



DIWALI PICKS:

**STATE BANK OF INDIA
VA TECH WABAG LTD**

WISHING YOU HAPPY DIWALI

&

JOYOUS & PROSPEROUS NEW YEAR



Equities: BUY

CMP: Rs 243
Buying Range: Rs 215-235
Target: Rs 275

STATE BANK OF INDIA

State Bank of India is the largest state-owned banking and financial services company in India. In addition to the banking services, through its subsidiaries, it provides a range of financial services, which includes life insurance, merchant banking, mutual funds, credit card, factoring, security trading, pension fund mgmt and primary dealership in the money market.

The largest Public Sector Bank with over 16400 branches stands to gain from improvement in business sentiment and economic developments.

The bank has been working and focusing on six key strategy areas at present, viz. 1. NPA control, 2. Cost rationalization, 3. Risk management, 4. Unleashing the power of digitalization, 5. Improving customer delivery and 6. Repositioning of Human Resource.

Loan book has grown at a pace of 16% CAGR over the past five years and we expect this pace to be substantially high in the next five years.

Asset quality improved in Q2 with gross NPA of 4.15% of its loan book from 4.29% a quarter ago. Moreover provision coverage ratio also inched up 100 bps sequentially to 70.5%. The bank has the lowest stressed asset (net NPA + restructured asset) among PSUs at 6.1% of its loan book.

The bank sees the beginning of end of entire NPA cycle and traction in project pipelines that would ultimately reflect in banking business as well as asset quality going ahead.

With 42.2% of low cost deposits, the bank is expecting its domestic margin to be maintained around 3.0% during FY16.

The bank has strong capital base with capital adequacy ratio of 12.2% including tier I of 9.9%, while it has approvals for capital raising plan of worth Rs 15000 Cr.

The bank has approved divestment in SBI Life up to 10 % that is likely to happen in FY16 and would bring down SBI's stake in SBI Life to 64%. It is expected to generate around Rs 2500 Cr for the bank.

At CMP of Rs 243, the stock is trading at 1.4x of its FY16E book value. We recommend investors to accumulate the stock between 215-235 with a target of Rs. 275 in a year's time.

BSE Code	500112
NSE Code	SBIN
Face Value (Rs)	1
Market Cap (Rs Cr)	188830
52 week H/L (Rs)	336/221

Particulars	FY14	FY15	FY16E	FY17E
NII (Rs Cr.)	49282	55015	59610	66090
NP (Rs. Cr)	10891	13102	16290	19710
Equity (Rs. Cr)	746.6	746.6	756.6	756.6
BV (Rs.)	150.2	158.9	178.5	196.6

Shareholding Pattern	%
Promoters	60.2
FII	10.4
DII	18.3
Others	11.1
Total	100.0

Public > 1%	Shares	%
Life Insurance Corporation Of India	871125199	11.3
HDFC Trustee Company Ltd - HDFC Equity Fund	156284757	2.1

Source: C-line, HDFC sec Inst Research, HSL PCG

Equities: BUY

VA TECH WABAG LTD

CMP: Rs 632

Buying Range: Rs 580-630

Target: Rs 800

VA Tech Wabag is a leading multinational company specialized in water and waste water management.

Revenue of the company grew at a decent pace of 18.3% CAGR over past five years, while PAT increased by 20.3% CAGR.

Order book stood at Rs 8618 Cr as on Sep 2015, including framework contracts of Rs 1542 Cr. Order book consists of 62% of municipal contracts while the remaining is industrial one. While, domestic market contributes 59% of order book.

In Q2FY16, revenue increased to 19% YoY at Rs 601 Cr, while EBITDA soared by 34% at Rs 44 Cr with 80 bps improvement in margin at 7.3%. However higher interest and tax cost restrained bottom-line that fell by 6% YoY at Rs 14.6 Cr.

India, with low per capita water supply of 146 lts/day versus developed nations' 500 lts/day, has huge potential. Also, with rising stringent norms for waste-water treatment, the scope for Va Tech is enormous, especially given that less than 30% of industrial waste-water is not treated before release.

The company has made significant inroads in China, Saudi Arabia, Egypt, Spain and Turkey- key emerging markets- clocking high growth in water and waste-water treatment.

