

PLAY SAFE IN 2015

The view in the rear view mirror is excellent. The Nifty has appreciated by 31.39% in CY 2104. But the view from the wind screen is foggy. By their very nature the view in the rear view mirror is always crystal clear and the view through the windscreen is usually foggy.

Some of the fog is there because the Government is not able get the bills cleared in the Rajya Sabha. That situation is unlikely to change in the near future. So the focus of the Government is likely to be on issues for which it does not have to go back to the Rajya Sabha.

The focus is obviously going to be on the Union Budget, which does not need the Rajya Sabha nod.

Investors will do well to focus on companies and sectors that do not need the crutches of the bills that need to be passed. Companies and sectors that can do well on their own strength are what we need to look at in 2015.

For 2015, we have chosen 5 stocks that are likely to do well. They are from different sectors. They either have the right triggers in place or have inherent strength to stand on their own feet, without enabling legislation from the Government. This is not to say that if there is a favorable legislation these stocks will not be positively impacted.

If the Government is able to walk its talk, they will do much better than our expectations. If the Government continues to face headwinds, they will still deliver. Play safe in 2015.

Wish you a very happy new year.

EQUITIES
State Bank of India
BUY
CMP : Rs. 311
**BUYING RANGE:
Rs . 290 -311**
TARGET: Rs 375
BUSINESS BACKGROUND:

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 include life insurance, merchant banking, mutual funds, credit card, factoring, security trading, pension fund management and primary dealership in the money market. The Bank operates in four business segments, namely Treasury, Corporate/ Wholesale Banking, Retail Banking and Other Banking Business. The Bank, with over 16000 branches and +43500 ATMs, has the largest banking network in India.

INVESTMENT RATIONALE:

The largest Public Sector Bank stands to gain from improvement in business sentiment on decisive Govt in India. Formation of a strong government at the centre has revived business sentiment that can ultimately revive the credit growth in the industry. It can also see positive surprise on back recoveries of bad loans.

SBI has grown at a pace of 15% CAGR over the past five years and we expect this pace to be substantially high in the next five years. As interest rates trend down, the bank is likely to earn MTM gain of around Rs 2500 Cr in its G-sec investment portfolio this year.

The management is looking to unlock value by listing one or more of its non-banking financial services companies (NBFC) such as insurance, credit cards, mutual funds and investment banking arms. The move will augment the bank's capital base and aid further growth.

At present the bank has the five associate banks (with merger opportunity) viz. State Bank of Bikaner and Jaipur, State Bank of Travancore, State Bank of Mysore, State Bank of Hyderabad and State Bank of Patiala out of which the later two are non-listed entities.

At CMP of Rs 311, the stock is trading at 1.5x of its expected adjusted book value of Rs 202 of FY16. We recommend investors to buy the stock with a target of Rs 375 in about a year's time.

BSE Code	500112
NSE Code	SBIN
Face Value (Rs)	1
Market Cap (Rs Cr)	231287
52 week H/L (Rs)	327/145

Particulars	FY11	FY12	FY13	FY14
Int Earned(Cr.)	81394	106521	119655	136350
NP (Rs. Cr)	8275	11735	14128	10917
Equity (Rs. Cr)	635	671	684	746
BV (Rs.)	131	158	183	197

Shareholding Pattern	%
Govt	58.6
Foreign	13.5
Public & Others	5.2
Institutions	20.0
Non Promoter Corporate Holding	2.6

Public > 1%	Shares	%
LIC of India	100808206	13.5
HDFC Equity Fund	15506024	2.1

EQUITIES
Power Grid Corporation of India Ltd
BUY
CMP : Rs. 138
**BUYING RANGE:
Rs 125 -138**
TARGET: Rs 165
BUSINESS BACKGROUND:

POWERGRID, the Central Transmission Utility (CTU) of the country under Ministry of Power is one amongst the largest Power Transmission utilities in the world. It owns and operates more than 90% of India's inter-state and interregional electric power transmission systems (ISTS). As principal electric power-transmission company of the country, it is operating about 111,740 ckt. kms of transmission lines along with 186 Sub-stations and transformation capacity of about 218,000 MVA.

INVESTMENT RATIONALE:

Power transmission is a monopoly business around the world. Transmission Company is not subject to price risk and that makes it a safe business. It requires huge capital outlays and that is why governments guarantee its returns.

The earnings are driven by Regulated equity base. The company's regulated equity is expected to double Rs. 44000 Cr by FY17 end from Rs. 21100 Cr. reported at FY13 end, a 20% CAGR over the next four years. As PGCIL earns assured ROE on its regulated asset base, its earnings will also surge in the mentioned period.

Power grid is relatively a low risk high reward stock. Due to delay in generation capacities over the last two years, earnings and stock price of PGCIL consolidated near the same levels.

The company would find it easier to get right of way (RoW) for T&D projects as government is amending the land acquisition act.

