TIME TO BUY !

The recent correction in markets was triggered by a culmination of several near term setbacks like the sluggish capex cycle, impatience with slow policy evolution, the unnecessary worry over MAT, seemingly overvalued markets in view of the disappointing Q4 earnings, concerns of a weak monsoon, fears of a US Fed rate hike and an imminent Greek default.

However, given that monsoon worries are receding (11% above normal to date) and a fairly accommodative stance (benign rate hike guidance) has been adopted by the US Fed, we are constructive. We see a fiscal boost coming up with the attendant promise of lifting corporate and market sentiments, limited downsides from Grexit, softer inflation trajectory (lower interest rates) and a clear opportunity for long term investors to participate in India's much awaited macro recovery. Volatility concerns will, however, persist as global events unfold.

Preferred Large Caps

- **ASIAN PAINTS** : Market leader, evergreen bluechip rides housing uptick and soft crude.
- **COAL INDIA** : Volumes are finally rising, can provide good op-lev. Natural vehicle for govt to kickstart the core sector. Rerating imminent.
- **HCL TECH** : IMS booster to continue firing over FY16-17E, providing HCL Tech with a consistently higher-than-peer trajectory.
- **HPCL** : Best levered to diesel marketing margin resets. Balance sheet cured courtesy govt (and crude-led) elimination of diesel URs.
- **INFOSYS** : Dr Sikka's New and Renew will deliver a bang, even if only in FY17. The early believers should be hopping on now.
- **ITC** : Down but not out. Cigarettes are not dying out. Tax tyranny has peaked out. A bottom is in sight.
- **L&T** : Obvious large cap proxy for infra buildout, capex revival. Improving earnings visibility to boost stock soon.
- **MARUTI** : Another market leader with an exciting product pipe. Low fuel prices and interest rates will only help.
- **POWERGRID** : Most visible, stable capex plan across power utilities. Robust cash flows, attractive valuations. Any FPO crack, should be bought into.
- **RELIANCE INDS** : Huge core biz capex offers relief vs. uncertainty of telecom and upstream spends. The world's best refining assets are getting better.
- **SBI** : Broadest proxy for macro revival. Best in peerset metrics (esp on asset quality), strong deposit franchise and management continuity.
- **TCS** : Top class, consistent leadership likely to be maintained. Relatively high valuations and large base are challenges, but we think they will be overcome.
- **WIPRO** : Cheapest in frontline IT, given slower growth. Well placed on Healthcare and Energy, making it a good bargain.

Preferred Mid Caps

- **BERGER** : Gaining marketshare in paints, now slated to improve working capital and improve margins.
- **CHOLA FINANCE** : Solid pan India franchise in intelligently-positioned CV finance biz. Will ride lower rates and CV revival, aided by a stable LAP book.
- **CITY UNION BANK** : Sole banker model works for this little gem from TN. Revival on the cards.
- **FEDERAL BANK** : Well placed to capitalize on PSU weakness in core markets, growth revival holds oplev promise.
- **INOX WIND** : Newly listed wind-turbine player is growing aggressively (almost 5x in the trailing three years, ~2x in the next two years).
- **KEC** : Margins set to improve at this T&D tower builder working across continents. Order inflows to drive near term sentiment.
- **KNR CONSTRUCTIONS** : Best working capital manager in EPC, now set to ride fast expanding order book.

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- **MCX** : Regulatory tailwinds to fire India's best Comex. Strong oplev, capital light and staring at vast growth opp.
- **OBEROI REALTY** : Rampup and improving sales visibility in crucial Mumbai projects will drive this cash-rich developer-cum-rentco.
- **RALLIS** : Custom synthesis and seeds likely to takeoff soon at this highly profitable pesticide gem from the Tata stable.
- **SANGHVI MOVERS** : Pole position in crane rentals to ride wind turbine and capex buildout in India.
- **TATA COMM** : Transitioning from global fat pipe owner to enterprise managed services provider. Deleveraging too.
- **TECHNO ELECTRIC** : Well managed T&D EPC operations complemented by investment into wind and T&D assets.
- **UNION BANK** : Mid-size PSU bank, admittedly in asset quality pain and capital contrained. Cheap valuations and macro hope drive optimism.

Why are we constructive on markets ?

