Top Picks Post Q4FY16 Results

Atul Auto Ltd. (ATULAUTO)
City Union Bank (CUB)

Kalpataru Transmission Power Ltd (KTPL)

GIC Housing Finance (GICHSG)
Tata Power Ltd. (TATAPOWER)

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Atul Auto Ltd. (ATULAUTO)

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CMP Rs. 502|P/E (FY17E) 19.4x | P/E (FY18E) 16.8x | Target Rs.540

Investment Rationale

- The management expects double digit volume growth for FY17E. During FY16 overall volumes of the company grew by 5.5% YoY (vs flat 3W industry growth) to 33893 units. Domestic volumes registered growth of 5.5% YoY (vs 1.03% growth of domestic 3w Industry). We believe Atul Auto is likely to benefit from increase in rural income and spending on the back of good monsoon expected in this year. The company has a strong presence in semi rural and rural market.
- EBITDA margins expanded in FY16 mainly due to operational efficiencies and lower input cost. The company recorded highest ever EBITDA margins (14%) in FY16 and expects 50-100 margin expansion in next two years due to benefit of operating leverage.
- Atul Auto has recently launched the alternative 3W variant (gasoline/petrol variant) in the domestic and export market, which has been well accepted by the consumers.
- The company is planning a Greenfield expansion to add a capacity of 60,000 units at Ahmedabad by FY18 at an estimated capex of Rs. 1500 mn which will be funded mostly by internal accrual.

Valuation

At CMP of Rs 502, Atul Auto is trading at PE multiple of 19.7x FY17E and 16.2x FY18E EPS, we maintain Buy on the stock with target price of Rs. 540(18xFY18e EPS).

Year	Net sales (Rs. Mn)	EBITDA (Rs. Mn)	Adj. PAT (Rs. Mn)	EPS(Rs.)	EBITDA Margin (%)	ROE (%)	P/E(x)
FY16A	5,310	743	455	21.6	14.0	29.4	23.2
FY17E	5,938	846	567	25.8	14.3	28.8	19.4
FY18E	6,789	984	657	30.0	14.5	26.7	16.8

Source: Company Filings; IndiaNivesh Research   Note: CMP as of 04/06/2016

City Union Bank (CUB)

CMP Rs.105 |P/ABV (FY17E) 2.1x | P/ABV (FY18E) 1.8x | Target Rs. 118

Investment Rationale

- **MSME financing continues to maintain growth momentum:** CUB with expertise in MSME financing and strong understanding of local markets (ie Tamil Nadu) has taken an advantage of growing MSME sector. CUB, as a business strategy, has focused on short term MSME advances which have led to consistent 20%+ yoy growth. In Q4FY16, bank has maintained MSME loan growth at 20% and overall loan growth of 17% yoy. Further the MSME book now constitutes 34.3% to total loan book as against 27% in FY12. We expect loan growth of 17% CAGR for FY16-18E as against management guidance of 15-18% for FY17.
- **NIMs to remain healthy:** Key positive about CUB which differentiates it from other regional banks is 1) short term loans ensures faster re-reprising and 2) 90% of loans are floating rate basis which minimize margin impact in case of change in interest rates. Further in 95% of accounts are such where CUB is the sole banker which helps in both 1) maintaining yield on loans and 2) less impact on asset quality. In Q4FY16, CUB's NIMs surprised positively as it has improved by 14 bps qoq to 4%.
- **Granularity in loan book, focus on working capital financing and lowest Corporate exposure bodes well on asset quality:** CUB has maintained its asset quality at Gross NPA of 2.4% and Net NPA of 1.5% in Q4FY16. CUB's loan book is granular where in large corporate book is having an average ticket size of ~Rs 39 mn and this book now constitute only 6.7% of loan book vs 16% in FY12. Even MSME ticket size is very low at Rs 3 mn and around 65% of book is short term financing which is upto 1 year and remaining 35% is 2-5 years. Further fresh slippages were also maintained on qoq at Rs 1.3 bn.

Valuations

CUB's strategy of consciously decelerating loan growth, moving away from large Corporate loans and focusing on core area of MSME financing has played well in recent slowdown. This is clearly visible in premium valuations of CUB compared to small and regional private banks. 1) Better understanding of cash flow of local businesses in southern markets (specially TN), 2) Nil 5/25 financing, 3) zero AQR slippages has been key positive for CUB. At CMP of Rs 105, CUB is trading at P/ABV of 2.1x and 1.8x for FY17E and FY18E respectively. We continue to maintain BUY on CUB with target price of Rs 118, valuing it at 2x FY18E ABV.