At CMP of Rs 138, the stock is trading at 1.6x of its expected adjusted book value of Rs 85 of FY16. We recommend investors to buy the stock with a target of Rs 165 in about a year's time.

BSE Code	532898
NSE Code	POWERGRID
Face Value (Rs)	10
Market Cap (Rs Cr)	72038
52 week H/L (Rs)	151/93

Particulars	FY11	FY12	FY13	FY14
Sales (Rs Cr.)	8388	10164	12757	15230
NP (Rs. Cr)	2701	3255	4220	4515
Equity (Rs. Cr)	4629	4629	4629	5231
EPS (Rs.)	5.5	6.7	8.7	8.1

Shareholding Pattern	%
Promoters	57.9
Foreign	27.8
Public & Others	4.3
Institutions	7.5
Non Promoter Corporate Holding	2.5

Public > 1%	Shares	%
Europacific Growth Fund	296023422	5.7
LIC of India	164489957	3.1
New World Fund INC	96958870	1.9
American Funds Insurance Series International Fund	68214040	1.3
Capital World Growth and Income Fund	64038000	1.2
Comgest Growth PLC A/C		
Comgest Growth Emerging Markets	54500000	1.0
Comgest Sa A/C Magellan	54169544	1.0

EQUITIES
L&T LTD
BUY
CMP : Rs. 1499
**BUYING RANGE:
Rs 1450 - 1500**
TARGET: Rs. 1800
BUSINESS BACKGROUND:

Larsen & Toubro (L&T) is a technology-driven USD 14.3 billion Indian multinational in engineering & construction behemoth. It is one of the largest and most respected companies in India's private sector. It provides its services in infrastructure development, oil & gas, refineries, petrochemicals, power, steel, power supply sectors. Its products and systems are marketed in over 30 countries worldwide. The group comprises large no of Subsidiaries (133) & Associate Co (15) spread across the world.

INVESTMENT RATIONALE:

The Company has made significant investments in the past few years in expanding its facilities for various businesses in order to improve returns on these investments.

The consolidated order book of the group stood at Rs 214400 crore as on Sep 2014, higher by 14% on YoY basis. International order book constituted 27% of the total order book. For H1FY15 consolidated revenue grew by 10% YoY at Rs 40134 Cr, while adjusted profit jumped 45% YoY at Rs 1829 Cr on the back of divestment gains.

Going forward while management maintains its guidance of 15% growth in net sales and EBIDTA margin hovering around 50 bps of 12%.

L&T recently placed FCCB worth US\$ 200 million with a conversion price of Rs. 1916, which is around 30% higher than current market price.

Indian Infrastructure sector overall would be a key beneficiary as the Narendra Modi-led government made good on its pledge to amend the land acquisition law. L&T is likely to be a major beneficiary of it.

At CMP of Rs. 1499, the stock is trading at 20.0x of its expected earnings of Rs. 74 per share of FY16. We recommend investors to buy the stock with a target of Rs. 1800 in a year's time.

BSE Code	500510
NSE Code	LT
Face Value (Rs)	2
Market Cap (Rs Cr)	139179
52 week H/L (Rs)	1774/951

Particulars	FY11	FY12	FY13	FY14
Sales(Rs Cr.)	52044	64313	74498	85128
NP (Rs. Cr)	4010	4536	4560	4454
Equity (Rs. Cr)	122	122	123	185
EPS (Rs.)	47.3	49.4	54.4	50.7

Shareholding Pattern	%
Foreign	22.0
Public & Others	34.0
Institutions	35.7
Non Promoter Corporate Holding	8.3

Public > 1%	Shares	%
LIC of India	157556923	17.0
L&T Employees Welfare Foundation	111606174	12.0
Administrator of the Specified Undertaking of the Unit Trust of India	75925962	8.2
General Insurance Corp of India	18101186	2.0
HDFC Trustee Company Ltd	14505971	1.6
Government of Singapore	12371250	1.3
Abu Dhabi Investment Authority	11030365	1.2
ICICI Prudential Life Insurance Co Ltd	11046953	1.2

EQUITIES
KPIT Technologies Ltd
BUY
CMP : Rs. 201
**BUYING RANGE:
Rs 180 -201**
TARGET: Rs 250
BUSINESS BACKGROUND:

KPIT Technologies, one of the fastest growing IT consulting and product engineering companies. It is focused on co-innovating domain intensive technology solutions for corporations, specializing in automotive & transportation, manufacturing, and energy & utilities. A leader in technology solutions and services, KPIT currently partners with 200+ global corporations including Original Equipment Manufacturers (OEMs), semiconductor companies and Tier 1 companies.

INVESTMENT RATIONALE:

The revenue of the company grew at a decent pace of 20% CAGR over last three years where in profit grew at 36% over the same period. Automotive and transportation sector contributes 37% in revenue followed by manufacturing and energy sector by 32% and 22% respectively.

