Cautious and choosy...

Quality to the fore !

In our 'Weekend Ruminations' of 21 June we expressed a selectively positive view on markets, based on (1) Falling crude and other commodity prices (India has saved $15bn in 1QFY16 alone on this account) (2) A pick up in Govt spending, up 24% YoY in 1QFY16 (3) Revival of monsoon momentum (4) Grexit fears moderating (5) The US Fed rate hike being 'baked in' as a known event.

We are somewhat cautious on markets now (esp. compared to our last note) owing to the recent run up in stock prices. We see risks to global macro stability emerging from China's slowdown. Our caution does not preclude us from being positive on select businesses from a longer term perspective.

- In our view, a China-led meltdown is a far greater threat to global financial stability than Greece's worries. China is a bigger economy (about 41x Greece, and growing unlike the latter!). **China debt to GDP is also very high at 280% of which corporate debt is 160% which 2x of US corporate debt to GDP in percentage terms while China economy is half of US in terms of GDP & most importantly China domestic leverage is towards funding commodity producers & real estate both of which are going through structural down cycle plus their investors have lost huge money in stock markets so it is extremely difficult to revive domestic demand & hence they are trying to boost exports by steps like currency devaluation which has potential to trigger trade war as other countries will try to protect their own domestic companies by increasing duty on imports from China while China is increasing rebates to its exporters so we really have no idea when & how this will end?**
- A China meltdown can lead to FII outflows from many emerging markets, including India. Note that cumulative FII inflows into Indian stocks since April this year are under 20% of the five year average over FY11-15.
- Key positive on macro front is Oil prices at $ 50 will give good fiscal room to Govt (Rs 89000cr gross saving in oil imports in q1 yoy) to spend & hence improve demand scenario in the economy plus even if INR has depreciated to 65 the worry on imported inflation is also muted to that extent plus CPI AT 3.8% and negative WPI if sustains will keep hope of rate cut alive although news on monsoon front are mixed.
- Meanwhile, earnings for companies with strong brands & pricing power can continuously rise upwards if crude and commodities cool off in the face of rising supplies and a soft demand outlook. **We think investors should seek commodity dependent businesses that enjoy pricing power (brands, unique product or market niches).** However recent Yuan devaluation which has led to INR depreciation will have some negative impact as in most of these companies raw materials are imported but oil price fall is much severe and due to pricing power and dominant market share these companies will retain some margins for sure & it was clearly reflected in June quarter results for Example companies like Castrol, Pidilite & Asian Paints saw good gross margin expansion plus strong brand like Maruti continues its dream run on the back of very strong volumes in an otherwise sluggish demand scenario along with other margin levers like Yen at 122 & fall in input prices.
- INR depreciation makes IT companies very attractive as even otherwise they have all great virtues like high quality business led by rational & shareholder friendly management with excellent cash flow generation, very high core ROCE & top class corporate governance coupled with reasonable valuation compared to other high quality business so we remain positive on Infosys, TCS, HCL TECH, Mindtree & eCLERX.
- We also like utility company like Power Grid at CMP of Rs 136 as it is a recurring annuity cash flows growing at above 15% with capitalization numbers increasing which restricts the need to dilute available at p/e of 14 so earning yield of 7% so it is a 7% bond growing at 15% in our view.
- We like manufacturing excellence of Bharat Forge where slowdown in oil & gas segment will be more than offset by higher margin niche business like Aerospace over medium term but once Aerospace business gains traction the margin profile & perception of company will see huge re rating.