- **Fiscal booster visible, backed by headroom :** There is a visible spurt in Government spending, up 28% YoY in April, driven by higher spend on roads (Rs 58bn vs. a mere Rs 0.26bn) & railways (Rs 32bn vs Rs 24bn). We are of the view that Government will have sufficient room for spending led by excise hike on fuel (petrol and diesel), cut in excise sops given to automobiles and muted subsidies (lower oil prices) that may well boost earnings in H2FY16.
- **Grexit is a known devil :** We believe three scenarios are possible with regard to Greece : (1) Greece and Eurogroup come to an amicable solution and the pending tranche of EUR 7.2bn is disbursed (2) Greece and Eurogroup fail to reach any common ground. This will lead to default on the IMF payment but looking at the dire consequences, a deal may be struck at a later date. (3) Continuation of scenario 2 precipitating into Grexit. We suspect both parties will push each other to the brink and finally reach a deal before falling off the cliff.
- Thus, scenario 2 is the most likely outcome. Greece default/exit, if at all it happens, will not have a long lasting impact (indicated by the lack of a spike in bond yields of periphery Euro nations). Again, this is a 'well known' devil, so impact will likely be restricted (no contagion effect).
- **Inflation outlook is actually benign :** Meanwhile, if the monsoon continues with its current trend (11% above normal), then food inflation & CPI will probably remain below the RBI glide path (CPI target of 6.4% by Dec-15). Crude oil is also not expected to rise sharply given OPEC's explicitly benign stance on volumes beyond 30 mbpd.. Thus, a strong case for easing policy rates may well emerge in a few months' time. Backed by increasing capex spend by the Government, this can lead on to a stronger macro recovery (and hence, markets) towards the end of H2FY16.
- **Long term bull thesis intact :** This is probably the first serious correction in what is arguably a long term structural bull market. We strongly believe risk reward is now most favourable to the investor given the string of reforms in the pipe (GST, land acquisition bill, labour bill, sizeable spend on Power, Roads & Railways, among others), coupled with valuation of good quality stocks that have now become reasonable even if not very attractive post this 12% correction in the Nifty.
- **Volatility is an old enemy :** On the downside, any negative external event might lead to sharp volatility driven by FII outflows. Hence, our preference remains anchored to high quality, low leverage, liquid large-caps versus mid-caps or leveraged companies.

Preferred stocks : Large caps

ASIAN PAINTS

(CMP Rs 729, MCap Rs 699bn)

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- Asian Paints dominates the paints sector in India, with a market share of 54% and competitive pressures are not exactly daunting. When GDP growth surges above 7%, decorative volumes grow upwards of 2x GDP (normalized run rate ~1.7x). Urban housing construction and home improvement are set to revive which will bolster volumes.
- Furthermore, we are enthused by the company's expansion into home improvement (acquired 51% stake in Sleek for Rs 1.2bn) and bath fitting & accessories space (via acquisition of Ess Ess Bathroom for Rs 0.36bn). These acquisitions look small but hold multi-year potential for growth.
- Softening of global crude prices (~37% YoY) and TiO2 (~13% YoY) will benefit Asian Paints the most. Crude and TiO2 contribute ~40% to COGS (highest amongst FMCG companies).
- Asian Paints is a classic FMCG story. Core return ratios are upwards of 30%, cash flows are clean and asset turns high. We value the stock at 36x FY17E EPS of Rs 23.3 with a TP of Rs 840. Our BUY is based on (1) An anticipated improvement in consumer sentiment, (2) Revival in industrial growth (which will pull up industrial paints showing) and (3) Softening of global crude prices.
- Read Harsh's take on their latest results here : Asian Paints 4QFY15 Results Update

COAL INDIA

(CMP Rs 395, MCap Rs 2,492bn)

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- 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: 11.8% in production and 7.4% 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 14.0x FY17 P/E and 8.4x FY17 EV/EBITDA. Strong earnings trajectory and government focus on the power generation sector will help sustain premium valuations. Here is Ankur's latest note on the co : Coal India 4QFY15 Results Update

HCL TECHNOLOGIES

(CMP Rs 914, MCap Rs 1,285bn)

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- HCL Technologies (HCLT) is India's fourth-largest software company, with US$ 5.9bn FY15E revenue (June-ending fiscal year). The IT major has grown USD revenue at a 13% CAGR over the period FY12-FY15E (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 FY15E). This segment has clocked a strong 27% USD revenue CAGR over FY12-FY15E (30% CAGR over FY11-FY14), well above company average.
- We expect HCLT to clock a 13% 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$ 59,726 in FY15E vs US$ 51,465 in FY12).
- We forecast a healthy 15% EPS CAGR over FY15-FY17E (Rs49.7/Rs55.6/ Rs65.8 EPS in FY15E/FY16E/FY17E, respectively) and RoE of 29% in FY17E. HCLT currently trades at a PE of 13.9x 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 (11% USD revenue CAGR vs 7% over FY12-FY15E), current valuation is

reasonable in context of the solid earnings growth profile and healthy RoE (around 30%).

