DIWALI DHAMAKA

MOTILAL OSWAL
Investment Services
Solid Research. Solid Advice

TOP PICKS FOR DIWALI, SAMVAT 2071

Stock Name	CMP	Target	Upside (%)
Large Cap			
State Bank of India	2584	3430	33
Bharti Airtel	411	540	31
ACC	1445	1840	27
Hero Motocorp	2995	3580	20
Mid Cap			
DHFL	330	480	45
Wealth Creating Stock			
United Spirites	2574		

*Prices as on Tuesday (21st October 2014) closing

NIFTY : 7928

SENSEX : 26576

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Samvat 2070 was a good year for Indian equities with bulls back to the fore. A change of guard at the Centre with a thumping majority for Mr. Modi saw the investors rerate equities. Despite the stability in the Rupee, exporters (IT and Pharma) outperformed; while Metal, PSUs, and Infrastructure underperformed.

Opportunities:

- Return of the 15-20% Sensex EPS growth period
- Lower commodity prices and lower inflation

Concerns:

- Slowdown of the global economy (especially EU & China)
- USD as a safe haven and hence FII selling in emerging markets

We believe that earnings growth trajectory is now firmly set for a 20% CAGR over FY14-FY18E and this should lead to higher valuations. Reforms will be a key factor to sustain positive sentiments. We are positive on Telecom, Automobiles and Banking and Finance. Following is the list of our preferred picks for Samvat 2071.

Wish you all a

Happy Diwali and a

Prosperous New Year!!

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State Bank of India

Banking

CMP	2584
Target	3430
Mkt. Cap.(Cr.)	1,92,955
52 Weeks High	2,833
52 Weeks Low	1,455

- SBI is highly levered to macro-economic conditions and improvement in investment climate and interest rates would assuage asset quality fears.
- SBI remains our preferred pick to play recovery in Indian economy with a) least NSL of 6.2%, b) strong CET1 of 9.8% and c) improving return ratio.
- Pick up in fees, strong control over opex and stable margins are encouraging. Structural changes effected top management will help to drive fee income growth and keep control over opex which in turn should lead to healthy core PPP CAGR of 24% over FY14-17.
- We expect earnings CAGR of 34% over FY14-17 and RoA is expected to improve to 0.9-1% over FY15/17 as compared 0.6% in FY14. With the increase in leverage we expect ROEs to improve to 15%/17% by FY16/17 vs 11% in FY14.
- The stock trades at 1.1x FY16 Consol BV of INR2,347.

- ✓ The sharp reversal of trend in the early 2014 exhibits Impulse wave characteristics, indicating a fresh bullish structure
- ✓ The consolidation on the medium term charts is about to mature & multiple bullish patterns near 2350 (consolidation support) warrants a firm base for the next impending up move
- ✓ We recommend it as a portfolio buy with a stop at 2250 for an initial target of 3000 followed by an eventual target upto 3430.

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Bharti Airtel

Telecom

CMP	411
Target	540
Mkt. Cap.(Cr.)	1,64,233
52 Weeks High	420
52 Weeks Low	282

- The largest "Mobile" company in India with a subscriber base of 19.3cr - 95% of whom pay money upfront to use the "AIRTEL" branded services. Bharti, also, offers Satellite-TV services in India under the AIRTEL brand with 85 Lakh subscribers to the DTH services.
- While voice traffic in India is slowing down, data is picking up with more than 100% growth in the last quarter. This growth is expected to sustain and will be a key driver of earnings for the next 2-3 years.
- Bharti, also, owns a network in Africa with 1/3rd of its revenues now coming in from non-India locations. Africa in terms of telecom services is where India was probably 5-8 year ago with a penetration of 56%.
- With consolidated Revenues of INR857B, EBITDA of INR277cr and Free Cash flow of >INR100B, Bharti is in a position to easily repay its debt of ~INR60,000cr taken for the Africa acquisition.
- We expect tripling of profits for Bharti Airtel over FY14-17 driven by 13% EBITDA CAGR for Bharti. Reduction of debt is likely to shift Enterprise Value towards equity holders.

- ✓ Telecom sector has been underperforming since past 7 years. The long term chart is now indicting a secular up move
- ✓ On the medium term scale Bharti Airtel continues its momentum post breaking out from a brief consolidation
- ✓ The stock has maintained its bullish structure on the medium term scale & seems heading towards its life highs. The reward to risk is still favorable to add fresh longs. Hence we recommend a buy for a target up to 540

ACC

Cement

CMP	1445
Target	1840
Mkt. Cap.(Cr.)	27,129
52 Weeks High	1570
52 Weeks Low	971

- ACC, part of Holcim group, is the largest standalone cement company in India with total capacity of 30.7m ton. It has pan-India presence with 16 plants. It is the oldest player in the Indian cement industry with ~10% market share.
- Our outlook for the cement industry is extremely bullish. We expect capacity utilization to move up from ~70% in FY 14 to 85-90% in FY17, with capacity addition likely to be around 50-60 mn tonnes.
- Cost escalation in the transportation and power & fuel components (36% of revenues) should be subdued if not negative given lowering of diesel prices, leading to margin expansion.
- As a result of operating leverage, we expect 38% CAGR in earnings over CY13-CY16E on 15% revenue growth.
- ACC's free-cash flow over CY14-CY17E will be INR45B, which will be paid out to shareholders (INR26B payout over 3 years).
- The stock trades at a EV/Ton of USD122 - a discount to current replacement cost.

