Model Portfolio update

July 6, 2018

ICICI Securities Ltd.

Latest Model Portfolio

Large cap

Name of the company	Weightage(%)
Auto	14.0
Maruti Suzuki	6.0
Eicher Motors	4.0
Mahindra & Mahindra (M&M)	4.0
BFSI	37.0
HDFC Bank	10.0
Axis Bank	6.0
HDFC Limited	9.0
Bajaj Finance	6.0
State Bank of India	6.0
Capital Goods	6.0
Larsen & Toubro	6.0
Cement	4.0
UltraTech Cement	4.0
FMCG/Consumer	19.0
Dabur India	5.0
Marico	4.0
ITC	6.0
Nestle India	4.0
IT	6.0
Tata Consultancy Services	6.0
Metals	6.0
Hindustan Zinc	6.0
Oil and Gas	5.0
GAIL Ltd.	5.0
Pharma	3.0
Sun Pharmaceutical Industries	**3.0**
Total	100.0

- **Exclusion** –Tata Motors DVR
- **Inclusion** – Sun Pharmaceutical Industries

Midcap

Name of the company	Weightage(%)
Auto	12.0
Bharat Forge	6.0
Exide Industries	**6.0**
BFSI	14.0
Bajaj Finserv	8.0
Indian Bank	6.0
Capital Goods	12.0
AIA Engineering	**6.0**
Kalpataru Power transmission	6.0
Cement	6.0
Ramco Cement	6.0
Consumer	24.0
Kansai Nerolac	6.0
Pidilite Industries	6.0
Tata Chemicals	6.0
Bata India	6.0
Metals	6.0
Graphite India	6.0
IT	6.0
Firstsource Solutions	**6.0**
Logistics	6.0
Container Corporation of India	6.0
Pharma	8.0
Syngene International	**8.0**
Textile	6.0
Arvind	6.0
Total	100.0

- **Exclusion** – Jammu & Kashmir Bank, Bharat Electronics. Symphony, NBCC
- **Inclusion** – Exide Industries, AIA Engineering, Firstsource Solutions, Syngene International

Source: ICICI Direct Research

**Diversified portfolio* - *Combination of Large Cap and Mid Cap portfolios in 70:30 ratio.*

Outperformance continues across all portfolios…

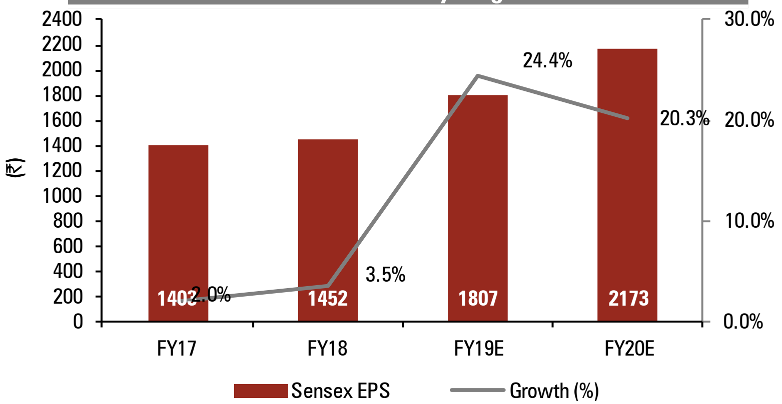
- Our preference remains for companies with sound business fundamentals. This forms the core theme of our portfolio. Our indicative large cap equity model portfolio has continued to deliver an impressive total return (inclusive of dividends) of 135.2% since its inception (June 21, 2011) vis-à-vis the index return of 104.4% during the same period, an outperformance of 31%. Our midcap portfolio has returned 2.1x benchmark's return since inception. The total returns of our indicative mid cap portfolio is 283.4% vs. benchmark return of 137.0%
- Our consistent outperformance is reflective of our stringent process of identifying quality businesses with good franchisee offering superior risk-reward opportunities. Some key performers of our portfolio are Bajaj Finance, TCS and Nestlé India in the large cap portfolio while Bajaj Finserv and Pidilite Industries have delivered good returns in the midcap portfolio. Given the recent volatility, we continue to advocate the SIP mode of investment as the preferred mode of deployment. We highlight that the SIP return of our portfolio has consistently outperformed indices. This affirms our belief in the staggered and systematic approach of investment amid market volatility
- Sensex companies have largely maintained their positive momentum with topline growth of 15.7% YoY and double digit bottomline growth in Q4FY18. On a full year basis, in FY18, sales increased 10.9% YoY resulting in bottomline growth of 10% YoY. On the sectoral front, in Q4FY18, overall auto volumes increased 23.9% YoY mainly due to low base & strong growth momentum across segments. In the FMCG space, double digit volume growth is encouraging. This, coupled with ~15% volume growth in the cement space, depicts robust demand prospects domestically. In the capital goods space, robust execution led to healthy double digit growth in sales amid robust build-up of order book
- **The recent volatility is providing attractive valuations on an overall basis especially the pharma sector. We introduce fresh allocation in both our indicative large cap and midcap portfolios. The new addition in our large cap portfolio is Sun Pharmaceutical Industries. In our midcap portfolio, we have added Syngene International, apart from Exide Industries, Firstsource Solutions and AIA Engineering. Considering the near term challenges in the business profile, we have exited Tata Motors DVR from the large cap portfolio and NBCC, Symphony, Bharat Electronics, J&K Bank from our indicative midcap portfolio.**