- We value HCLT at 16x FY17E EPS, implying a target price of Rs 1,053. We like HCLT given better-than-peers growth, higher RoE and more reasonable valuations

HPCL

(CMP Rs 715, MCap Rs 242bn)

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- HPCL is a PSU oil refiner and marketer. Having the highest marketing to refining ratio of 2x (31 vs. 15.5 mnT) amongst peers makes HPCL the biggest beneficiary of any diesel marketing margin expansion. The marketing segment contributes ~85% to HPCL's EBITDA, of which diesel accounts for ~52% of marketing volumes. Our view is that future earnings will be driven by expansion in diesel marketing margins which were kept low at Rs 1.4/litre for the last 6 years (vs Rs 2-2.2/litre for petrol currently).
- FY15 witnessed a series of positive developments. The free fall in crude prices and diesel decontrol have led to fall in India's total oil under-recovery from Rs 1.4tn in FY14 to Rs 0.7tn in FY15. As a result, HPCL's total debt and interest cost came down by ~50%.
- Our SOTP for HPCL is Rs 850 (~5.2x FY17E EV/EBITDA for standalone biz and Rs 166/sh from investment). Robust results, improving return ratios and dividend yield of ~3.5% will lead to further re-rating.
- Read Satish's detailed 4Q take on HPCL here : HPCL 4QFY15 Results update. And his earlier report on downstream oil here : Oil - Downstream : Beyond the GRM pop

INFOSYS

(CMP Rs 1,002, MCap Rs 2,301bn)

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- Infosys' 4QFY15 revenue was disappointing, down 2.7% QoQ in USD terms and down 0.4% QoQ in constant currency terms. Owing to unfavourable cross-currency swings, we expect Infosys to post a slow 6.6% USD revenue growth in FY16. This should swing up to 12.6% 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 5 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 200bps in FY15. We expect margins to remain within a 50bps band through to FY17.
- Earnings are slated to grow in single digits in FY16 (8%), followed by improved growth of 15% in FY17 (Rs53.9/Rs58.1/Rs67.1 EPS in FY15/FY16E/FY17E, respectively). Thus, while we expect FY16E to be a subdued year for growth given the poor 4QFY15 exit rate, 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 14.9x FY17E EPS, which we believe is reasonable considering its historical forward PE of 17x. We value Infosys at its historical PE and thus have a target price of Rs1,140 on the stock.

ITC

(CMP Rs 302, MCap Rs 2,420bn)

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- ITC Ltd is the leading cigarette manufacturer in India. It also has a presence in the following business segments : Hotels, paperboard and specialty paper, packaging, agri-business, packaged foods and confectionery, information technology, branded apparel, personal care, stationery, safety matches, and other FMCG products. The company is 33% owned by BAT Industries.
- In India, cigarettes account for less than 12% of tobacco consumed unlike world pattern of 85% due to prolonged punitive taxation. Only 10% of adult Indian males smoke cigarettes as compared to 16% who smoke bidis and 33% who use smokeless tobacco. Annual per capita adult cigarette consumption is approx 1/9 the global average. Although India accounts for 17% of world population, its share of world cigarette consumption is just 1.8%. This gives significant headroom for growth for the cigarette business. ITC has approx 80% mktshare.
- Post the ban on sale of loose cigarettes in Maharashtra, ITC's stock price has corrected ~15% in the last 15 days. There is a concern among investors that pan-India ban on sale of loose cigarettes is imminent. Furthermore, central Health Ministry has accepted suggestions of ban on sale of loose cigarettes (~70% of cigarettes sold in India). The draft note has been sent to Cabinet for approval.

- We concede that a pan-India ban on loose cigarette will hurt volumes in the first year of implementation. Retailers overcharge (over and above the printed retail price on the pack) consumers. Hence, the actual price for consumers could increase and consumption may be impacted In FY16E. With cigarettes being retailed in 6-7mn outlets, we think implementation may be difficult or, worse, messy. We think ITC may resort to smaller packs/sachets to counter the loose sale ban. However, it needs to be seen if the government imposes pack size constraints as well.
- Post three consecutive years of volume decline, we believe volume growth may well return in cigarettes from FY17E which may drive EBIT growth higher than aspired by us.
- However, current stock price presents compelling opportunity to accumulate ITC. Our bear case scenario assumes an elevated volume decline in FY16E (~15%), volume decline for third consecutive year. We reduce our EBIT growth assumption for cigarettes to 3% in FY16E (vs management guidance of low teens, see attached note). We reduce our multiple for each of the businesses. Notably we reduce target multiple for cigarettes to 20x FY17E EPS and FMCG to 2.5x FY17E sales. We believe downside risk from current level is restricted as our distressed SOTP based TP comes to Rs 321.
- Here is Harsh's latest take on ITC : [ITC 4QFY15 Results Update] & [ITC Company Update].