It is an attractive proposition due to continuous flow of new orders, excellent project execution track record, marquee client reference list, asset-light business model, cash rich balance sheet and limited options available in water space.

Further, cash of over Rs 200 Cr provides strength to operations and cash-in on emerging opportunities as and when they arise.

Multiple domestic opportunities through the Ganga Rejuvenation plan (Rs 510 bn), Swachh Bharat Mission (Sewage and Solid waste management – Rs 500 bn) and creation of 100 smart cities (Rs 480 bn) are key catalysts.

At CMP Rs 632, the stock is trading at 24.5x FY16E EPS. We recommend to buy the stock between Rs 580-630 with a target of Rs 800 in a year's time.

BSE Code	533269
NSE Code	WABAG
Face Value (Rs)	2
Market Cap (Rs Cr)	3444
52 week H/L (Rs)	970/617

Particulars	FY14	FY15	FY16E	FY17E
Revenue (Rs. Cr)	2239	2435	2850	3400
APAT (Rs. Cr)	113	110	140	190
Equity (Rs. Cr)	5.3	10.9	10.9	10.9
EPS (Rs.)	20.6	19.5	25.8	35.0

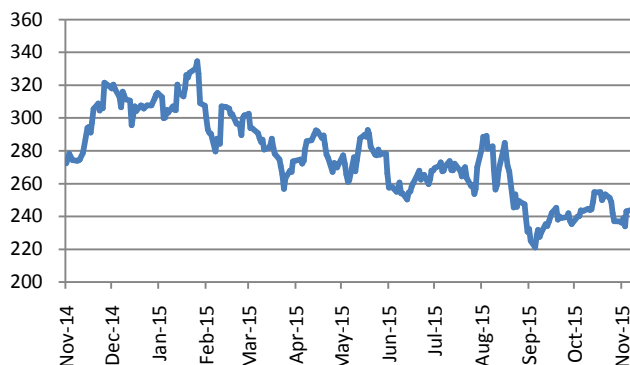
Shareholding Pattern	%
Promoters	29.0
FII	28.1
DII	22.4
Others	20.5
Total	100.0

Public > 1%	Shares	%
IDFC PREMIER EQUITY FUND	3937178	7.2
SUMITOMO CORPORATION	2456920	4.5
PARVEST EQUITY INDIA	2335176	4.3
ICICI PRUDENTIAL LIFE INSU CO	2222763	4.1
SBI MAGNUM TAXGAIN SCHEME	2164717	4.0
EMERGING MARKETS GROWTH FUND INC	1336254	2.5
SATTVA IND OPPORTUNITIES CO	815278	1.5
TATA BALANCE FUND	650000	1.2
GOLDMAN SACHS IND FUND LTD	607492	1.1
AMUNDI FUNDS A/C	600000	1.1
TATA AIA LIFE INSU CO LTD	560000	1.0
VAN ECK FUNDS- EMERGING MARKETS FUND	547160	1.0

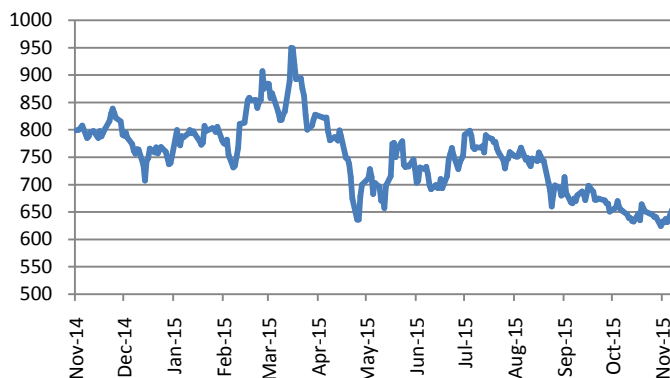
Source: C-line, HSL PCG



SBI Price History



Va Tech Wabag Price History



Rating Definition:

Buy: Stock is expected to gain by 20% or more in the next 1 Year.
Sell: Stock is expected to decline by 10% or more in the next 1 Year.

Disclosure:

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Any holding in stock: No

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