- We continue to maintain our high allocation towards the BFSI space with total weightage of 37% in the large cap portfolio and 14% in midcap portfolio. Apart from this, we continue to remain positive on consumption theme with allocation of 19% and 24% in large cap and midcap portfolio, respectively
- Over the last quarter, commodity prices have remained elevated. Along with a depreciating rupee, this may adversely impact margins of net importers. Thus, our preference remains to identify domestic growth stories with durable competitive advantages and considerable unutilised capacity available, thus benefitting from higher operating leverage
- Timely resolution of key NPA accounts through swift insolvency proceedings is likely to help alleviate the current pain in the banking sector. Despite key challenges, we continue to remain positive on the BFSI sector with a high allocation

House view on Index

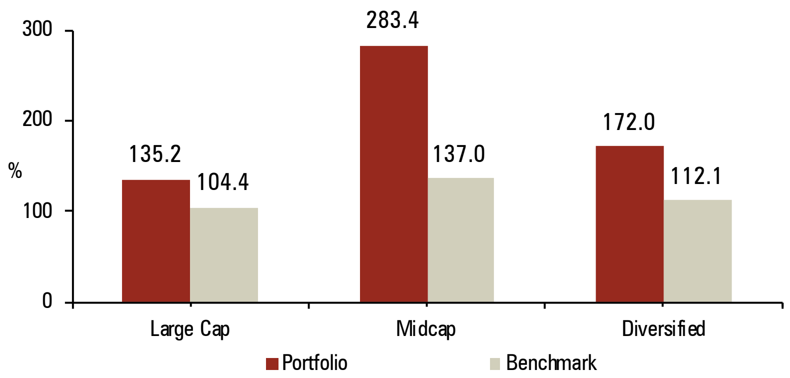
- **We maintain our index targets (Sensex at 37,600 & Nifty at 11,725) with revised Sensex earnings, implying ~17x P/E on FY20E EPS, in tandem with the long period average. Going ahead, with much of the asset quality pain already recorded and IBC resolutions in the banking space coupled with firm rural demand amid expectations of normal monsoon 2018 and industrial activity pick up, corporate earnings are expected to stage a smart recovery, growing in excess of 20% CAGR over FY18-20E**