Team Research, HDFC securities
hdfcsec-research@hdfcsec.com, +91-22-6171 7330

- We have selected various other stocks across sectors where we feel valuations are reasonable considering long term outlook on economy like SBI, City union bank, Federal Bank, Chola Finance in this note

PREFERRED STOCKS

Large Caps

- Asian Paints
- Bharat Forge
- Castrol
- Coal India
- HCL Tech
- Infosys
- Larsen & Toubro
- Maruti Suzuki
- Pidilite
- Power Grid
- State Bank of India
- Tata Motors (DVR)
- TCS

Mid Caps

- City Union Bank
- Cholamandalam Finance
- Federal Bank
- KNR Constructions
- L&T Finance
- Mindtree
- Oberoi Realty

Preferred stocks : Large caps

ASIAN PAINTS

(CMP Rs 874, MCap Rs 838bn)

Mehernosh Panthaki,
mehernosh.panthaki@hdfcsec.com,
+91 22 6171 7340

- Asian Paints dominates the paints sector in India, with a market share of 54%. When GDP growth surges above 7%, decorative volumes grow upwards of 2x GDP (normalized run rate ~1.7x). We are confident of vol growth accelerating to 12.5/16% in FY16/17E on the back of revival in urban housing and home improvement. Pick up in industrial growth will also help.
- Soft crude and TiO2 prices (down ~38% and ~15% YoY; 54% of COGS) will boost gross margins. Crude and TiO2 contribute ~40% to COGS (highest amongst FMCG companies).
- We like Asian Paints' market leadership and superior pricing power and believe its premium valuations will sustain. **We have a BUY on the stock with TP of Rs 925.**

BHARAT FORGE

(CMP Rs 1,162, MCap Rs 271bn)

Navin Matta, navin.matta@hdfcsec.com,
+91 22 6171 7322

- Bharat Forge (BFL) is counted among the largest independent forging companies globally with total capacity of 584k MT. Over the next three years, BFL's automotive revenues will be driven by cyclical recovery in domestic CVs, as well as steady demand in the North American truck market and new order wins in PVs. With demonstrated capabilities in making complex forgings, the company is also gaining traction in lucrative segments such as defense, aerospace and locomotives across domestic and international markets.
- BFL is well poised to benefit from the government's 'Make in India' campaign. Localization of components in large segments such as defense, locomotive, power and metal/mining would expand its domestic industrial segment opportunity size significantly.
- BFL is on track to achieve its target of more than doubling its FY14 standalone revenue by FY18 (~Rs 70bn+). Robust growth in standalone earnings and steady improvement in BFL's subsidiaries will drive 27% CAGR in consolidated EPS over FY15-18E.
- BFL currently trades at 21.3x on FY17E. We expect the company to trade at a premium to its historical valuations given its strong earnings growth, sharp improvement in its balance sheet and FCF characteristics.

CASTROL

(CMP Rs 479, MCap Rs 237bn)

Mehernosh Panthaki,
mehernosh.panthaki@hdfcsec.com,
+91 22 6171 7340

- Castrol India, an MNC with a strong and decades old brand and distribution network in India has a dominant market share of ~22% in the Bazaar (retail) segment of lubricants. Automotive lubes account for ~85% of its total revenues.
- After five years of stagnant net earnings, the company has reported impressive numbers for 1HCY15. While its revenues de-grew marginally

by 0.9% to Rs. 19.8 bn, the company has benefitted from falling base oil prices (derived from crude). Gross margins have improved by 782 bps over 1HCY14 to 57.2%. EBITDA grew 40% to Rs. 4.7 bn, with an expansion of 690 bps in EBITDA margins at 23.6%. PAT grew by 47.5% to Rs. 3.3 bn.

- 2HCY15 is likely to witness a recovery in volume growth in lubricants owing to an anticipated revival in autos. Low base oil prices will continue to aid margin expansion. The stock trades at 32x CY16E consensus EPS. Market Leadership, strong brand image, pricing power, high dividend payouts (70-75%) justify premium valuations. Re-rating can persist on sustained earnings growth. **We do not have a rating on Castrol but are more than constructive on its longer term trajectory.**

COAL INDIA

(CMP Rs 377, MCap Rs 2,492bn)