LARSEN & TOUBRO

(CMP 1,717, MCap Rs 1,597bn)

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- 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 353/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.
- Abhinav's 4Q update on L&T : [Larsen & Toubro 4QFY15 Results Update]

MARUTI SUZUKI

(CMP Rs 3,861, MCap Rs 1,166bn)

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- 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). Further, MSIL is planning to launch its new small diesel engine, which would underpin its upcoming LCV model in addition to a new diesel variant of Celerio.
- Over FY13-15, Maruti has admirably fought back sluggish macros, weak demand (domestic vols grew under 2.5% CAGR) and grown EBITDA margins by ~350 bps owing to scale and integration efficiencies. Consumers gyrated towards fuel-efficient, economically priced cars (Maruti's forte) in the face of higher fuel prices and lower personal income growth.
- As India's macros regain momentum under the new government, we expect discretionary demand in urban areas to improve, directly driving Maruti's prospects. 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.
- With the success of the Ciaz model, MSIL has allayed concerns regarding the company's weak franchise in higher price segments. The company is setting up a separate dealership channel (Nexa) though which it would sell premium segment models. We firmly believe that MSIL will ride on the premiumisation trend seen in the PV segment.

- 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 on QoQ basis at a time when several peers in the industry are yet operating at low utilisation levels.
- MSIL's rural sales share increased to 35% of domestic vols in FY15. While rural slowdown poses a near term headwind, MSIL has significant scope for deepening its reach, which currently stands at 125k villages. Margins are at a multi-year high, and can actually improve if commodity prices and the yen stay weak. Maruti's scale gives it cost advantages that are almost impossible to replicate by competition. The royalty payouts to its parent and the lack of clarity over the Gujarat plant are possibly the only dampeners in the story.
- With a strong new model launch pipeline and multiple margin levers, we expect MSIL's earnings to rise by 41% CAGR over FY15-17E. We believe that MSIL should trade at higher than historical valuations supported by strong earnings momentum, improving return ratios and higher dividend payouts. Our target price of Rs 4,267 is based on P/E of 17.5x on FY17E EPS.
- Read Navin's latest take on Maruti here : Maruti 4QFY15 Results Update

POWERGRID CORP

(CMP: 142, MCap: Rs 743bn)

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- Powergrid is India's central transmission utility (CTU), responsible for inter state and inter regional power transmission infrastructure. The company works under regulate 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. Thrust on renewable energy will open new capex avenues for the company. 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 11.5x 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.
- Read Abhinav's update on Powergrid here : Powergrid Corporation 4QFY15 Results Update

RELIANCE INDUSTRIES

(CMP Rs 979, MCap Rs 3,168bn)

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- There are near term as well as long term drivers in-place for RIL. We are constructive primarily driven by productive capex in the core business. Refining and petchem margins will be strong in the near term led by better product spreads.
- Further, we a see quantum jump in EBITDA (to Rs 464bn in FY17E, ~50% higher than FY14) led by the USD 13bn capex in the core refining/petchem business. Impact of imported ethane for the petchem feed will be visible from FY18.
- Retail business has achieved critical mass and is PAT positive. This business is likely to deliver ~30% EBITDA CAGR over the next two to three years.
- Our SOTP target for RIL is Rs 1,050. The stock is currently trading at 1.2x BV, 10.3x EPS and 7.0x standalone EBITDA on FY17E.
- Key risk : RIL is investing ~ USD 14bn for its pan India 4G/FTH telecom foray. We think it is difficult to ascertain returns on this investment. Recent management commentary in the AGM has been optimistic.
- Read Satish's take on RIL here : RIL 4QFY15 Results update

STATE BANK OF INDIA

(CMP 258, MCap Rs 1,927bn)

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- State Bank of India (SBIN) remains our preferred bet amongst PSBs. There are four key reasons for this.
- There is low dilution risk in the near to medium term [Tier I at 9.6%]
- Despite high restructuring seen in 4Q, net impaired assets remain low at 6.4%, with one of the highest PCRs in the industry. NNPA/Networth remains lowest at ~21%
- A strong presence across sectors makes SBIN the best cyclical play for the anticipated economic revival.
- Stabilising asset quality, management continuity & superior deposit franchise are additional positives.
- Maintain BUY with SOTP of Rs 350 (1.7x FY17E core ABV + Rs 66 subs value).

SBI 4QFY15 Results Update

TCS

(CMP Rs 2,530, MCap Rs 4,956bn)

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- TCS' 4QFY15 revenue was a disappointment, down 0.8% QoQ in USD terms (though up 1.6% QoQ in constant currency terms). Owing to unfavourable cross-currency swings, we expect TCS to post slower revenue growth in FY16 vs FY15 (11.3% vs 15%); however, we expect FY17 USD revenue to improve to 13% YoY (US$19,440mn).
- TCS' EBIT margins adjusted for one-offs rose 21bps QoQ in 4QFY15. We expect EBIT margin to range between 27%-28% (26.9% in FY15) aided by operational efficiency.
- We expect adjusted earnings to achieve a healthy 15% CAGR over FY15-FY17E (Rs110.8/Rs128/Rs145.8 adjusted EPS in FY15/FY16E/FY17E, respectively), led by operating leverage and improving profitability. We like TCS' strong industry positioning, better-than-peers growth despite being the largest IT firm, and its leading position in the digital/SMAC space vs peers, apart from healthy RoE of 35%.
- TCS' stock is currently trading at 17.4x FY17E EPS (historical average forward PE of 19x). We value TCS at 19x FY17E EPS and thus have a target price of Rs 2,770.