YE March (Rs mn)	NII	Net Profit	EPS (Rs)	BV (Rs)	ABV (Rs)	ROE (%)	ROA (%)	P/BV (x)	P/ABV (x)
FY15	8074	3950	6.6	45.2	41.3	16.7	1.5	2.3	2.5
FY16E	9810	4447	7.4	51.1	45.6	15.5	1.5	2.1	2.3
FY17E	10946	4997	8.4	56.6	50.9	15.5	1.5	1.9	2.1
FY18E	12796	6086	10.2	65.2	58.9	16.7	1.6	1.6	1.8

Source: IndiaNivesh Research

GIC Housing Finance (GICHSG)

CMP Rs.276 |P/ABV (FY17E) 1.9x | P/ABV (FY18E) 1.7x | Target Rs. 330

Investment Rationale

- **Loan book grew by 20% CAGR in FY13-16, likely to grow by 17% over FY16-18E:** Till FY12 GICHSG was comparatively slow in business growth as loan book grew modest 13% CAGR in FY05-12 with 31 branches. However the company has started to deliver high teen / largely inline industry growth at 17% yoy for both FY13 and FY14 which increased further to 24% yoy in FY15 (and 21% yoy in Q4FY16) and CAGR growth for last 1 decade increased to 16%. Growth rate has increased further to 20% in FY13-16 led by 15% growth in individual and 94% in non individual loan segment over the same period. Clearly, the company has optimized its branch network which is almost doubled since FY12. We believe GICHSG is likely to deliver 17% CAGR over FY15-18E led by 16% growth in retail segment and 22% growth in non individual segment over the same period.
- **NIMs to remain stable:** Based on past trend, it is clearly visible that GICHSG has started to take the benefit of growing LAP as non-individual loans now constitute 16.1% to loan book compared to 2.3% in FY12. As a result, despite decline in lending rates due to increase in competition, NIMs (Calc) for GICHSG was maintained at 3.8% in FY16 as against 3.9% average for last 5 years. However we are not building in any significant increase in non-individual loan segment as a % of loan book from current level. Hence we expect NIMs to stabilize at 3.4-3.5% for FY17E and FY18E.
- **Asset quality maintained:** GICHSG is not much different from other players on asset quality front as Gross NPA of GICHSG is at 1.6% and Net NPAs are nil in FY16 indicating 100% Provision coverage. Excess provisioning over the regulatory requirement is comforting factor.

Valuations

We had continuously highlighted housing finance space as top investment theme in financial space over Asset Financing and Infra Financing NBFCs as housing finance space remains unaffected both on growth as well as on asset quality front. We reiterate buy on GICHSG as 1) it exceeds our Q4FY16 expectation on all fronts, 2) above 16% loan growth consistently for last 14 quarters (above 20% loan growth consistently for last 7 quarters), 3) strong asset quality with nil Net NPAs, 4) Healthy earning visibility with ROE / ROA of 19% / 1.6% and 5) more importantly reasonable valuations of 1.7x for FY18E as against average of 3.2x for industry. We reiterate buy on GIC Housing with upwards revised target price of Rs 330, valuing it at 2x FY18E ABV.

YE March (Rs mn)	NII	Net Profit	EPS (Rs)	BV (Rs)	ABV (Rs)	ROE (%)	ROA (%)	P/BV (x)	P/ABV (x)
FY15	2220	1030	19.1	122.6	122.6	16.2	1.7	2.3	2.3
FY16E	2738	1245	23.1	135.8	135.8	17.9	1.7	2.0	2.0
FY17E	3174	1470	27.3	147.6	145.8	19.3	1.7	1.9	1.9
FY18E	3614	1659	30.8	169.2	166.5	19.4	1.6	1.6	1.7

Source: IndiaNivesh Research

Kalpataru Transmission Power Ltd (KTPL)

