ADITYA BIRLA MONEY

Nifty has delivered returns of about 2.2% since start of SAMVAT 2071 (i.e. since Oct 2014). While India has underperformed most large global markets over this period, it has to be looked in context. First the performance. While S&P 500 has returned ~10%, China has been the best performing market with more than 40% returns. Major European markets too have delivered returns of ~20%, with most Asian markets giving returns of between 5% to 10%. While optically India seemed to have underperformed, it has come on the back of significantly large out performance in the preceding year due to repricing of Indian equity markets after the 2014 general elections.

Sectorally, metals, PSUs and energy were the worst performing sectors with returns of -35%, -13% and -12% respectively. On the flip side, pharma was the best performing sector followed by FMCG and IT, with returns of 26%, 9% and 7% in that order.

On global macro front, 2015 saw flat global growth at 3.3%, as sharp slowdown in China was somewhat made up by growth in US and Europe. Most emerging markets (Brazil, Russia, China, SA, Turkey, etc.) saw sharp slowdown in economic growth, as weakening global growth put pressure on commodity prices (oil, metals, etc.), which in turn hurt most of the commodity producing nations (Brazil, Argentina, South Africa, Russia, ME, etc.) Subdued global growth also led to commodity prices (particularly industrial commodities) crashing by over 50% over the past year.

In medium to long term, to bring our economy back on track, government is likely to take the following steps 1) ease bureaucratic and legislative hurdles for doing business in India, thereby improving India's ranking in the world in terms of ease of doing business, 2) implement path breaking power discom refroms, which will go a long way in improving the entire chain of power related stress in the corporate balance sheets and PSU Banking space 3) push infrastructure growth by scaling up road contract awards, kick starting smart city projects and also implement Swachh Bharat Abhiyaan project 4) attempt implementation of GST in FY17 5) focus on executive decision making in the wake of legislative dead-lock, amongst other reforms which the govt may undertake from time to time.

In the near term though, global markets (and Indian markets too) will continue to see volatility largely on account of two reasons 1) global growth slowing as the economic recovery of post GFC era seems to be maturing 2) World's largest central bank, i.e., the US Fed is likely to embark on a rate tightening cycle, although it is likely to be extremely moderate and slow as compared to previous rate hike cycles of the past three decades.

In a nutshell, we believe that, best is yet to come for Indian economy and India's GDP is likely to grow at 7.5% and 7.8% in FY16E and FY17E respectively. Corporate earnings will reflect the same and Nifty's earning is likely to grow at CAGR of 16% - 19% during FY15-FY18E period. On valuation front, Nifty is trading at P/E of 17.2x, 14.4x and 12.3x of FY16E, FY17E and FY18E earnings respectively. In short term, market will be driven by global factors, however, in medium to long term, we believe, Indian equity market is in midst of structural bull run and hence, the trajectory is likely to remain upwards.

Nifty has corrected ~15% from its peak, whereas some quality companies have corrected by 25-30%. Investors should use this auspicious occasion of Diwali to encash on this opportunity and build portfolio for SAMVAT 2072.

At the start of the year, we had recommended a basket of 15 stocks which have given an average return of ~42% as against lower / negative returns given by most benchmark indices.

For SAMVAT 2072, We recommend a portfolio of 15 quality businesses/companies, which are mix of cyclicals (like auto, banking etc), new emerging sectors (like defense, media etc) and consumption with strong earnings growth momentum. We expect these stocks to deliver returns in the range of 20-25% over next 6-12 months.

Happy Diwali!! Happy Investing!!

Aegis Logistics

CMP ₹ 93

Investment Arguments:

- Recently, the company got additional land at Kandla Port (15 acres) and land at Mangalore port (3 acres) thus strengthening its cargo handling capacity and boosting its future profitability.
- Companies JV with ITOCHU and Aegis own logistics and distribution business is likely to get a big boost as volumes are expected to grow substantially on account of lower gas prices.
- Company's capacity expansion plans are on track and we believe Aegis is a good play on India's liquid and gas logistics story. On valuations the company is trading at 20x its FY17 earnings. Recommend BUY with likely gains of 15%+ over next 6-12 months.