WIPRO

(CMP Rs 556, MCap Rs 1,373bn)

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- Wipro's 4QFY15 revenue was disappointing, down 1.2% QoQ in USD terms (up 1.2% QoQ in constant currency terms). Owing to unfavourable cross-currency swings and a poor 4QFY15 exit rate, we expect Wipro to post a slow 6.8% USD revenue growth in FY16, with an upswing to 11.8% in FY17E.
- We expect the recent increase in energy prices to lead to improved capex in the energy vertical and opportunities also for operational efficiency should drive a revenue growth improvement in FY17E.
- While vendor consolidation process currently underway at oil majors could be a risk for Wipro, it could also lead to growth opportunities, given the IT major's strong competencies in this vertical, leading to a good chance of winning out against peers.
- We also expect the healthcare vertical to drive revenue for Wipro, which grew this vertical at 18% in USD terms in FY15, with growth opportunities coming from cost reduction initiatives by pharma companies due to patent cliffs, apart from Obamacare and networking services in hospitals, required to connect a variety of medical devices.
- We expect earnings to grow at a decent 13% CAGR over FY15-FY17E (Rs35.1/Rs40.2/Rs45.2 EPS in FY15/FY16E/FY17E, respectively). We believe current valuation, at 12.3x FY17E EPS is very reasonable in context of the good earnings growth and healthy RoE of 23% earned by Wipro.
- We value Wipro at 14.5x FY17E EPS, at around 10% discount to our multiple for HCLT owing to superior growth and higher RoE commanded by the latter. Thus, we have a target price of Rs655 for Wipro.

Preferred mid caps

BERGER PAINTS

(CMP Rs 184, MCap Rs 128bn)

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- Despite the near term pressure, we remain confident of a 16% volume growth in FY17E given the imminent revival in urban demand and industrial growth.
- Berger continues to gain share in a rather tough macro environment (market share in domestic decorative paint business surged from 15% to 20% in the past five years).
- Increasing distribution reach, higher ad spends to enhance awareness of its premium emulsions and capacity expansion to aid growth.
- Softening of global crude prices (~37% YoY) and TiO2 (~13% YoY) can provide a significant margin boost.
- Berger's plan to reduce inventory days (by ~5 days/yr) and expand margins reaffirms our confidence.
- We value the company at 32x FY17E EPS, which is a 10% discount to Asian Paints. Recommend BUY with a TP of Rs 225.

Berger Paints 4QFY15 Results Update

CHOLAMANDALAM FINANCE

(CMP Rs 607, MCap Rs 87bn)

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- Cholamandalam Finance (CIFC) has assiduously worked at (and actually improved) key business parameters in the face of deteriorating macros. CIFC deserves a durable valuation premium given (1) Its diverse, medium-risk CV book (2) The imminent prospect of scale efficiencies kicking in (3) Revival of the CV cycle driven by falling interest rates, cheaper fuel and gradual improving macros.
- However, moving towards 90DPD recognition will push up headline NPAs even as the gradual macro healing and increasing proportion of Home equity business leads on to a stable business mix.
- We expect CIFC to post earnings CAGR of 23% over FY15-17E led by higher AUM growth (17% vs 24% over FY12-15), better efficiency (C-AA down 20bps), despite factoring higher provisions (~1.33%). Stock trades at 2.55x FY17E ABV. We don't have a rating on the stock.

CITY UNION BANK

(CMP Rs 103, MCap Rs 61bn)

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- We like CUB for its sole-banker-high-yield business model where growth is business-led rather than consumption-driven. CUB differentiates itself from other regional banks by (1) holding onto its superior NIM (2) low proportion of impaired assets and (3) consistently delivering higher RoA. Going ahead, we see three issues which impacted CUB i.e. growth, NPLs and cost, getting resolved. Tailwinds of improving macros will take care of growth and NPLs. Also, with ~60% of Iron & Steel exposure already impaired, the risk of further NPLs from the industry recedes. And leveraging on the recently added branches coupled with lower branch additions will keep costs under check.
- Stock trades at ~2x FY17E ABV. We don't have rating on the stock.

FEDERAL BANK

(CMP Rs 141, MCap Rs 120bn)

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- We believe the bank is on a strong footing to gain market share in Southern India on the back of its strong brand image and a well-capitalised, cushioned balance sheet. The capital structure and asset quality strain in some PSBs may well work to FB's advantage. Though a lumpy watchlist of Rs ~4bn exists within the corporate book, we believe FB's quality-growth trade-off, increased granularity, high PCR and low restructured pool shall keep headline asset quality benign. Further, despite conservatively factoring in high non-tax provision cost of 38bps FY16-17E vs. 23bps in FY15, ROA continues to inch up (1.3% by FY17E). FB trades at 1.25x FY17E ABV. Maintain BUY.