CMP Rs. 248|P/E (FY17E) 15x | P/E (FY18E) 12.5x | Target Rs.332

Investment Rationale

- KTPL reported Q4FY16 Revenue increase by 29% YoY to Rs. 13.81 bn (vs Rs 10.48 bn in Q4FY15). EBITDA margin expanded by 65 BPS YoY to 10.4% led by better margins order book. The management has guided 25% growth in revenue and 10.5% EBITDA margin for FY17. The company is making efforts to reduce operating cost to improve EBITDA margins.
- The management is expecting total order inflow of Rs 100 bn for KTPL standalone in FY17. The management expects PGCIL continue to award orders of Rs 200bn-250bn. In addition Rs100bn-120bn orders would be awarded by key active SEBs (including but not limited to Karnataka, Tamil Nadu, Uttar Pradesh, Bihar and Madhya Pradesh). With inflows of Rs 7.5bn in Railways the management eyes on both domestic and international railway orders .
- For JMC projects in FY17, we expect a revenue growth of 11%. Currently the company has Rs 62bn order backlog and expected healthy inflows of Rs 40bn in FY17. For Shree Shubham Logistics Ltd, the management plans to infuse Rs 0.7bn through a rights issue to bring operations back on track. There will be an exit from warehouses taken on lease (except in Rajasthan) to improve operational efficiency and cut costs. Operationally, the management is now re-visiting its entire model of trading & arbitrage and intends to focus on warehousing services which will provide better yields.

Valuation

We value the KTPL standalone business at 7x FY18e EV/EBITDA, JMC Projects at a 30% holding company discount to the ruling price, the BOOT/BOOM projects at 1x of equity invested, development projects at an equity-invested basis and Shree Shubham Logistics at 8x FY18e EV/EBITDA. At the CMP of Rs.248, the stock trades at 7.5x and 6.5x for FY17e and FY18e EV/EBITDA. We maintain BUY with SOTP based target price at Rs 332.

Year	Net Sales (Rs. mn)	EBITDA (Rs. Mn)	PAT (Rs. Mn)	EPS (Rs. Mn)	EBITDA Margin (%)	ROE (%)	PE(x)	EV/EBITDA (x)	P/BV (x)
FY 16	43,646	4,669	1,995	13.0	10.70	9.22	19.1	9.1	1.7
FY 17E	54,013	5,875	2,542	16.6	10.88	10.72	15.0	7.5	1.5
FY 18E	61,136	6,852	3,052	19.9	11.21	11.64	12.5	6.5	1.4

Source: Company Filings; IndiaNivesh Research Note: CMP as of 04/06/2016

Tata Power Ltd. (TATAPOWER)

CMP Rs. 73.85|B/V (FY17E) 1.3x | B/V (FY18E) 1.2x | Target Rs.104

Investment Rationale

- Tata power underperformed in past years because of the uncertainty related to the compensatory tariff of Mundra UMPP. However, finally APTEL has given its judgment which is favorable for Tata Power. Under this order, compensatory tariff has been permitted under the Force Majeure clause and made it clear that if the price of fuel has changed and/or the agreement becomes onerous due to a Force Majeure event then affected party can claim compensation.
- We believe resolution on the compensatory tariff issue of CGPL is the key trigger for the stock and add significant value (to add Rs.15 to Rs 18 in its book value of FY17e).
- Further the Strategic Engineering Division of Tata Power, which is in the design, development and production of defence systems catering to air defence, tank and gun ballistics, electronic warfare, radar, and night vision sensors, is ready to tap the next wave in defence and aerospace.
- Tata Power Adjusted Q4FY16 PAT (Consolidated) was above our expectation on the back of better than expected top line (revenue grew by 17% YoY due to strong power demand) and better operating margin.

Valuation

At CMP of Rs. 73.85 Tata Power is trading at 1.3x FY17E and 1.2xFY18E BV. We maintain BUY on the stock with target price of Rs. 104 (based on 1.7xFY17E).

Year	Net sales (Rs. Mn)	EBITDA (Rs. Mn)	Adj. PAT (Rs. Mn)	EPS(Rs.)	EBITDA Margin (%)	ROE (%)	P/BV(x)
FY16A	343,669	69405	8734	3.2	20.2	6.4	1.27
FY17E	376,353	81550	10773	4.0	21.7	8.9	1.31
FY18E	390,165	91863	15792	5.9	23.5	10.0	1.23

Source: Company Filings; IndiaNivesh Research   Note: CMP as of 04/06/2016

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