HDFC securities

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A MONTHLY BULLETIN FROM HDFC SECURITIES

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15 STOCK PICKS TO BRIGHTEN UP YOUR DIWALI

Fancy fireworks, apparels, gadgets will be up for grabs with Diwali celebrations kicking off from 21st October. Even the stock market has been cheering the festive season by continuing its bull ride for more than two months now.

In June 2014, we had handpicked 15 frontline stocks across different sectors to brighten up your Diwali. And guess what? These 15 stocks have given a return of 43.9% (annualised) in the past two months. Isn't it time, you cash in on these good times? Take a look at these stocks, which have been handpicked for you after some serious number crunching backed by the some fi nest fundamental research.

1 ▸▸ Dr REDDYS LAB ▸▸ Pharmaceuticals

Rationale

- We are positive on the compay's long term potential of the pipeline of biosimilars, proprietary products and complex generics.
- Management expects new product launches to drive the domestic business, which has grown by a robust 17.8% in the past few quarters.

Risk

- Severe pricing pressure in the developed markets could affect revenues.
- Sustained appreciation in the value of Rupee as against the US dollar or Euro could dent the earnings.

2 ▸▸ GRASIM INDUSTRIES ▸▸ Textile

Rationale

- Riding on large-scale VSF capacity addition, the company is expected to regain the lost market share.
- The present D/E ratio stands at 0.34x signaling a strong balance sheet

Risk

- Delay in execution of GIL's proposed capacity expansions.
- Sustained rise in input costs and a weak rupee could hurt margins of cement companies such as Ultratech cements.

3 ▸▸ HERO MOTOCORP ▸▸ Automobiles-Motorcycles

Rationale

- Strong presence in the scooter segment with doubling of overall sales in the last 5-6 years.
- The company is well poised to enter newer geographies thereby reducing its dependency on domestic market.

Risk

- Market share is likely to be under pressure on high competition and slow revival in urban demand.
- The response to the new product launches holds key to the long-term growth.

A Quick Take

- Don't try to time the market
- Follow a disciplined investment approach
- Set up a DIYSIP online

4 IDFC Finance

Rationale

- A growing loan book, interest income, disbursements and profits are positives.
- Besides structural advantage over banks, it is also supported by good management which has expertise in infrastructure lending.

Risk

- Rising interest rates could impact the cost of funds.
- Return on Assets has fallen consistently from 3.4% in FY10 to 2.8% in FY13 and 2.5% in Q4FY14.

5 ICICI BANK Banking & Finance

Rationale

- Over the past six years, the CASA ratio has improved by 14 percentage points and net interest margin has increased to 3.1% .
- The superior credit appraisal procedures has reduced the Gross and Net NPAs by 200 basis points and 114 basis points to 3.0% and 1.0% respectively over the last 4-year period.

Risk

- The RBI's deregulation of the savings account interest rates could shrink the margins going forward.
- Overseas business is a large chunk of the total business of the bank. Forex fluctuations and economic turbulences could hurt the bank's overall profitability.

9 ONGC Oil Drilling & Allied Services

Rationale

- Gas price revision seems inevitable. Bullish crude prices will also push up the revenues for ONGC.
- Fuel under recoveries could fall sharply over the next few years resulting in higher net realization

Risk

- Overhang over gas pricing
- No clear verdict on subsidy sharing mechanism

6 ITC Cigarettes

Rationale

- Inelastic demand will push up the volumes in the medium to long term despite the steep hike in excise duty.
- Despite the overall slowdown in the FMCG industry, ITC's non-cigarettes FMCG business has been growing at a healthy pace

Risk

- Sustained hikes in excise duty for cigarettes could be a dampener
- If the slowdown in the Indian economy persists, it could impact the growth & profitability of ITC's FMCG business.

7 LARSEN & TOUBRO (L&T) Engineering-Turnkey Services

Rationale

- L&T is well poised to ride the infra and industrial capex revival expected with the stable government at the centre.
- Historically, L&T has always emerged stronger from a deceleration in the domestic economy. This also implies that whenever economic growth accelerates it will outperform its peers.

Risk

- Challenges in infrastructure bottlenecks, resources availability, and high fiscal and current account deficit are key concerns for resumption of capex spend
- L&T's domestic execution over the past four-five quarters has slowed down, primarily led by working capital issues

8 MAHINDRA & MAHINDRA Automobile

Rationale

- M&M plans to invest Rs.75bn in Capex and Rs.25bn in subsidiaries and JVs over the next 3 years for capacity expansion and product development.
- Sizeable launches are planned for the next 4 to 5 years.

Risk

- The company faces competition in the LCV segment from Tata Motors and LCVs manufactured through Ashok Leyland-Nissan JV.
- Higher commodity prices could lead to lower profitability.

10 RELIANCE (RIL) Refineries

Rationale

- Higher gas prices and approval for new fields could boost the topline and margins over the medium term.
- New businesses - Retail and Telecom could be a drag but restructuring these businesses could unlock the value going forward.

Risk

- Overhang over gas pricing
- Declining output in the KG-D6 gas production

11 STATE BANK OF INDIA (SBI) Public Sector Bank

Rationale

- The bank earns healthy NIM of 3.2% on a huge portfolio, which is commendable.
- It has managed CASA ratio of 44%, which is among the best in the industry.

Risk

- While asset quality has picked up in Q4FY14, it's NNPAs (%) still stands at 2.57%. Any further deterioration in asset quality is a concern.
- Rise in interest rates implies higher provisions in its large investment book.