Federal Bank Annual Report Analysis

INOX WIND

(CMP Rs 420, MCap Rs 93.16bn)

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- Inox Wind is one of the most promising players in the Indian wind energy market today. IWL specializes in the manufacturing and supply of wind turbine generators (WTGs) as well as providing end-to-end turnkey solutions. It has grown exponentially over the past three years from 120 MW in FY12 to 578 MW in FY15. Current capacity stands at 800 MW, which it plans to double to 1,600 MW by the end of FY16 with construction of its new facility at Madhya Pradesh. This will help the company in executing its order book of 1,178 MW.
- Inox has a perpetual exclusive license from AMSC to manufacture 2 MW WTGs using its proprietary technology. Under the license agreement, IWL is required to purchase all Electron Control Systems (ECS) from AMSC. Though AMSC has been facing financial stress in the recent years (thus questioning its existence), the license agreement entitles IWL with the right to the source code for the ECS which ensures continuity in supply using the existing technology. Further, the management has indicated that in case of a default/closure at AMSC, IWL is in a position to easily license/buy technology from another provider.
- NWC currently stands steep at ~35% of sales. However, management has guided to bring this down to 25% by FY16 end as it expects to negotiate more favourable terms with its customers going ahead given that its orders for the next 15 months has already been booked.
- Given the sharp revival anticipated in the Indian renewable market, we anticipate a volume sale of 950 MW in FY16 and 1,250 MW in FY17. Further, we expect the company to improve margins to ~16% and subsequently yield a ~50% CAGR in earnings over FY15-17E. We believe Inox Wind is trading attractively at 15x FY17 earnings and 10x FY17 EV/EBITDA given its marginal leverage (FY15 Net D/E: 0.1) , low breakeven of 100 MW, strong turnkey execution capabilities and the anticipated pick-up in the Indian wind market.

KEC INTERNATIONAL

(CMP Rs 130, MCap Rs 34bn)

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- The company continues to focus on reducing legacy low margin projects which should lead to revival in EBITDA margins to 7.5-8.0% in FY16 and 9%+ in FY17. For context, FY15 was 6%. Out of the total order book of Rs 95bn, Rs 1bn is legacy projects. These projects are mainly in the railway and irrigation domains where the company has faced execution issues.
- Business environment in India is improving for the company. 48% of order book is from India, which is divided equally between Powergrid and SEBs. Some SEBs like TN, WB and Karnataka have initiated strong capex pipeline.
- Competitive intensity has come down gradually as many players have either gone out of the business or have rationalized their bidding. KEC on its part has improved its bidding processes and has increased the minimum order size for bidding which will lead to reduced overheads.
- Working capital cycle is key focus of the company. In FY15 also the company generated negative operating cash flow (number not shared, FY14 was Rs -2,7bn).
- Cable business is working at near full capacity utilisation but still is barely managing to break even. FY15 revenue was Rs 9bn (10% of total). SAE towers have faced issues in Mexico where pricing has fallen but Brazil business remains strong.
- Current debt on books is Rs 20bn (D:E of 1.5). Most of it is working capital debt and will go up

as revenue goes up. Management has guided for 10-15% revenue growth in FY16, despite fall in order book in FY15 to Rs 95bn from Rs 102bn in FY14.

- We have a positive view on the stock as it is available at reasonable valuations in a fast growing segment of power sector. At CMP the stock trades at 13x FY17E EPS of Rs 10.4/sh. FY15 EPS was Rs 3.0 and the increase is coming primarily from normalisation of OPM over the next two years.

KNR CONSTRUCTIONS

(CMP Rs 536, MCap Rs 15bn)

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- 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 with a cumulative pipeline of ~Rs3tn. During 1QFY16E, KNRC has announced three orders totaling Rs 23.3bn (resulting in order book multiplying 2.8x FY15 to Rs 36.4bn). We expect new orders of Rs17bn for rest of 9MFY16E.
- 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. Full completion is expected during Sep-15E COD timeline. In 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). Our EPS/target price on KNRC is 9.1%/29% ahead of Bloomberg consensus. With this robust performance we expect consensus to follow suit. At CMP, KNRC trades at 13.5x FY17E EPS

KNR Constructions 4QFY15 Results Update

MULTI COMMODITY EXCHANGE OF INDIA

(CMP Rs 1,046, MCap Rs 53bn)