Ankur Kulshrestha, ankur.kulshrestha@hdfcsec.com, +91 22 6171 7346

- CIL is India's monopoly coal producer and accounted for ~80% of India's coal needs in FY15. It is a crucial link in the electricity delivery mechanism as a key supplier of coal to power plants.
- The company has been constrained over the past 4-5 years to increase its production/despatches. and has remained on a flat trajectory (3.3% growth in FY10-15). This was on account of low availability of railway rakes, lack of clearances for mining and regulatory hindrances which affected its ability to increase production.
- The new government has focussed on improving the delivery of coal from the company, which has resulted in strong despatch growth for the past few months (FY16 YTD performance: 10.5% in production and8.1% in output). We expect volumes to grow at a 6% CAGR over the next 3 years, which will translate into a 625 mT output in FY18. Government expects CIL to reach ~1 bn tonnes of coal output by 2020.
- Further positives in store include removal of cap on e-auctions, auction of linkages to the non-regulated sectors and hike in prices for regulated sectors.
- The stock trades at 13.6x FY17 P/E and 8.0x FY17 EV/EBITDA. Strong earnings trajectory and government focus on the power generation sector will help sustain premium valuations.

HCL TECH

(CMP Rs 966, MCap Rs 1,358bn)

Harit Shah, haritj.shah@hdfcsec.com, +91 22 6171 7325

- HCL Technologies (HCLT) is India's fourth-largest software company, with US$ 5.95bn FY15 revenue (June-ending fiscal year). The IT major has grown USD revenue at a 13% CAGR over the period FY12-FY15 (15% over FY11-FY14), significantly ahead of most of its listed peer set.
- The company's major differentiating factor vis-à-vis competition is its infrastructure management services (IMS) business, which is the second-largest in the industry after TCS (over US$ 2bn in FY15). This segment has clocked a strong 27% USD revenue CAGR over FY12-FY15 (30% CAGR over FY11-FY14), well above company average.
- We expect HCLT to clock a 13.6% USD revenue CAGR over FY15-FY17E, led by the IMS business, which we expect will clock a 16% USD revenue CAGR over the period. We like HCLT's strong positioning in the IMS segment and expect continued growth to drive further non-linearity in the business (revenue/employee at US$ 60,186 in FY15 vs US$ 51,465 in FY12). We forecast a healthy 13% EPS CAGR over FY15-FY17E and RoE of 29% in FY17E.
- HCLT currently trades at 14.7x FY17E EPS (16x historical average). We believe, given growth opportunities in the SMAC space, HCLT's strong positioning in IMS and steadily improving growth in the software services business (12% USD revenue CAGR vs 7% over FY12-FY15), current valuation is reasonable in context of the solid earnings growth profile and healthy RoE.
- **We value HCLT at 16x FY17E EPS, implying a target price of Rs 1,055. We like HCLT given better-than-peers growth, higher RoE and more reasonable valuations.**

INFOSYS

(CMP Rs 1,157, MCap Rs 2,657bn)

Harit Shah, haritj.shah@hdfcsec.com, +91 22 6171 7325

- Infosys' 1QFY16 revenue was impressive, up 4.5% QoQ in USD terms and up 4.4% QoQ in constant currency terms. We expect Infosys to post 9.1% USD revenue growth in FY16, an acceleration from just 5.6% growth in FY15. This should further swing up to 13.3% in FY17E led by initiatives taken by the new CEO, Dr Sikka, on the digital and automation front while protecting traditional revenues through the 'New and Renew' strategy.

- Infosys has won 6 large deals of US$ 50 million each over the past few weeks. The IT major's investments into automation, with recent acquisitions like Panaya should position it well to leverage the digital/SMAC revolution.
- Operating metrics have bottomed out as indicated by Infosys' margin, which expanded nearly 200 bps in FY15. We expect margins to remain within a 50-100 bps band through to FY17.
- Earnings are slated to grow in single digits in FY16 (7.4%), followed by improved growth of 16% in FY17 (Rs 53.9/Rs 57.9/Rs 67.1 EPS in FY15/FY16E/FY17E, respectively).
- Thus, while we expect FY16E to be a relatively subdued year for growth albeit improving with each quarter, we expect the initiatives taken by Dr Sikka on the digital front, sales effectiveness and client mining to drive improved growth in FY17E.
- **Infosys trades at 17.2x FY17E EPS. Given its improving growth profile, we value Infosys at 19x FY17E EPS and have a target price of Rs 1,275 on the stock.**