Financial Snapshot

(In ₹ bn)	FY15	FY16E	FY17E
Net Sales	39.1	44.3	58.8
Operating Profit	1.5	1.8	2.6
Net Profit	1.0	1.2	1.6
EPS	3.1	3.6	4.7
RoE	26.6	28.2	32.5

Source: Bloomberg Consensus, ABML Research

Apollo Hospital

CMP ₹ 1346

Investment Arguments:

- Apollo's aggressive expansion plan involves investment of Rs.22bn (Rs.6.5bn already invested). Company intended to add 2500 more beds by FY18 to its existing 6500 beds (self-owned). Given the scale of operations, Apollo can fund growth plan on its own without diluting the equity and increasing the leverage on the books extensively.
- Management has shifted its focus from store additions to consolidating the pharmacy business (~30% of sales) and increasing profitability. Pharmacy margins are likely to improve to 7-8% over next 3 years from ~3% currently. Company likely to bring strategic partner into the pharmacy business in order to bring expertise and skills to scale up the business to the next level.
- With higher growth visibility, strong management with proven track record and presence in the highly attractive domestic market, we believe Apollo to command a premium to its peers going ahead. We expect stock to deliver 20%+ return in next 6-12 months

Financial Snapshot

(In ₹ bn)	FY15	FY16E	FY17E
Net Sales	51.8	63.6	76.1
Operating Profit	8.4	8.9	10.8
Net Profit	3.7	4.1	5.1
EPS (Rs)	26.5	29.4	37.4
RoE (%)	11.1	12.1	14.6

Source: Bloomberg Consensus, ABML Research

Bajaj Finance

CMP ₹ 5291

Investment Arguments:

- Bajaj Finance is one of the fastest growing NBFC with both AUM and PAT growing by 30%+ YoY which provides comfort in terms of earnings growth
- Its exposure to consumer credit and LAP provides comfort in terms of asset quality
- Valuation (at CMP: 3.2x FY17E ABV) to stay rich owing to its strong PAT growth trajectory along with lower risk on asset quality. We expect stock to appreciate by 20%+ in next 6-12 months

Financial Snapshot

(In ₹ bn)	FY15	FY16E	FY17E
NII	28.7	37.3	48.1
PPP	17.4	23.1	30.4
Net Profit	9.0	11.8	15.0
ABV (x)	931.4	1385.7	1603.5
RoA (x)	3.1	3.1	3.1

Source: Bloomberg Consensus, ABML Research

Britannia

CMP ₹ 3130

Investment Arguments:

- During last 8-10 qtrs, margins have expanded from ~5% to 12%+ on the back of premiumisation, supply chain optimization, deeper penetration, improved efficiency of manufacturing units and new product launches. Market leader in premium cookies and rusk segment. Has strong brand focus and expansion in dairy segment and international markets coupled with likely foray into snacks category likely to drive topline growth.
- Benign raw material prices (wheat, sugar, fuel) coupled with likely implementation of GST will keep the margins healthy
- Currently, trading at FY17E P/E of ~37. Recommend BUY with likely gains of 15%+ over next 6-12 months.

Financial Snapshot

(In ₹ bn)	FY15E	FY16E	FY17E
Net Sales	77.8	89.4	103.8
Operating Profit	8.5	12.1	14.7
Net Profit	6.9	8.2	10.1
EPS	57.4	68.5	84.1
RoE	67.4	54.2	49.3

Source: Bloomberg Consensus, ABML Research

Dalmia Bharat

CMP ₹ 718

Investment Arguments:

- Post greenfield capacity expansion & acquisitions over last 5 years, capacity has increased to 23.9 MTPA (Dalmia's interest @~19MT) making it the 3rd largest cement group (after Holcim & Ultratech). Company is primarily present in South (6.5MT @ TN, 2.5MT @ AP) & East (74% stake in OCL, 100% in Adhunik Cement, 100% in Bokaro Cement & 74% in Calcom Cem).
- Sells ~48% of its output in South (TN, AP, Kerala, Karnataka), ~43% in East (Odisha, WB, Jharkhand, Chhattisgarh, Bihar) & ~10% in NE. Co's market share is expected to increase in all 3 regions post the commissioning of Karnataka plant, clinker unit at Calcom + ramping up of WB grinding unit.
- We expect improvement in operating efficiencies along with the volume growth to accelerate the earnings over FY16-FY18E period. On valuations, the business is trading at FY17E EV/EBITDA of ~7x. Recommend BUY with likely gains of 20%+ over next 6-12 months.