Its SAP business is turning around, as its Oracle business. This business segments are all set for high growth.

Over the next 20 years, the large number of cars running on diesel or petrol will be replaced by battery-run or electronic cars and KPIT is keen to work in these areas. This technology shifts represent million-dollar opportunities to grow.

Revolvo, KPIT's hybrid kit for cars consisting of an electric motor, battery and software meant for vehicles with an engine capacity of 700-3,000 cc has been submitted for approvals. The Revolvo system is considered revolutionary as it can convert any car on road into a hybrid without tampering its transmission.

The management is confident to touch revenues of \$1 billion by 2017 from \$500 million this year, CAGR of 40%.

At CMP of Rs 201, the stock is trading at 11.1x of its expected EPS of Rs 18 of FY16. We recommend investors to buy the stock with a target of Rs 250 in about a year's time.

BSE Code	532400
NSE Code	KPIT
Face Value (Rs)	2
Market Cap (Rs Cr)	3906
52 week H/L (Rs)	211/140

Particulars	FY11	FY12	FY13	FY14
Sales (Rs Cr.)	987	1500	2239	2694
NP (Rs. Cr)	95	145	200	241
Equity (Rs. Cr)	18	36	39	37
EPS (Rs.)	5.3	8.0	10.2	13.2

Shareholding Pattern	%
Promoters	22.2
Foreign	53.4
Public & Others	14.2
Institutions	8.0
Non Promoter Corporate Holding	2.2

Public > 2 %	Shares	%
Warhol Ltd	18858440	9.6
Van Dyck	7776000	3.9
Fidelity Puritan Trust	7000000	3.5
Citigroup Global Markets Mauritius Pvt Ltd	6608395	3.4
Cx Securities Ltd	6421411	3.3
Dsp Blackrock Equity Fund	6303243	3.2
Acacia Partners Lp	5040000	2.6
Cx Partners Fund 1 Ltd	5081357	2.6
Govt Pension Fund Global	4286061	2.1
Steadview Capital Mauritius	3974233	2.0

EQUITIES
Dewan Housing Finance Corporation Ltd
BUY
CMP : Rs. 399
**BUYING RANGE:
Rs 380- 399**
TARGET: Rs 480
BUSINESS BACKGROUND:

Founded in 1984, DHFL was the second housing finance company in India's private sector, focused on low and medium income group in India - the largest and fastest growing mortgage segment. It also has a presence in education loans segment (Avanse Education Loans) and a joint venture with Prudential Financial (DHFL Pramerica Life Insurance) offering life insurance products. The company has a large distribution network of 367 company-operated locations across India and 151 locations through its alliance distribution network focused on Tier II and Tier III towns and cities.

INVESTMENT RATIONALE:

AUM of the company grew at a decent pace of 46% CAGR over FY11-14 (Rs 494 bln as on Sep14), while net earnings increased by 26% CAGR during the same period.

Low mortgage penetration (only 8% of GDP) will translate into higher industry growth going ahead.

India's Urban Population has grown over the past 4 decades from 109 million in 1971 to 377 million in 2011 and is expected to grow to almost 600 million by 2030, offering tremendous opportunity for the housing sector.

DHFL has Gross NPA stood at 0.78% and the nil NPA on net basis. Management expects the transformation of that into housing sector to help further growth in FY15 and years ahead.

The management targets to double its AUM by FY17 by doubling pan India presence and setting up branches in the untapped LMI (Low & Middle Income) markets.

At CMP of Rs 399, the stock is trading at 1.1x of its expected book value of Rs 360 of FY16. We recommend investors to buy the stock with a target of Rs 480 in about a year's time.

BSE Code	511072
NSE Code	DHFL
Face Value (Rs)	10
Market Cap (Rs Cr)	5138
52 week H/L (Rs)	435/193

Particulars	FY11	FY12	FY13	FY14
Income(Cr.)	1449	2468	4061	4968
NP (Rs. Cr)	265	306	452	529
Equity (Rs. Cr)	104	117	128	128
BV (Rs.)	148	174	252	278

Shareholding Pattern	%
Promoters	39.2
Foreign	30.0
Public & Others	14.0
Institutions	0.4
Non Promoter Corporate Holding	16.4

Public > 2%	Shares	%
Caledonia Investments PLC (FDI)	5710685	4.4
Hemisphere Infrastructure India Pvt Ltd	5358889	4.2
Galaxy Infraprojects & Developers Pvt Ltd	5217702	4.1
Ironwood Investment Holdings	5196581	4.0
Jhunjhunwala Rakesh Radheshyam	5000000	3.9
Silicon First Realtors Pvt Ltd	5047781	3.9
Asia Bridge Fund I LLC	3571352	2.8

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- Any holding in stock - Yes

Sr. No.	Name	Holding
1	SBI	No.
2	POWERGRID	No.
3	L&T	No.
4	KPIT	Yes.
5	DEWAN HOUSING	Yes.

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