LARSEN & TOUBRO

(CMP 1,761, MCap Rs 1,638bn)

Parikshit Kandpal, parikshit.kandpal@hdfcsec.com, +91 22 6171 7317

Prabhat Anantharaman, prabhat.anantharaman@hdfcsec.com, +91 22 6171 7319

- L&T is the largest construction company India with a significant presence in manufacturing. The company is an established leader with excellent execution track record over many business cycles.
- Over FY13-15, the company has (in line with Indian economy) faced a slow down. Revenue growth (5% over FY13-15 vs. 18% over FY11-13) has come under pressure due to slowdown in execution across the private and public sector. **The company has tried to mitigate the impact by going overseas and reduction in capital allocation to capital intensive infrastructure development business.**
- However, order inflows have perked up in FY15 (Rs 1.4tn, up 19% YoY) and consolidated order backlog is up 28% YoY to Rs 2.3tn. With an expected pickup in domestic projects execution management has guided for 15% growth in consolidated order inflow/revenue for FY16. Order inflow prospects from India remain strong and L&T remains the best proxy to investment revival in India. Hydrocarbon business should also come out of red in FY16 as the company has finished/recognised losses on low margin legacy orders.
- **Valuation at 18x FY17E standalone EPS (adjusted for subsidiary valuation of Rs 355/sh) is in line with the capital goods sector. We have a BUY rating on the stock with a SOP based TP of Rs 1,810/sh, based on 20x FY17E EPS and Rs 353/sh for subsidiaries.**

MARUTI SUZUKI

(CMP 4,493, MCap Rs 13,572bn)

Navin Matta, navin.matta@hdfcsec.com, +91 22 6171 7322

- Maruti has an exciting new model pipeline over the next 1-2 years. Launch of the SX4 cross and compact UV would beef up its presence in the under-represented UV segment (~21% of domestic PVs).
- The co's product pipeline also looks better than in recent times, especially with the success of the Ciaz midsize sedan and the AMT Celerio rollout. An upcoming LCV launch holds promise, too, backed by a new, small diesel engine.
- MSIL's recent earnings performance highlighted that its erstwhile high level of discounts are not structural in nature. The company lowered discount/vehicle by ~5500 from its peak, that too at a time when several peers in the industry are yet operating at low utilisation levels.
- We believe that MSIL should trade at higher than historical valuations supported by strong earnings momentum (40% CAGR over FY15-17E), improving return ratios and higher dividend payouts. **Our target price of Rs 4,802 is based on P/E of 18.7x on FY17E EPS.**

PIDILITE

(CMP Rs 572, MCap Rs 293bn)

Mehernosh Panthaki, mehernosh.panthaki@hdfcsec.com, +91 22 6171 7340

- Pidilite Industries is a market leader in adhesives and sealants (~70% market share), construction chemicals, hobby colors & polymer emulsions in India. Its strong brand equity and pricing power are attributable to its product innovation, consistent brand building and a strong distribution network. No wonder revenues have grown at 20% CAGR over the past decade.
- Over the last few quarters, the growth of discretionary categories (like white glue, construction chemicals) has slowed down owing to sluggish macros. This has impacted the performance of Pidilite's key business segment

'Consumer & Bazaar' (~85% of the total revenues). Industrial Segment revenues are also struggling due to slowdown in industrial activity.

- However, 2HFY16 should see a meaningful recovery (esp vol) owing to the anticipated revival in urban housing construction, home improvement and rising IIP (likely to benefit ~60% of Pidilite's portfolio).
- The company has benefitted from the sharp decline in crude oil (down ~40% since Jun-14) & VAM prices (down ~28% from peak levels in 1QFY15) over the last year. Gross margins have improved significantly at 49.1% in 1QFY16 are the highest since Q4FY10. We don't see any sharp rise in VAM prices from current levels and also expect crude to remain subdued. Despite soft RMs, the company is unlikely to take price cuts.
- **At CMP, Pidilite is trading at 31.5x FY17E EPS. Pidilite's robust consumer franchise justifies premium valuations. We have a BUY rating on the stock with TP of Rs 654 (36x FY17E EPS).**

