.

Dalmia Bharat Ltd – CMP – Rs. 1,862, Target – Rs. 2,400

- Dalmia Bharat Ltd is one of the leading cement manufacturing company in India with total installed capacity of **44.6 MTPA**.
- Working on expansion which will take its own capacity to **49.5 MTPA by FY25 end** and acquisition of JP Associates' cement assets (9.4 MT) will further increase its capacity to **58.9 MTPA**. Further intends to reach **110 MTPA** capacity by **FY30 – FY31**.
- Being one of the lowest cost cement manufacturer has aided in consistently generating Ebitda/Tonne of about **Rs. 1,000**.
- Consistently generating **healthy operating cash flow** over the last many years, enabling it to fund capex largely through internal accruals.
- Currently it is attractively valued at **EV/Tonne of US\$ 96**, which is lower than similar sized company like Shree Cement and larger companies like Ultratech Cement Ltd which are trading at significant premium.

PNB Housing Finance Ltd – CMP – Rs. 640, Target – Rs. 1,000

- PNB Housing Finance, promoted by Punjab National Bank (28.13% ownership) is a deposit taking Housing Finance Company (HFC) in India which offers Individual Housing Loans, Loan against Property, Non-residential premises loans to Salaried as well as Self-employed customers while also offering Corporate Loans.
- Company's AUM as of 31st Dec' 23 stood at **Rs. 68,549 cr** while outstanding loan book stood at **Rs. 62,337 cr**. Retail : Corporate Loans Mix as of 31st December' 2023 stood at **96.5 : 3.5**.



- Company has significantly unwound its Corporate loans book over the last few years and cleaned up the book by making adequate provision. This has led to steady improvement in asset quality with Gross NPAs declining to **1.73%** in Q3 FY24 from **4.87%** in Q3 FY23 while Net NPAs declined to **1.14%** in Q3 FY24 from **3.22%** in Q3 FY23.
- Capital raise of **Rs. 2,500 cr** through rights issue in May' 2023 has strengthened balance sheet for meeting future growth requirements while it also helped in bringing down gearing ratio to **3.65x** as of Q3 FY24.
- **Upgradation** of its long term credit rating by India Ratings & Research (Fitch) from IND AA to **IND AA+** in January' 2024 should help in bringing down cost of borrowings.
- At CMP of **Rs. 642**, Company is trading at **Price/Book of 1.15x** which looks attractive considering company registering 9MFY24 RoE of **10.52%** (optically looks lower due to fund raise of Rs. 2,500 cr), worst of the asset quality being behind and having enough capital to grow in future.

IRM Energy Ltd – CMP – Rs. 470, Target – Rs. 600

- IRM Energy, a City Gas Distribution company promoted by Cadila Pharma has **license to operate in 4 Geographical Areas** (GAs) viz. Banaskantha (Gujarat), Fategarh Sahib (Punjab), Diu & Gir Somnath (UT of Daman & Diu/Gujarat) and Namakkal & Tiruchirappalli (Tamil Nadu).
- Company enjoys network exclusivity rights for **25 years** for infrastructure creation which includes laying of pipelines and setting up CNG stations.
- License to operate in Namakkal & Tiruchirappalli GAs which Company won in the 11th round of CGD auction is **by far the biggest GAs** for the Company and is yet to start delivering materially to the company's business.
- Company expects its sales volume to increase from **0.5 million scmd** in FY23 to **1.5 mn scmd** in FY27, translating into CAGR of approximately **29.5%** between FY23 – FY27.
- At CMP of **Rs. 476**, Company is attractively valued, considering the significant growth opportunities with the new GA of Namakkal and Tiruchirappalli starting to contribute materially to the company's business operations, network exclusivity period of 25 years, healthy operating cash flow generation capability and steady capital efficiency.



Federal Bank – CMP – Rs. 148, Target – Rs. 200

Federal Bank is amongst the leading mid-sized private sector bank having pan – India presence across both urban and rural areas. As of 31st Dec' 2023 catered to **1.76 cr customers** through its network of **1,418 branches**.

Product portfolio is fairly diversified across retail and wholesale segments and Retail : Wholesale mix as of 31st Dec' 23 stood at **55 : 45**. Federal bank has been strategically targeting high yielding loan products like CV loans, Gold Loans, MFI loans, Digital Personal Loans and Credit Cards.

Steady performer with Net Interest Income growing at CAGR of **15.9%** between FY20 – FY23 while Profits after tax has grown at CAGR of **24.9%** during the same period to reach **Rs. 3,011 cr** in FY23.

Asset quality too has improved with Gross NPAs declining from Covid-19 affected peak of **3.50%** to **2.29%** in Q3 FY24 while Net NPAs too declined from Covid-19 affected peak of **1.23%** to **0.64%** in Q3 FY24.