12 TATA STEEL Steel

Rationale

- Robust domestic operations and the recent good performance of European operations are encouraging.
- Sharp revival in domestic steel demand is likely

Risk

- High level of debt could be a hindrance to sharp rerating of the stock.
- Tata Steel may face higher raw material costs if its mines in Odisha remain closed for over a year.

13 ⏩ TITAN INDUSTRIES ⏩ Jewellery

Rationale

- The success of its franchisee-based retail model limits the need for capital expenditure.
- The company has aggressive expansion plans for FY15E, which will provide a competitive edge to the company.

Risk

- Making charges are a source of incremental revenue for gold jewellery manufacturing companies. If gold prices come down making charges would also come down.
- The company is expected to record outflow of sales of about Rs 1,000 crore by the end of August on discontinuation of its gold deposit schemes.

To view complete report on portfolio picks visit www.hdfcsec.com

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Refer DIYSIP section: Value Picks

14 ⏩ WIPRO ⏩ Computers - Software

Rationale

- Wipro's focus on process simplification, automation and platform-based delivery continues to deliver results
- The company expects to garner revenues of $112 mn (about Rs. 676 crore) from two-way pact with Canada's ATCO group the contract each year till December 2024.

Risk

- Client ramp downs, slowdown in project execution / freezing of projects are major concerns.
- Wipro needs to catch up with its peers in revenue growth in order to improve its valuations. Competitive intensity remains high despite improvement in the tech spending environment.

15 ⏩ ZEE ENTERTAINMENT ⏩ Entertainment

Rationale

- The ad revenue has grown at an impressive CAGR of 11.8% in FY11-14 to Rs 2380 crore in FY14 from Rs 1701 crore in FY11. In Q1FY15, ad revenues went up 17% ahead of TV industry growth of 13%.
- Phase I and II of digitization is visible in Zee's subscription revenues

Risk

- There could be a slowdown in ad spends due to economic slowdown.
- Adverse regulation diktats (like cap on ad time etc) could hit the growth in top line and bottom line.

PERFORMANCE TRACKER OF DIYSIP PORTFOLIO PICKS

	Month 1		Month 2											
Company	24th July 2014	No of Shares	25th August 2014	No of Shares	Market Price	Total Shares	Divident Received	SIP Value	Invested Amount	SIP Return	Share	Div	Value	Total Returns
Dr Reddy's Labs	2710.6	4	2884.0	3	3003.0	7		21,491.3	20,000	1491.3				1491.3
Grasim Inds	3321.8	3	3451.3	3	3657.8	6		21,609.8	20,000	1609.8				1609.8
Hero Motocorp	2536.3	4	2578.7	4	2781.1	8	118.28	21,749.9	20,000	1749.9	4	30	118.28	1868.2
I D F C	158.2	63	147.3	68	143.1	131		18,760.4	20,000	-1239.6				-1239.6
ICICI Bank	1505.3	7	1514.4	7	1567.8	13		20,768.2	20,000	768.2				768.2
ITC	356.3	28	349.4	29	354.0	57		20,065.7	20,000	65.7				65.7
Larsen & Toubro	1662.9	6	1524.3	7	1629.4	13	85.694	20,488.0	20,000	488.0	6	14.25	85.694	573.7
M & M	1200.7	8	1406.4	7	1395.0	15		21,536.7	20,000	1536.7				1536.7
O N G C	404.9	25	428.8	23	455.2	48		21,856.8	20,000	1856.8	48	0.25	12.005	1868.8
Reliance Inds	1040.8	10	996.4	10	1037.7	20		20,385.2	20,000	385.2				385.2
St Bk of India	2555.8	4	2509.1	4	2565.9	8		20,265.9	20,000	265.9				265.9
Tata Steel	567.1	18	511.9	20	517.5	37		19,233.9	20,000	-766.1				-766.1
Titan Company	336.1	30	361.8	28	385.8	57		22,143.6	20,000	2143.6				2143.6
Wipro	576.8	17	555.5	18	592.7	35		20,946.3	20,000	946.3				946.3
Zee Entertainment	299.6	33	284.6	35	281.7	69		19,302.4	20,000	-697.6				-697.6
								310,604.1	300,000	10604.1				10820.1

** Price as on 8-Sept-2014*

Annualised Returns 43.9%

Think Different this Dhanteras

Dhanteras, which falls on 21st October, 2014, is associated with buying gold to usher in wealth and prosperity. Over the past few years gold has metamorphosed from a glittering piece of jewellery to a valuable investment option. Even if you are a stickler for tradition, don't just add to the gold rush by buying jewellery. There are better and more cost efficient ways to invest in Gold such as the Gold ETF.

Just open a demat account and buy units of Gold ETF.

Benefits of Gold ETFs

- There is no storage cost. The ETF is kept in your demat account.
- No risk of impurities. At the same time, you don't have to pay a premium for buying superior quality gold.
- You have the flexibility of buying gold in smaller lots through a DIYSIP
- You can easily sell ETFs unlike physical gold, which is often bought back at a discounted rate. In case of Gold ETFs, you get money close to the spot price of gold.
- Physical gold and e-gold attracts wealth tax. No wealth tax applicable on Gold ETFs in India.
- This Dhanteras, think different and make an auspicious beginning!

In case of most Gold ETFs each unit of Gold ETF represents one gram of gold.

How to Invest?

-->> Log on to your Trading account -->>Click on Buy
-->> Enter Scrip code & No.of units -->> Place your order

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