Sensex & Nifty Target



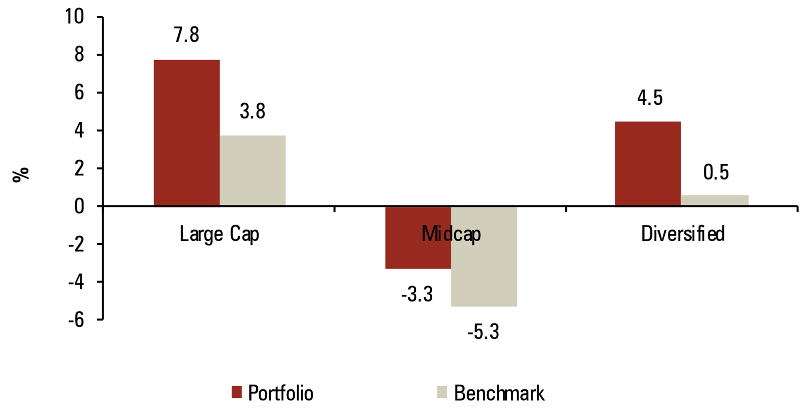
Performance so far …

Portfolio performance since inception



- Our indicative large cap equity model portfolio has continued to deliver an impressive total return (inclusive of dividends) of 135.2% since its inception (June 21, 2011) vis-à-vis the index return of 104.4% during the same period, an outperformance of 31%
- Our midcap portfolio has returned 2.1x benchmark's return since inception. The total returns of our indicative midcap portfolio is 283.4% vs. benchmark return of 137.0%
- Our preference remains for companies with sound business fundamentals. This forms the core theme of our portfolio
- Given the overall outperformance in both (large & midcap) portfolios, the diversified portfolio (combination of 70/30 ratio) has outperformed its benchmark indices by a wide margin

Portfolio performance since last update (March 2018)

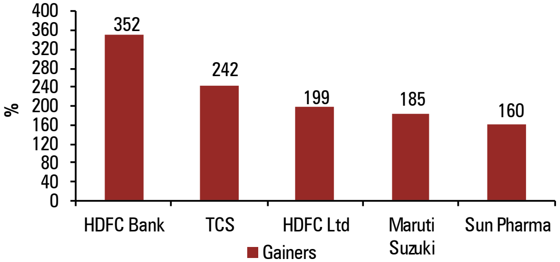


- Since the last update (March 2018), our large cap portfolio has outperformed the benchmark index performance generating a return of 7.8% compared to benchmark return of 3.8%. The index outperformance was mainly on the back of performance in TCS, Bajaj Finance and Nestle India. Our large cap portfolio was impacted by the underperformance of Tata Motors DVR
- The broader markets witnessed higher volatility over the past few months. This has reflected in the performance of the midcap portfolio. However, our continued focus on quality helped contain losses compared to a bigger fall in benchmark indices. Strong performance in Bajaj Finserv and Pidilite Industries resulted in the outperformance. However, the portfolio performance was impacted by NBCC, J&K Bank and Bharat Electronics

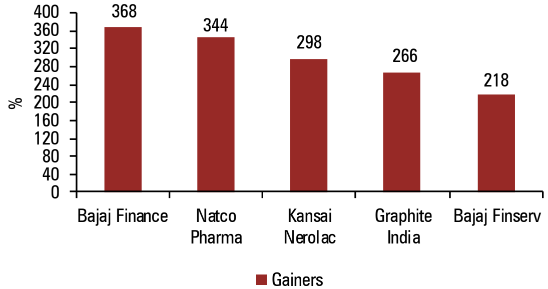
Source: Thomson Reuters, ICICI Direct Research