Capital efficiency of the bank too has steadily improved with **RoAs** inching up from low of **0.85% in FY21 to 1.39% in Q3 FY24** (annualized) while **RoEs** too have inched up from lows of about **10.00% in FY21 to annualized rate of 14.8%** in Q3 FY24.

Federal Bank continues to guide for **18% - 20% loan growth** going forward and to meet this growth it also raised about **Rs. 4,000 cr** in current fiscal through preferential issue of Rs. 959 cr to IFC and Rs. 3,040 cr through QIP.

At CMP of **Rs. 146**, Federal Bank is trading at Price/Book of **1.26x** and Price/Adj. Book of **1.32x** making it the cheapest among the mid-sized highly efficient private banks.

IDFC First Bank – CMP – Rs. 78, Target – Rs. 113

IDFC First Bank is amongst the leading mid-sized retail focused **new-age** bank having pan – India presence with a network of **897 branches** as of 31st Dec' 2023.

Bank's loan book is fairly diversified across more than **20 business lines** with Retail Loans accounting for **58.8%** of total loan book, Rural Finance book accounting for **12.6%** and SME & Corporate Finance book accounting for **27.0%** of total loan book.

Financial performance of the bank has seen a significant turnaround with Net Interest Income growing at CAGR of **30.9%** between FY20 – FY23 while it has reported Profits after tax of **Rs. 2,437 cr** in FY23 as against loss of Rs. 2,864 cr in FY20 (as it cleaned up its legacy infra loan book by making higher provisions).

Asset quality too has improved with Gross NPAs declining from Covid-19 affected peak of 4.15% to **2.04%** in Q3 FY24 while Net NPAs too declined from Covid-19 affected peak of **1.86%** to **0.68%** in Q3 FY24.

Capital efficiency of the bank too has steadily improved with **RoAs** inching up to **1.06% in Q3 FY24** (annualized) while **RoEs** too have inched up **annualized rate of 10.7%** in Q3 FY24.

IDFC First Bank has given **next 5 years guidance** wherein it expects **loan book** to grow at **CAGR of 20.3%** to reach **Rs. 5,00,000 cr by FY29**, **deposits** to grow at **CAGR of 24.8%** to reach Rs. **5,85,000 cr** with CASA deposits also growing at CAGR of 24.5% and CASA ratio at about 48.7%. It further plans to **double** its branch count to about **1,700 – 1,800** by FY29 to meet the growth. Bank has also guided for further improvement in asset quality with **Gross NPAs and Net NPAs** at **1.5% and 0.4%** respectively. Consequently, it expects **Profits to touch Rs. 12,000 cr – Rs. 13,000 cr by FY29** with **RoAs** of **1.9% - 2.0%** and **RoEs** of **17% - 18%**.

At CMP of **Rs. 78.50**, IDFC First Bank is trading at Price/Book of **1.76x** and Price/Adj. Book of **1.84x** which looks attractive considering continuous improvement in financials, healthy growth guidance for next 5 years, ability to mobilize and maintain healthy CASA ratio and further levers for improving NIMs as it will replace legacy high cost borrowing with low cost deposits.

GSPL – CMP – Rs. 350, Target – Rs. 450

GSPL is the **2nd largest natural gas transmission network operator** in India after GAIL Ltd. Its transmission network is spread across **2,704 kms** and has an extensive coverage in the state of Gujarat where it covers **25 out of 33** districts of the state.

Company is a **pure natural gas transmission** company and as a result is **not directly vulnerable** to gas price movements as it does not purchase or sell natural gas. It operates on an **Open Access basis** which allows to target both natural gas suppliers as well as customers, resulting in higher revenues from broader set of customers.

GSPL **owns 54.17% stake in Gujarat Gas Ltd**, one of the largest CGD companies in the country with presence in 6 states in 1 Union Territory. GSPL enjoys **synergistic benefits** with its ownership of Gujarat Gas Ltd as it accounts for approximately **24%** of its total sales in FY23.

Company is **implementing 2 cross-country pipeline projects** through its subsidiaries viz. GSPL India Gasnet Ltd and GSPL India Transco Ltd in which it owns 52% stake. Projects are running with some delay but once its gets operationalized, it will further boost its performance.

At CMP of **Rs. 350** and market cap of Rs. 19,640 cr, GSPL is trading at attractive valuation as it is available at **standalone operating cash flow yield of about 10%** (after adjusting for 50% holding discount for its stake in Gujarat Gas Ltd, ongoing network expansion and government's focus to increase share of Natural Gas in country's total energy mix from current 6.5% to 15% by FY30).

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