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- Since the announcement of the SEBI-FMC merger in FY16 Union budget, the regulator is following a consultative process to iron-out key operational, and compliance issues. We expect conducive regulations in the next 9-12 months, enabling MCX to (1) launch new products; options, indices, weather derivatives etc (2) allow participation by financial/foreign investors (as SEBI permits the same) (3) result in migration of volumes from illegal platforms to the exchange, due to an empowered regulator.
- We have outlined the regulatory positives in this note. Meanwhile, MCX's operational performance too has improved as management is demonstrating renewed business focus. At CMP of Rs 1010, MCX trades at 33x normalized and annualised Q4FY15 EV/EBITDA (and a similar PE multiple), at an average daily traded value of Rs 220bn.
- We believe that the current price point offers a good opportunity for patient investors as we value the company at 26x FY17 PE; at a 30% premium to global peers in keeping with rapid growth as we assume ADTV to improve to Rs 503bn driven by the positives listed above.

MCX 4QFY15 Results Update

OBEROI REALTY

(CMP Rs 301, MCap Rs 99bn)

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- Oberoi Realty (ORL) is the 2nd most valuable/listed developer in India. Strong brand recall, robust execution, healthy balance sheet & good corporate governance makes ORL an attractive medium term bet on real estate recovery. ORL's land bank is well diversified with ~14 mn sqft of residential area (saleable) under development, leased asset portfolio of ~ 2 mn sqft & Hospitality business of ~ 0.6mn sqft.
- Over FY13-15, ORL net profit has de-grown 21%, largely attributable to slowdown in luxury apartment offtake and delay in ORL's new launches. With 2HFY15 pick up in sales in Oberoi Exquisite (completed project, 2.6x growth vs FY14) we build in earnings recovery. Pre-sales momentum has also picked up with the Mulund launch (during Jan-15), contributing ~57% to the FY15 pre-sales value of Rs 17.6bn. Completed office asset Commerz II also saw first set of leases signed in, with further recovery expected during FY16E.

- We remain positive on ORL's prospects and pencil in a FY15-17E, 96% earnings CAGR vs 21% de-growth over FY13-15. This shall be backed by (i) strong pre-sales during FY15, FY16E (ii) first time revenue recognition in Oberoi Worli & Oberoi Exquire projects & (iii) launch of Borivali project (~3.5mn sqft saleable area).
- Outlook & Valuation : We have adopted DCF methodology to arrive at ORL's NAV/share. We value the residential real estate business at Rs210/share, hotels at Rs21/share, commercial annuity assets at Rs115/share, social infrastructure at Rs10/share, other assets at Rs5/share and net debt (Rs6) to arrive at total SOTP valuation of Rs355/share for the Company. At CMP, ORL trades at 8.1x FY17E EPS.

RALLIS INDIA

(CMP Rs 226, MCap Rs 44bn)

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- Rallis India is a direct beneficiary of Indian agriculture growth. Lower penetration of agrochemicals in India and its cost advantage underpin long term growth. A strong brand, complete portfolio and extensive distribution network command a premium for Rallis.
- Pickup in CSM is a key trigger : We expect CSM business to gain traction from FY17 onwards (2) Seeds (Metahelix) revenues have almost tripled in the last three years. However, margins remained under pressure as the company focused on gaining market share. However, with ~Rs 4bn revenues in FY16, we feel that company has achieved critical mass and benefits will be visible on bottom line (3) Healthy OCF with a capex of Rs 1bn/yr will lead to an FCF of ~Rs 1.3bn/yr over FY15-17E. RoE/RoCE expected to improve to 26/24% by FY17E from 23/20% in FY14.
- Rallis India is trading at 17.2/4.0x FY17E EPS/BV. Attractive valuation, zero debt, strong RoE/RoCE and new product launches are key positives for the stock. Our TP for the stock is Rs 265/sh.

Rallis India 4QFY15 Results update

SANGHVI MOVERS

(CMP Rs 336, MCap Rs 15bn)