Top movers so far…

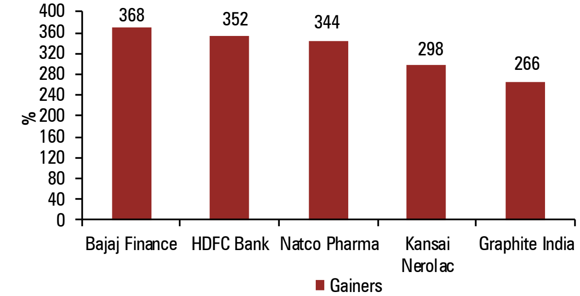
Large cap



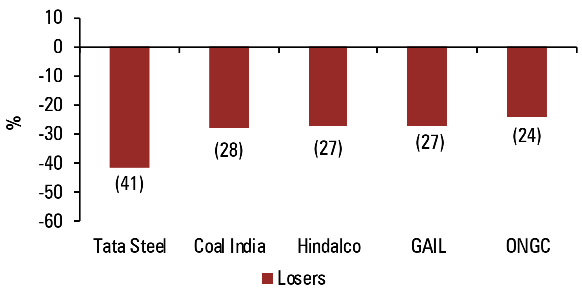
Midcap



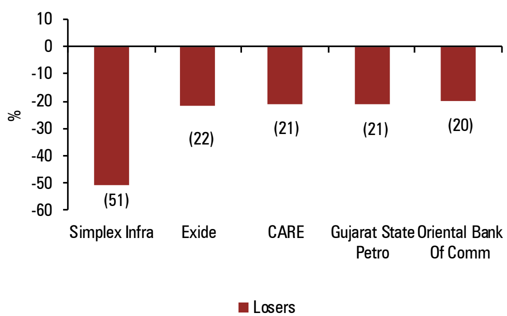
Diversified



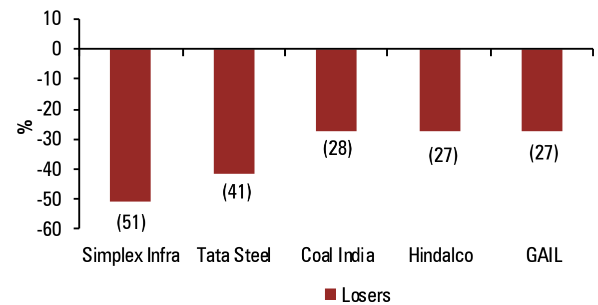
Large cap



Midcap

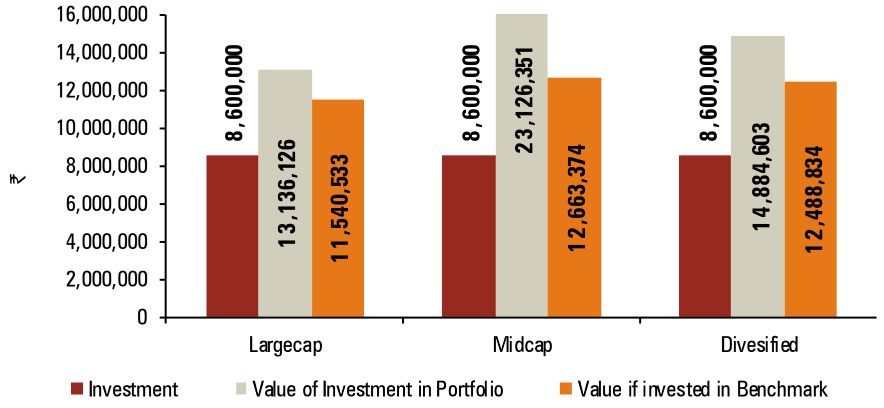


Diversified



Source: Thomson Reuters, ICICI Direct Research
Note – Returns shown here are on price basis only.

Performance so far in SIP mode …



- Systematic investments at regular intervals in all our three portfolios have outperformed their respective benchmarks, acting as a perfect shield to the volatility that the market encountered last year
- Assuming ₹ 1,00,000 invested as SIP at the end of every month
- Start date of SIP is June 30, 2011

Source: Thomson Reuters, ICICI Direct Research

What's in, what's out?

What's in?

Name	Portfolio	Weight
Sun Pharmaceutical Industries	Largecap	3%
Firstsource Solutions	Midcap	6%
Syngene International	Midcap	8%
Exide Industries	Midcap	6%
AIA Engineering	Midcap	6%

What's out ?