POWERGRID CORP

(CMP 138, MCap Rs 725bn)

- Powergrid is India's central transmission utility (CTU), responsible for inter state and inter regional power transmission infrastructure. The company works under a regulated return regime, wherein it is guaranteed 15.5% post tax return on equity on the equity investments made in transmission assets and all other expenses are passed on in the tariff.
- It is among handful of power companies which have consistently delivered on execution. The company incurred a capex of Rs 650bn over FY13-15 (in line with guidance). Further, capitalisation of this capex has also been in line at Rs 550bn. APAT during FY13-15 has grown by 14% CAGR but EPS has grown by 7% as the company diluted equity in FY14 to fund its capex plans.
- Over FY15-17 PGCIL will continue to incur capex of Rs 225bn/year. It also intends to increase the pace of capitalisation which would ultimately lead to profit growth. We expect spends to continue in the transmission sector as it is a vital cog in the power chain (NDA govt. recognises this) which has been neglected historically. Risk of private sector entry has also reduced as private sector balance sheets are not in a position to undertake large projects and execute them on time.
- Valuations at 1.7x FY16E BVPS and 11x FY16E EPS are attractive. Any share offering by Govt. of India (58% shareholder) can act as near term dampener on the stock price. **We will strongly recommend investors to invest in any such offering as it typically happens at a discount to market price.**

STATE BANK OF INDIA

(CMP Rs 259, MCap Rs 1,962bn)

Darpin Shah, darpin.shah@hdfcsec.com,
+91 22 6171 7328

Siji Philip, siji.philip@hdfcsec.com,
+91-22-6171 7324

- Over the last few years, SBI has borne the brunt of the structural slowdown in India's macros. As a result, its profits have taken a hit despite a growing loan book owing to higher provisioning on stressed assets and a reset in wages.
- With its broad presence across sectors, plus its colossal size and reach, SBI remains the best cyclical play on the anticipated macro recovery in India. We expect employee costs to rise at a slower pace. And, more importantly, GNPLs to fall by over 80 bps from 4.5% in Mar-15.
- SBI's superior capital adequacy (low dilution risk), lowest impaired assets (in peerset) coupled with a well-cushioned B/S (higher coverage ratio) and superior CASA franchise combine to provide a solid set of reasons that make SBI our preferred bet amongst PSBs.
- **SBIN trades at 1.18x FY17E core ABV. Maintain BUY with a sum of parts TP of Rs 344.**

TATA MOTORS (DVR)

(CMP 235, MCap Rs 119bn)

Navin Matta, navin.matta@hdfcsec.com,
+91 22 6171 7322

- Over the past 6 months, Tata Motors DVR share price has declined by almost 30% over China slowdown concerns. JLR's China volumes have declined by 34% YoY on YTD basis as a result of (1) wrong pricing strategy of its locally built Evoque, (2) absence of Freelander volumes on account of the model being phased out and 3) demand moderation in China.
- While most premium car makers have to contend with lower volume growth and normalization in margins, we think that JLR's strong new product cycle would help in partially mitigating the current gloom.
- We note that demand in other key markets including US, UK and Europe are growing at a healthy double digit pace. In India business is gradually recovering on the back of strong recovery in MHCV demand and steady volume uptick in the PV business.

- **At current level, Tata Motors trades at 3.2x EV/EBITDA on FY17E. We prefer betting on Tata Motors through its DVR share, considering it is trading at a 33% discount to the ordinary share**.