- ✓ The stock has been trending up post breaking out from its downward trend with high momentum. Since then it has maintained its higher top higher bottom structure on the weekly scale
- ✓ Multiple continuation pattern formations at important junctures augur well for the continuity of the existing upsurge which could propel the stock into a new orbit
- ✓ The recent pullback provides a good opportunity to accumulate the stock for a target upto 1840

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Hero Motocorp

Automobile

CMP	2995
Target	3580
Mkt. Cap.(Cr.)	59,808
52 Weeks High	3080
52 Weeks Low	1907

- Hero MotoCorp (HMCL), erstwhile JV between Honda Corporation Japan and the Munjal family, is the leader in domestic motorcycle market with ~44% share, benefiting from a strong dealership network and high penetration in the rural areas (~45% of sales) as well.
- Post split from Honda, Hero MotoCorp is free to tap global opportunity in 2W. The company plans to raise export to 10% of revevenues by 2010.
- For the domestic business demand drivers are in place, driven by increasing penetration in rural markets and replacement demand from uer rban markets. HMCL is embarking on a favorable product life cycle, with two promising new launches in FY15 (110cc Scooter, 250cc premium motorcycle). We expect 12.6% volume CAGR over FY14-17E (v/s FY12-14 flat volumes) on industry recovery and new launches.
- We estimate EPS growth of 28% over FY14-FY17E driven by volume growth and zero royalty payments. The stock trades at 16.1xFY16E EPS of INR185.6.

- ✓ Auto has been one of the strong outperforming sectors in the current leg of the bull run
- ✓ Secular uptrend on the long term scale & the breakout from the channel pattern indicates the bullish momentum to continue for Hero Moto Corp
- ✓ The pattern is indicating an up move till 3580 with a firm base placed around 2550.

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DHFL

NBFC

CMP: 330

Target: 480

- ✓ On the weekly scale the stock breached from a rounding formation with a significant price up move
- ✓ The recent pullback & consolidation augurs well for the continuity of the bullish trend & provides a good opportunity to add longs for a pattern target upto 480
- ✓ The recent price development would be void incase the stock slips below 260

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United Spirites

FMCG

CMP	2574
Mkt. Cap.(Cr.)	37,474
52 Weeks High	2940
52 Weeks Low	2226

- United Spirits is the leading IMFL player, with 41% market share by volume (Exhibit 1 & 2) and 22 millionaire brands. It services 64,000 outlets across India and 98% of the on-and-off-premises network. It has manufacturing and bottling presence in all states, with 40 owned plants and 42 contract tie-ups.
- The company is currently cleaning up its balance sheet and offers an attractive entry opportunity for long term wealth creation.
- The company is best placed to gain from volume growth in the IMFL market (Exhibit 3) due to (1) strong demographics push, (2) high entry barriers, (3) wide product range and (4) a strong distribution network. We expect 6-7% volume growth in the next few years.
- Mix improvement post Diageo deal is likely to enable strong realization growth in an environment in which pricing power is constrained. Premiumization of portfolio will lead to higher margins. The business has robust long term potential whereby we foresee exponential rise in EBITDA margins over the next decade thereby unleashing the true potential of this FMCG giant.

Exhibit 1:

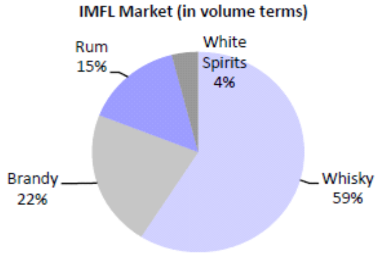

Exhibit 2:

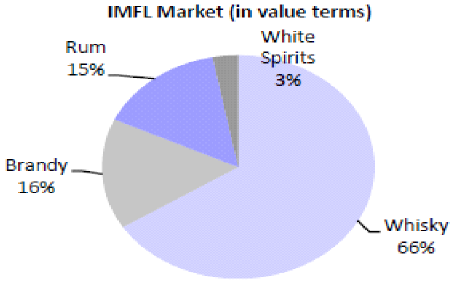

Exhibit 3:

INR m	2013	2014	2015E	2016E	2017E	CAGR
Spirits	994.7	1,110.3	1,227.2	1,345.8	1,463.7	12.5
Brandy and Cognac	164.2	185.8	207.8	229.7	250.5	13.7
Rum	115.1	125.0	134.6	144.4	154.8	9.7
Whiskies	666.9	745.1	824.2	904.6	984.7	13.3
Gin	6.9	6.8	6.7	6.7	6.6	3.3
Vodka	41.5	47.5	53.8	60.4	67.1	25.0

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