Name	Portfolio	Weight
Tata Motors DVR	Largecap	3%
Jammu & Kashmir Bank	Midcap	6%
Bharat Electronics	Midcap	6%
Symphony	Midcap	6%
NBCC	Midcap	8%

Source: ICICI Direct Research

The story of the stocks…

Syngene International (SYNINT)

•Syngene is well poised to capture opportunities in the global CRO space on account of strategic outsourcing by global innovators in the backdrop of structural challenges such as an impending patent cliff, controlling costs and keeping new products introduction flow intact

•The company's revenues grew at ~21% CAGR in FY13-18 to ₹ 1423 crore due to new client addition on a regular basis and scaled up revenues from existing clients led by integrated service offerings, high data integrity ethos and continuous endeavour to move up the value chain. The capabilities have been vindicated by proven customer stickiness as eight of the top 10 global pharma companies have been availing the services for the last five years. The proposed foray into contract manufacturing (CMO) services will further strengthen its service offering to clients

•Besides performance revival, the high point in FY18 was addition of some elite clients like Amgen, Zoetis, Herbalife, GSK and multiple year extension of BMS and Merck contracts. This is likely to keep the growth tempo intact, going ahead. On the margins front, the company is witnessing some pressure due to development and compliance related expenses besides employee addition, which, we believe, are attributable to increasing scalability. Another glaring aspect that came as a surprise was optically higher capex plans of US$100 million, over and above the earlier version of US$200 million. This, we believe, can be attributed to higher client requirements pertaining to scalability. This is likely to impact near term cash flows but augurs well in the long run

(Year End March)	FY16	FY17	FY18E	FY19E	FY20E
Revenues (₹ crore)	1107.0	1200.9	1423.1	1703.5	2011.5
EBITDA (₹ crore)	380.4	407.6	464.8	560.9	673.5
Net Profit (₹ crore)	240.8	287.3	305.4	371.4	408.3
EPS (₹)	12.0	14.4	15.3	18.6	20.4
P/E (x)	52.0	43.6	41.0	33.7	30.7
P/BV (x)	12.2	8.9	7.4	6.1	5.1
RoCE (%)	15.3	16.8	16.6	18.5	18.7
RoE (x)	23.5	20.3	18.0	18.1	16.7

Sun Pharmaceuticals (SUNPHA)

•The US business (~33% of turnover) has grown at 8% CAGR in FY13-17, on the back of acquisitions like Caraco, Taro, Dusa, URL and timely product launches. US product basket remains robust - 422 ANDAs filed and 153 pending final approvals. Some niche launches include Lipodox (Doxil), Doxycycline, Nystatin, etc, besides complex/limited competition products and plain vanilla generics. US growth has also been backed by extensive infrastructure with 41 global manufacturing facilities

•FY18 was a challenging year with the combined impact of pricing pressure in the US, continuing efforts on Halol warning letter resolution and absence of meaningful high value launches, which led to 36% YoY decline in sales. Due to the challenging environment in the generics front the management plans to diversify into specialty products such as Tildrakizumab, Ilumya (both dermatology), BromSite, Seciera, OTX-101 (all ophthalmic) and Odomzo, Yonsa (both oncology), etc

•The 16% YoY decline in FY18 revenues was mainly due to pricing pressure both at Taro and ex-Taro US businesses and delay in Halol resolution besides GST disturbance in India. Going ahead, the management commentary sounds upbeat with double digit growth guidance for FY19E with slew of specialty launches in the US after 18-24 months of recalibrated efforts and recent approvals. This specialty focus remains a key differentiator vis-à-vis peers. The effort-reward aspect in these products in the US will have a bearing on investor's sentiments besides final resolution of the lingering Halol resolution

(Year End March)	FY16	FY17	FY18E	FY19E	FY20E
Revenues (₹ crore)	28563.0	31578.4	26489.4	29447.5	32379.4
EBITDA (₹ crore)	8724.3	10089.3	5608.1	6684.3	7634.5
Net Profit (₹ crore)	5652.6	6964.4	3112.0	4073.6	5121.0
EPS (₹)	23.4	29.0	13.0	17.0	21.3
P/E (x)	26.8	19.1	61.6	32.7	26.0
P/BV (x)	4.3	3.6	3.5	3.2	2.9
RoCE (%)	18.6	20.3	9.8	11.3	12.7
RoE (x)	18.0	19.0	8.1	9.8	11.1

Source: Thomson Reuters, ICICI Direct Research

The story of the stocks…

AIA Engineering (AIAENG)