TCS

(CMP Rs 2,637, MCap Rs 5,166bn)

Harit Shah, haritj.shah@hdfcsec.com,
+91 22 6171 7325

- We like TCS' leadership positioning, better-than-peers growth despite being the largest IT firm, and its leading position in the digital/SMAC space vs peers.
- TCS' 1QFY16 revenue grew 3.5% QoQ in USD terms. We expect TCS to post slower revenue growth in FY16 vs FY15 (10.3% vs 15%); however, we expect FY17 USD revenue to improve to 13.9% YoY (US$ 19,416mn).
- TCS' EBIT margins adjusted for one-offs declined 112 bps QoQ in 1QFY16. We expect EBIT margin to range between 27%-28% (26.9% in FY15). We expect adjusted earnings to achieve a healthy 14% CAGR over FY15-FY17E (Rs 110.8/Rs 125.3 /Rs 143.9 adjusted EPS in FY15/FY16E/FY17E, respectively), led by operating leverage and improving profitability.
- **TCS' stock is currently trading at 18.3x FY17E EPS (historical average forward PE of 19x).**

Preferred stocks : Mid caps

CITY UNION BANK

(CMP Rs 100, MCap Rs 60bn)

Darpin Shah, darpin.shah@hdfcsec.com,
+91 22 6171 7328

Siji Philip, siji.philip@hdfcsec.com,
+91-22-6171 7324

- City Union Bank (CUB) is one of the best managed regional banks with strong small business lending franchise in its focus regions (South India, primarily Tamil Nadu). CUB's lending discipline, well capitalised balance sheet, focus on MSME segment and stickiness with clients has resulted in consistently high ROAs, superior NIMs and lower delinquencies prior to FY14.
- CUB's recent performance (FY14-15) was pulled down by low credit growth (sub 10%), slightly higher NPLs (1.9%) and increase in cost-income ratio (42.8%). It has also expanded branch network aggressively over the last few years. Unfortunately, this has coincided with the macro slowdown in India. Lower branch additions hereon and operating leverage from existing branches will help contain its cost-income ratio over FY16-17.
- Buoyed by improving trends in MSME, naturally higher yielding working capital loans, in-place margin levers (lower provisioning charges, improved CI ratio and strong deposit franchise) we maintain a positive stance on the stock. We don't have a formal rating on the stock. **CUB trades at 1.8x FY17E ABV for RoA/RoE of ~1.5/16% respectively.**

CHOLAMANDALAM FINANCE

(CMP Rs 628, MCap Rs 98bn)

Darpin Shah, darpin.shah@hdfcsec.com,
+91 22 6171 7328

Siji Philip, siji.philip@hdfcsec.com,
+91 22 6171 7324

- Cholamandalam Investment & Finance Company (CIFC), a part of the southbased Murugappa Group, operates as a pure asset finance player (AFC) offering vehicle finance, home equity loans and business finance. It offers a niche play on the cyclical CV (68% of AUM) and steady home equity financing. Within the CV business, CIFC further offers a diversified play with presence across segments and geographies.
- Notwithstanding its AUM slump over FY14-FY15, CIFC has still maintained NIMs with sustained yields and improving cost efficiencies. It has managed a slow recovery in recent quarters with gradual uptick in Vehicle Financing, consistent momentum in Home Equity, relatively stable asset quality and operating leverage.
- CIFC has already shifted to 150 DPD in 4QFY15 and hence the incremental impact of tighter NPA recognition and provisions norm is already absorbed. Further, with superior underwriting and recoveries process and higher capitalisation CIFC is better placed vs peers.
- A return to 20%+ growth (driven by revival in the CV cycle) over the next 2-3 years, structural improvement in C/I ratios driven by productivity improvement and the expected normalization of credit costs from current cyclical peaks keeps us positive on CIFC. While the move towards

90DPD NPA recognition will keep headline NPAs higher than aspired, the gradual healing in macros and increasing proportion of Home Equity business will keep overall asset quality under check. We do not have a formal rating on the stock. **CIFC trades at 2.7x FY17E ABV.**

FEDERAL BANK

(CMP Rs 65, MCap Rs 111bn)