Financial Snapshot

(In ₹ bn)	FY15E	FY16E	FY17E
Net Sales	33.7	67.7	81.1
Operating Profit	8.0	14.2	18.2
Net Profit	0.03	1.76	3.98
EPS	0.4	22.8	53.4
RoE	0.1	6.2	11.6

Source: Bloomberg Consensus, ABML Research

Dish TV

CMP ₹ 98

Investment Arguments:

- Largest DTH player in terms of subscribers in India.
- Has turned profitable since 4QFY15. Its profitability is further likely to improve on the back of nearing of Phase 3 & 4 digitization deadline, increase in ARPU lead by differential pricing and HD offering, & fixed content cost over next 15-18 months. We expect volume and price growth to drive revenues and profitability over the next few years
- On valuations, the business is trading at FY17E EV/EBITDA of 10x. Recommend BUY with likely gains of 20%+ over next 6-12 months.

Financial Snapshot

(In ₹ bn)	FY15	FY16E	FY17E
Net Sales	27.7	31.4	36.4
Operating Profit	7.6	10.18	12.12
Net Profit	0.031	2.57	3.96
EPS	0.03	2.40	3.719
RoE	NM	NM	NM

Source: Bloomberg Consensus, ABML Research

Eicher Motor

CMP ₹ 16693

Investment Arguments:

- Management is targeting to position RE as a global leader in mid size segment. It recently hired Pierre Terblanche – a leading Motorcycle Designer and Ex Head of Design for Ducati. It has started appointment of dealers globally. Exports are expected to start contributing meaning fully from CY16.
- EML will be the key beneficiary of the cyclical recovery in CVs from CY15. Company is leveraging on the Volvo's technological capabilities. It launched new "Pro Series" of M&HCVs to encash on the improvement in demand. VECV already operates on superior margins compared to peers. Engine plant which went on stream last year is seeing steady improvement in volume with majority of the exports targeted at it's parent.
- It's JV with Polaris remains on track for CY15 launch which will support valuations starting CY17.
- Sustainable demand and high margin would help company sustain ~60% CAGR growth in earnings over CY14-16. Though the stock trades at 33X FY17, strong growth will continue to help drive the rich valuations and we can expect ~20% gains over next 6-12 months.

Financial Snapshot

(In ₹ bn)	FY15E	FY16E	FY17E
Net Sales	116.4	150.2	177.3
Operating Profit	17.8	24.3	31.5
Net Profit	9.9	14.2	19.0
EPS	334.1	491.3	674.3
RoE	33.1	39.4	38.5

Source: Bloomberg Consensus, ABML Research

Indusind Bank

CMP ₹ 921

Investment Arguments:

- Indusind Bank has been consistently delivering PAT growth of 25%+ for a considerable while. Under Planning cycle 3, it targets to achieve credit growth of 25-30% for FY14-17E, CASA ratio of 35%+ and Fee growth to exceed loan growth. This shall support 25%+ PAT growth for next couple of years.
- NIM is expected to be maintained at healthy level of ~3.9% which shall support the NII and profit growth. With interest rate trajectory downward, Indusind bank shall benefit in terms of NIM improvement as it relies heavily on bulk deposit and has significant pie of fixed rate loan book. Besides, management intends to increase the retail credit share from ~42% to ~50% which shall support the NIM improvement as yield in retail book is higher at ~15% compared to yield of ~11% for corporate credit.
- Strong return ratio of 1.8% shall support the premium valuation. At CMP of Rs 912, the stock is trading at P/ABV of 2.7x FY17E ABV. The stock could deliver 20%+ return in next 6-12 months

Financial Snapshot

(In ₹ bn)	FY15	FY16E	FY17E
NII	17.9	22.9	29.2
PPP	31.0	39.3	49.5
Net Profit	17.9	22.9	29.2
ABV (x)	198.0	297.8	337.7
RoA (x)	1.8	1.9	1.9