•AIA Engineering (AIAE) specialises in design, development, manufacture, installation of high chromium wear, corrosion, abrasion resistant casting. In four segments mainly cement, mining, power, aggregate. Mining segment contributed 57%, cement contributed 36% to sales volume during FY18

•AIAE planned to increase its capacity from 340000 TPA to 440000 TPA over the next two years by adding 50000 TPA each year to reap benefits from incremental volumes in domestic replacement mining segment along with international mining market in high chrome consumable to bring bulk of future growth. Incremental volume sales in mining segment is estimated to be in the range of 40000 to 50000 MTPA from FY19E onwards

•AIA entered into a unique technical collaboration with EE Mill Solutions LLP, US (EEMS) for patent applications and technical know-how for products that improve performance of the mining liner mills with the objective of optimising energy efficiency in wet and dry grinding industries through redesigning mill internals and has proposed an estimated capex of ₹ 250 crore. It has planned a cumulative capex of ₹ 800 crore towards grinding media, mill liners and wind turbine for FY18-20E

•Strong visibility in ramp up of the mining segment along with focus on hedging power cost indicates margin recovery from FY19E onwards. We expect revenues, PAT to grow at a CAGR of 19%, 16%, respectively, in FY18E-20E. We believe AIA could benefit significantly from the recent recovery in sales volumes in the mining segment and recent technical collaboration. Based on 30x FY20E, we arrive at a target price of ₹ 1880

(₹ Crore)	FY17	FY18E	FY19E	FY20E
Revenue (₹ Crore)	2,246.0	2,445.1	2,891.8	3,443.1
EBITDA (₹ Crore)	560.3	535.7	693.9	830.5
Net Profit (₹ Crore)	414.1	440.2	504.7	592.3
EPS (₹)	43.9	46.7	53.5	62.8
P/E (x)	34.2	32.1	28.0	23.9
P/BV (x)	7.5	6.5	5.6	4.8
RoE (%)	22.1	20.2	20.0	20.2
ROCE (%)	24.1	19.7	22.9	23.5

Exide Industries (EXIIND)

- Exide Industries (EIL) is India's largest manufacturer of lead acid storage batteries with market share of >60% in OEM. It has an annual automotive & industrial battery capacity of 39.9 mn units & 3,336 mn Ah, respectively. It has consistently focused on innovation, new launches & technologies
- It is well placed to benefit from the strong automotive demand mainly due to 1) increasing demand from OEMs; 2) growing replacement demand that is less cyclical in nature; 3) its focus on capturing market share of the unorganised players in CV & tractor space &; 4) re-building of its 'SF Sonic' and new Dynex brand has started yielding results in the replacement market. Thus, we expect revenue CAGR of 13.6% over FY18-20E.
- EIL is expanding its product portfolio for emerging requirements like EVs (to develop batteries for E-vans & E-buses) hybrid cars & other segments. It has recently entered into a JV with Switzerland based Leclanche to build lithium-ion batteries & energy storage solutions to power the India's EV market. Also with its existing capacity utilisation >75%, it acquired the Gujarat plant of Tudor India that will help EIL serve the rising demand
- Lastly, with lead price (key input) largely stable at ~₹ 160/kg, coupled with initiatives like 1) hiving off the less profitable OEMs & 2) technology up-gradation, cost cutting & internal efficiencies, margins will expand going forward. Apart from its battery business, EIL is also engaged in the life insurance business & has smelter divisions. Thus, we value EIL on a SOTP basis, with core business at 20x FY20E EPS, in addition to value of its subsidiary at ₹ 50/share, taking the overall target to ₹ 300/share

Key Financials	FY17	FY18E	FY19E	FY20E
Net Sales	7,628	9,210	10,476	11,883
EBITDA	1,082	1,241	1,464	1,742
Net Profit	694	673	859	1,053
EPS (₹)	8.2	7.9	10.1	12.4
P/E	32.1	31.8	25.9	21.2
RoNW (%)	14.0	13.0	14.2	15.5
RoCE (%)	18.5	19.1	20.1	21.9