Darpin Shah, darpin.shah@hdfcsec.com, +91 22 6171 7328

Siji Philip, siji.philip@hdfcsec.com, +91-22-6171 7324

- Over the last three years, Federal Bank (FB) has consciously tempered its 'large corporate' exposure while growing its retail, SME and agri loan books. This strategic change apart, it has also streamlined credit appraisal operations. It has achieved higher granularity on both assets (loans) and liabilities (deposits). To our mind, these are virtues that enhance business quality.
- With adequate capital, FB finds itself in an advantageous position in its home base of Southern India where a number of entrenched (but stressed) PSU banks are unable to capitalise on an impending economic revival. We think the next few years might see the bank deliver operating leverage as well as improving asset quality.
- 1Q was not an an inspiring quarter for the bank, with a large corporate account slipping. Higher provisions on NPAs as well as investments hit reported profitability. The granularity improvement, continued. We think the watchlist of ~Rs 2bn in FB's Steel & Shipping exposures may act as an overhang. Still, we believe FB's focus towards quality growth, increased granularity and higher PCR will drive valuations in the long run. **FB trades at 1.2x FY17E ABV. Maintain BUY with a revised TP of Rs 84/sh.**

KNR CONSTRUCTIONS

(CMP Rs 523, MCap Rs 15bn)

Parikshit Kandpal, parikshit.kandpal@hdfcsec.com, +91 22 6171 7317

Prabhat Anantharaman, prabhat.anantharaman@hdfcsec.com, +91 22 6171 7319

- KNR has over two decades of experience as a pure play road EPC contractor with 95% of the order book in roads segment (Rs 35bn). Strong execution skills, cautious bidding approach and low net d/e (0.1x) makes is a compelling growth story. More so with NHAI bid pipeline of Rs 4tn over next 5yrs, KNRC is well poised to be a major beneficiary.
- **FY15-18E order book to grow ~6x:** We expect KNRC's FY15-end order book of Rs 13bn to grow ~6x to Rs 78bn (end FY18E). This will be driven by NHAI & State EPC road projects. Strong and profitable order booking will continue to drive further stock re-rating
- Revenue growth to pick up over FY16-18E: Despite weak ordering & muted revenue growth, KNRC has maintained profitability during FY11-15. With the recent ramp up of order book, revenue growth will be back on track with FY15-18E revenue CAGR of 32.5%.
- Cautious on BOTs: KNRC's Kerala BOT is ~90% complete and partial COD has been achieved. During FY16E, we expect KNRC to win road BOTs worth ~Rs 10bn, equity for which can be supported by its own cash flows.
- **Maintain BUY, SOTP of Rs 665/sh:** We expect strong order intake to deliver 32.5%/29.2% FY15-18E sales/net profit CAGR. We maintain BUY with SOTP based TP target price of Rs 665/share (standalone business at 15x FY17E EPS, Kerala BOT at 1x P/BV, see inside). At CMP, KNRC trades at 14x FY17E EPS

L&T FINANCE

(CMP Rs 68, MCap Rs 118bn)

Darpin Shah, darpin.shah@hdfcsec.com, +91 22 6171 7328

Siji Philip, siji.philip@hdfcsec.com, +91 22 6171 7324

- L&T Finance Holdings (LTFH), promoted by L&T (owns 73%), is a well-diversified NBFC having wide presence in both retail and infrastructure segments. It has strong parentage and highly qualified management team which has significant experience in evaluating long-gestation infrastructure projects. However, owing to difficult macro-environment and the challenges facing large numbers of infrastructure projects and CV/CE segment, the company has been on a course correction path over the past two years.
- Since then, LTFH has consciously de-risked its balance sheet in both Retail & Infrastructure portfolio and has identified select segments to pursue profitable growth. In the retail segment it has shifted focus to tractors, two-wheelers and microfinance — B2C segments, and reduced exposure to the ailing CV/CE segment. B2C segments now constitute more than half the retail loan portfolio.
- In the wholesale segment, company has increased exposure to operational projects

substantially as they carry lesser risk. Roads and renewable projects which are mostly operational constitute 48 per cent of corporate loans.