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- Sanghvi Movers Ltd. (SML) is the largest crane rental company in India, having a fleet size of 383 medium to large sized heavy duty – hydraulic, telescopic and crawler cranes with capacities ranging from 20 MT to 750 MT. Over the past 3 years, SML's performance had been impacted by a prolonged slowdown in economic activity, driven by slowdown in wind power sector, which contributes ~58% of the total revenues to the company. However, the worst is over and we expect SML to post at turnaround over the next couple of years. Higher demand, primarily from wind-power generation on account of government policy changes will drive growth.
- We believe the re-introduction of the accelerated depreciation method, coupled with other initiatives like Generation Based Incentives (GBI) and tax holidays in the wind power space would act as the primary growth driver for SML. At present the total installed capacity of wind power in India is ~22,000 MW and government expects this to be 60,000 MW by 2022, implying ~4,500 MW of wind power capex every year as compared to the present ~2,000 MW/year. As SML commands a market share of 75%, we believe it can double its revenues from wind power sector from the present ~Rs 1.5 bn to ~Rs 3 bn over the next couple of years. Consequently, we expect the share of revenues from wind power to increase to ~60%.
- With capex cycle improving and revival in the wind power sector, we expect utilisation rates and average yields (on gross block) to bounce back to FY12 peak levels of ~85% and ~3.2% respectively over the next couple of years. On conservative basis, we expect the utilisation rates and average yields to reach ~82% and ~2.9% by FY17E.
- The balance sheet health has improved significantly in FY15 as Net Debt has come down from Rs 4463 mn in FY14 to Rs 3069 mn in FY15 and D/E ratio stands at 0.47x. The working capital cycle has also improved from over 200 days in FY14 to 128 days in FY15.
- Going ahead, SML is planning a capex of ~Rs 3.5 bn over FY16-17E to add new cranes to its fleet (higher yield cranes) specifically catering to wind operators. As company's finances are well supported by healthy operating cash flows, we don't expect a substantial net increase in debt. We expect SML to report cash flow from operations of ~Rs 1763 mn & ~Rs 2158 mn in FY16E & FY17E.
- We believe that SML is a good proxy play on the expected growth in wind power space. With visible signs of revival in the wind power space, increased utilisation levels and improving yields,

we expect SML to register healthy revenue CAGR of 26%, led by ~800 bps EBITDA margin expansion to ~64.5% over FY14-17E. With the balance sheet showing signs of improvement, we expect the return ratios viz. ROE & ROCE should also improve from current subdued levels of -2.2% & 1.2% to ~14% & ~11% respectively in FY17E.

Sanghvi Movers Visit Note

TATA COMMUNICATIONS

(CMP Rs 432, MCap Rs 123bn)

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- Tata Communications possess a fifth of global submarine cable player and is the largest wholesale bandwidth owner globally. The company is making a transition from selling 'fat data pipes,' to a stickier managed service provider. It is focused on balance sheet deleveraging and is selling its loss-making South African subsidiary, Neotel to Vodacom for ZAR 7bn. TCom recently received regulatory approvals for this sale and the deal is likely to fructify by end-2015. This deal will clean up the company's P&L and balance sheet, with TCom's net debt declining from US$1.7bn to ~US$1.3bn.
- At CMP of INR435, TCom trades at trading at 8.4/7.1x/6.3x FY15/16/17E EV/EBITDA (assuming Neotel's sale at ZAR 7bn) against global average of 9-10x 1-year forward EV/EBITDA. We expect the company's EBITDA (ex-Neotel) to grow at 15% CAGR from FY15-17 as operations remain free cash flow positive on a sustained basis. We value the company at 8x FY17E EV/EBITDA arriving at a target price of Rs 515/share.

TECHNO ELECTRIC

(CMP: 460, MCAP: Rs 26bn)

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- Techno Electric and Engineering Company (TEEC) is amongst India's premier T&D substation EPC companies with a substantial wind energy portfolio (162MW) and investments in transmission assets. Selective bidding, tight control on execution and an asset light model have enabled the company to earn industry leading ROICs (standalone EPC) over the past five years.
- The company has put its wind assets on the block which will improve consolidated returns and yield cash to invest in related businesses like transmission assets. TEEC presently has two transmission projects, Jhajjar (commissioned) and Patran (to be commissioned in May-16). The company consciously bids for projects that have a larger portion of substation EPC work, thus enabling it to capture EPC value as well.
- EPC business primarily caters to power T&D substations, besides also taking opportunistic business in power BOP and industrial distribution solutions. This remains TEEC's core competency that enjoys minimal capital, tight working capital cycle and consequently impressive ROICs. High book to bill (3x in FY15) will lead to 24/34% revenue/EBITDA CAGR over FY14-17. And with power T&D capex in India expected to remain strong, as suggested by capex plans of SEBs and PGCIL, we expect order inflow momentum to continue.
- We believe TEEC provides a high quality play on India's T&D infra build out. We arrive at an SOTP based fair value of Rs 539/sh based on sum of 10x FY17E EV/EBITDA for EPC, Rs 55mn EV/MW for wind assets and NPV of Rs 29/sh for transmission assets.

Techno Electric Visit Note

UNION BANK OF INDIA

(CMP Rs 143, MCap Rs 91bn)

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- Being capital constrained (Tier-I at 7.5%), UNBK continued its emphasis on lower RWA growth. Moderate growth guidance (10-12%) in-line with RoE shall keep capital requirements under check. Management continuity will ensure focus on capital conservation. We are further impressed by low restructured pool (ex-SEBs at a mere 3%) which reduces the risk of slippages. Improving granularity via shedding high cost deposits and incremental growth in non-corporate segments add to our comfort. Valuation of 0.64x FY17E (well below 1 std. deviation) adequately captures the potential risk to our already conservative estimates. Maintain BUY.

Union Bank of India - Annual Report Analysis

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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