Source: Thomson Reuters, ICICI Direct Research

Firstsource Solutions (FIRSOU)

- Firstsource is a leading global provider of business process management (BPM) services. With operations across various geographies around the world, its services spans across healthcare, banking & financial and telecom & media industry segments. Firstsource has an employee strength of 18,703 as of March, 2018
- In 2017, FSL announced that FSL UK, a wholly-owned subsidiary of Firstsource has signed a new 10 year strategic partnership with SKY, Europe's leading Entertainment Company. With increasing revenue contribution from the deal in coming years, we believe it would lead to enhanced revenue visibility for Firstsource
- Citing the outlook for FY19E, the management expects revenue growth to be at top end of industry growth rate in constant currency terms (~9-10% YoY). Taking into account the impact of exit of domestic business in FY18, the proforma revenue growth for FY19E would be ~12%
- Optimistic outlook for FY19E on the back of deal pipeline, improving profitability in ISGN business along with ramp up of SKY deal would augur well for Firstsource. Moreover, enhanced visibility of margin improvement owing to exit from domestic business would lead to improving profitability. Further, continuing on its quarterly debt repayment trajectory of $11.25 million, the company has successfully made the final repayment on its outstanding debt as on March 29, 2018, thereby leading to full repayment of term loan. We expect FSL's earnings to grow at a CAGR of 14% in FY18-20E. Currently, it is trading at ~11x FY20E EPS. It offers healthy FCF yield of 5-6% at current levels

Key Financials	FY17	FY18E	FY19E	FY20E
Net Sales	3,556	3,535	3,710	4,254
EBITDA	438	459	508	596
Net Profit	280	327	351	426
EPS (₹)	4.1	4.8	5.1	6.2
P/E	16.0	13.7	12.7	10.5
RoNW (%)	13.8	13.9	13.6	15.1
RoCE (%)	11.7	12.7	14.7	16.0

Source: Thomson Reuters, ICICI Direct Research

Large cap portfolio

Earlier

Name of the company	Weightage(%)
Auto	17.0
Tata Motor DVR	**3.0**
Maruti	**6.0**
EICHER Motors	**4.0**
Mahindra & Mahindra (M&M)	4.0
BFSI	37.0
HDFC Bank	10.0
Axis Bank	6.0
HDFC	9.0
Bajaj Finance	6.0
SBI	6.0
Capital Goods	6.0
L & T	**6.0**
Cement	4.0
UltraTech Cement	4.0
FMCG/Consumer	19.0
Dabur	5.0
Marico	4.0
ITC	**6.0**
Nestle	4.0
IT	6.0
TCS	6.0
Metals	6.0
Hindustan Zinc	6.0
Oil and Gas	5.0
GAIL Ltd.	5.0
Total	100.0

Now

Name of the company	Weightage(%)
Auto	14.0
Maruti Suzuki	6.0
Eicher Motors	4.0
Mahindra & Mahindra (M&M)	4.0
BFSI	37.0
HDFC Bank	10.0
Axis Bank	6.0
HDFC Limited	9.0
Bajaj Finance	6.0
State Bank of India	6.0
Capital Goods	6.0
Larsen & Toubro	6.0
Cement	4.0
UltraTech Cement	4.0
FMCG/Consumer	19.0
Dabur India	5.0
Marico	4.0
ITC	6.0
Nestle India	4.0
IT	6.0
Tata Consultancy Services	6.0
Metals	6.0
Hindustan Zinc	6.0
Oil and Gas	5.0
GAIL Ltd.	5.0
Pharma	3.0
Sun Pharmaceutical Industries	**3.0**
Total	100.0

Source: ICICI Direct Research

Midcap portfolio

Earlier

Name of the company	Weightage(%)
Auto	6.0
Bharat Forge	6.0
BFSI	20.0
Bajaj Finserve	8.0
J&K Bank	6.0
Indian Bank	6.0
Capital Goods	12.0
Bharat Electronics	6.0
Kalpataru Power transmission	**6.0**
Cement	6.0
Ramco Cement	6.0
Consumer	30.0
Symphony	6.0
Kansai Nerolac	6.0
Pidilite	6.0
Tata Chemicals	6.0
Bata	6.0
Metals	6.0
Graphite India	6.0
Infrastructure	8.0
NBCC	8.0
Logistics	6.0
Container Corporation of India	6.0
Textile	6.0
Arvind	6.0
Total	100.0