- LTFH is probably India's cheapest NBFC of its size, spread and pedigree. It has all the ingredients to ride the long term India financials growth story with exposure to retail, corporate and infrastructure lending business, footprint in investment management and strong candidature to be a bank. Rise in NPLs (given infrastructure exposure), stress in corporate loans and higher opex (because of retail focus) are an overhang even as diversification reduces the impact. **We do not have a formal rating on the stock. LTFH trades at 2x FY15 ABV.**

MINDTREE

(CMP Rs 1,378, MCap Rs 115bn)

Harit Shah, haritj.shah@hdfcsec.com,
+91 22 6171 7325

- Mindtree's 1QFY16 revenue grew by a robust 4.8% QoQ in USD terms, led by its digital initiatives (up 12.9% QoQ). The company is likely to post even stronger organic USD revenue growth in excess of 5% QoQ in 2QFY16. We expect Mindtree to post a solid revenue growth of 19% in FY16E and 17% in FY17E (16% in FY15)led by strong digital traction and focus in key verticals like retail, travel and P&C insurance.
- We expect Mindtree's earnings to achieve a healthy 17% CAGR over FY15-FY17E (Rs 63.8/Rs 70.4 /Rs 88 EPS in FY15/FY16E/FY17E, respectively), led by strong growth leverage. We like Mindtree's industry-leading revenue growth, leading investments made on the digital side, which are translating into deal wins and increasing deal sizes, healthy earnings and RoE of 29%.
- Mindtree's stock is currently trading at 15.7x FY17E EPS. Considering the mid-sized IT major's impressive and consistent revenue growth leadership, leading position in digital, healthy earnings growth, debt-free balance sheet and strong return ratios, we are positive on its growth prospects. **We have a BUY rating on Mindtree with a target price of Rs 1,410 (16x FY17E EPS).**

OBEROI REALTY

(CMP Rs 242, MCap Rs 82bn)

Parikshit Kandpal, parikshit.kandpal@hdfcsec.com,
+91 22 6171 7317

- Oberoi Realty (ORL) is one of the largest Mumbai centric developers with ~15mn sqft of residential portfolio & ~2mn sqft commercial assets. Timely execution, superior build quality, low net d/e (0.1x) & city limit developments has been the key competitive advantage. Over the YTD, ORL share has underperformed Nifty by 12%. This has happened despite pick up in Goregaon sales, strong response to the Mulund launch (presold 20% of the project) and likely Sep-15E Borivali project launch. We believe that investors concerns on real estate slowdown are already in the price.
- ORL is facing inventory liquidation headwinds as it currently has ~Rs 40mn+ ticket size, new launches (Borivali) shall fill in the ticket size gap in Rs 20-40mn range. Mulund project (~3.2mn sqft) witnessed strong market absorption with 20% of units getting booked within a month's time and we expect similar success for the Borivali launch (~3.2mn sqft) during Sep'15E.
- Annuity assets provide comfort on volatile devco value: ORL operates a well balanced business model with residential (devco.) & commercial (annuity) segment contributing 56% and 42% to our NAV respectively. Unlike peers, in an event of slowing residential sale the cash flows from commercial projects lend visibility to earnings.
- **Maintain BUY with SOTP-based target price of Rs 339/share. Key catalysts : (1) success of Mulund & Borivali launch; (2) foray outside Mumbai & (3) new land acquisitions.**

Disclosure:

Analyst	Stock	Holding
Ankur Kulshrestha	Coal India	No
Darpin Shah & Siji Philip	State Bank of India	No
Darpin Shah & Siji Philip	City Union Bank	No
Darpin Shah & Siji Philip	Cholamandalam Finance	No
Darpin Shah & Siji Philip	Federal Bank	No
Darpin Shah & Siji Philip	L&T Finance	No
Harit Shah	HCL Tech	No
Harit Shah	Infosys	No
Harit Shah	Mindtree	No
Harit Shah	TCS	No
Mehernosh Panthaki	Asian Paints	No
Mehernosh Panthaki	Castrol	No
Mehernosh Panthaki	Pidilite	No
Navin Matta	Bharat Forge	No
Navin Matta	Tata Motors (DVR)	Yes
Navin Matta	Maruti Suzuki	No
Parikshit D Kandpal & Prabhat Anantharaman	Larsen & Toubro	No
Parikshit D Kandpal & Prabhat Anantharaman	KNR Constructions	No
Parikshit D Kandpal & Prabhat Anantharaman	Oberoi Realty	No

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Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board : +91-22-6171 7330   www.hdfcsec.com