Source: Bloomberg Consensus, ABML Research

Shasun Pharma (indirect play on Strides Arcolab)

CMP ₹ 386

Investment Arguments:

- Strides building its base business in US with limited but niche R&D (derma, soft-gels etc.), increasing local presence and branded business in Africa and Institutional tenders in ARV, anti-malaria, Sovaldi.
- The Shasun merger and Arrow acquisition are steps in this direction. Strategically, the acquisitions would further diversify the business. The company is focusing on cash generation/profitability to reduce high debt (due to M&A) and create shareholder value in the medium to long term.
- Management has guided for H2FY16 revenues and EBITDA in the range of Rs 18.5bn-20bn and Rs 3.5bn-3.8bn levels respectively, translating into margins of ~19%. Growth is likely to be supported by the integration of CNS divisions from Sun Pharma, and seven brands from J&J and Medispan.
- At CMP, the stock is trading at 18x of FY17 earnings at a discount to its peers. The stock could deliver 30%+ return in next 12 months

Financial Snapshot

(In ₹ bn)	FY15	FY16E	FY17E
Net Sales	12.0	32.5	43.5
Operating Profit	2.3	6.2	9.3
Net Profit	1.0	3.5	5.7
EPS (Rs)	17.3	43.5	70.7
RoE (%)	9.2	26.0	32.4

Source: Bloomberg Consensus, ABML Research

VATECH WABAG

CMP ₹ 631

Investment Arguments:

- Vatech Wabag is one of the best and multi-year capex theme given the shortage of water resources and water treatment opportunities that are available. Company has a strong order book of ~Rs.65bn giving us revenue visibility for next 2.5- 3 years.
- The company stays away from capital intensive projects (BOOT) and has a tie-up with Sumitomo where in Sumitumo will invest a major portion while Wabag will invest a token amount. The purpose is to garner the EPC and designing business. Vatech Wabag outsources the EPC portion even in normal projects thus focusing only on the designing and maintenance projects and thus blocking lesser amount in working capital.
- Currently the company's performance is impacted on account of currency fluctuations and restructuring of its international business which is likely to stabilize in 2HFY16. On valuations the company is trading at 17.5x its FY17 earnings. Recommend BUY with likely gains of 20%+ over next 6-12 months.

Financial Snapshot

(In ₹ bn)	FY15	FY16E	FY17E
Net Sales	12.3	28.5	34.2
Operating Profit	1.5	2.6	3.3
Net Profit	0.9	1.4	1.9
EPS	16.7	24.4	35.8
RoE	14.0	13.3	17.1

Source: Bloomberg Consensus, ABML Research

Diwali Top Picks – 2014 - Performance

Initiated Date	Stocks	Reco Price.	CMP	% Change
17-Oct-14	EICHER MOTORS LTD	11334	16693.4	47.3%
17-Oct-14	Z.F.STEERING GEAR (INDIA) LTD	709	1556.8	119.6%
17-Oct-14	BALKRISHNA IND. LTD	724	668.0	-7.7%
17-Oct-14	GUJARAT PIPAVAV PORT LTD	161	165.6	2.9%
17-Oct-14	MBL INFRASTRUCTURES LTD	152	211.1	39.3%
17-Oct-14	AIA ENGINEERING LIMITED	891	925.4	3.9%
17-Oct-14	CENTUM ELECTRONICS LTD	446	692.0	55.2%
17-Oct-14	TUBE INVESTMENTS OF INDIA	308	376.2	22.1%
17-Oct-14	INDUSIND BANK LIMITED	661	921.0	39.3%
17-Oct-14	DEWAN HOUSING FIN CORP LT	156	212.9	36.9%
17-Oct-14	PVR LIMITED	646	815.1	26.2%
17-Oct-14	PIDILITE INDUSTRIES LTD	389	540.2	38.9%
17-Oct-14	BRITANNIA INDUSTRIES LTD	1343	3130.0	133.1%
17-Oct-14	ALEMBIC PHARMA LTD	387	668.7	72.8%
17-Oct-14	ARVIND LIMITED	273	283.7	3.9%
			Average Return	42.2%

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ABML research is also accessible in Bloomberg at ABMR

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