Now

Name of the company	Weightage(%)
Auto	12.0
Bharat Forge	6.0
Exide Industries	**6.0**
BFSI	14.0
Bajaj Finserv	8.0
Indian Bank	6.0
Capital Goods	12.0
AIA Engineering	**6.0**
Kalpataru Power transmission	6.0
Cement	6.0
Ramco Cement	6.0
Consumer	24.0
Kansai Nerolac	6.0
Pidilite Industries	6.0
Tata Chemicals	6.0
Bata India	6.0
Metals	6.0
Graphite India	6.0
IT	6.0
Firstsource Solutions	**6.0**
Logistics	6.0
Container Corporation of India	6.0
Pharma	8.0
Syngene International	**8.0**
Textile	6.0
Arvind	6.0
Total	100.0

Source: ICICI Direct Research

Diversified portfolio (1/2)

Earlier

Name of the company	Weightage(%)
Auto	13.7
Tata Motor DVR	**2.1**
Maruti	**4.2**
Eicher Motors	**2.8**
Bharat Forge	1.8
Mahindra & Mahindra (M&M)	2.8
Consumer Discretionary	15.0
Symphony	1.8
Kansai Nerolac	1.8
Pidilite	1.8
ITC	**4.2**
Arvind	1.8
Tata Chemicals	1.8
Bata	1.8
BFSI	31.9
HDFC Bank	7.0
Axis Bank	4.2
SBI	4.2
HDFC	6.3
Bajaj Finance	4.2
Bajaj Finserve	2.4
J&K Bank	1.8
Indian Bank	1.8
Power, Infrastructure & Cement	16.6
L & T	**4.2**
Kalpataru Power transmission	**1.8**
UltraTech Cement	2.8
Ramco Cement	1.8
NBCC	2.4
Bharat Electronics	1.8
Container Corporation of India	1.8

Now

Name of the company	Weightage(%)
Auto	13.4
Bharat Forge	1.8
Eicher Motors	2.8
Exide Industries	1.8
Mahindra & Mahindra (M&M)	2.8
Maruti Suzuki	4.2
BFSI	30.1
Axis Bank	4.2
Bajaj Finance	4.2
Bajaj Finserv	2.4
HDFC Bank	7.0
HDFC Limited	6.3
Indian Bank	1.8
State Bank of India	4.2
Power, Infrastructure & Cement	12.4
Larsen & Toubro	4.2
AIA Engineering	1.8
Kalpataru Power transmission	1.8
Ramco Cement	1.8
UltraTech Cement	2.8
FMCG/Consumer	20.5
Bata India	1.8
Dabur India	3.5
ITC	4.2
Kansai Nerolac	1.8
Marico	2.8
Nestle India	2.8
Pidilite Industries	1.8
Tata Chemicals	1.8

Source: ICICI Direct Research

Diversified portfolio (2/2)

Earlier

Name of the company	Weightage(%)
FMCG	9.1
Nestle	2.8
Marico	2.8
Dabur	3.5
Metals	6.0
Hindustan Zinc	4.2
Graphite India	1.8
IT	4.2
TCS	4.2
Oil and Gas	3.5
GAIL Ltd.	3.5
Total	100.0

Now

Name of the company	Weightage(%)
IT	6.0
Firstsource Solutions	1.8
Tata Consultancy Services	4.2
Metals	6.0
Graphite India	1.8
Hindustan Zinc	4.2
Pharma	4.5
Sun Pharmaceutical Industries	2.1
Syngene International	2.4
Oil and Gas	3.5
GAIL Ltd.	3.5
Logistics	1.8
Container Corporation of India	1.8
Textile	1.8
Arvind	1.8
Total	100.0

Source: ICICI Direct Research

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