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Muhurat Picks

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Muhurat Picks for 2014

- State Bank of India
- UltraTech Cement
- Rallis India
- Exide Industries
- SKF India
- Maharashtra Seamless
- Kansai Nerolac

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Improving economy to benefit operating leverage plays

- Equity markets have rallied over 25% since last Diwali, largely fuelled by improving corporate earnings, expectations of tough reforms from the new government and reviving macroeconomic variables. The government has already initiated several confidence building measures and taken key decisions like allowing FDI in several sectors, railway fare hike, online environment and forest clearance, etc
- The government's pro-activeness is complemented by robustness in economic data points. GDP growth has revived to a nine-quarter high of 5.7% in Q1FY15, strengthening hopes of an economic turnaround and a shift to a high growth trajectory. Secondly, softening crude prices at a 27-month low of $91/barrel would cushion the current and fiscal account imbalances. At current levels, under-recoveries are expected to decline to ~₹ 80,500 crore in FY15 from ~₹ 140,000 crore in FY14. Thirdly, declining crude prices would also help soften inflation, which had remained at elevated levels for much of the recent past. Consequently, we expect CPI to reach below 7% by FY15 from the current 7.8% levels, which could pave the way for rate cuts
- The current rally marks a peculiar trend wherein investors have shown a preference for cyclicals and sectors linked to the capex cycle revival but not opted for a blanket sector rotation. Consumer durables, capital goods, banking and automobile have rallied in the range of 40-55% since last Diwali while FMCG has underperformed with 10% appreciation. However, at the same time, other defensives like healthcare and IT have appreciated 47% and 29%, respectively
- Though volatility is expected to prevail on the global front as central banks across the globe recalibrate liquidity levels, India, with its higher growth rate and least political instability among major emerging markets, will remain in a sweet spot and continue to attract global investors. India has already received $9.8 billion in the current fiscal and seems to be on track to record its highest ever inflows
- Sensex earnings grew 17.1% in FY14, partly aided by suppressed cumulative growth of 6.9% in last two years. Earnings are expected to grow 16.2% in FY15E before reviving to 18.5% in FY16E. We expect Sensex to trade at 16.5x FY16E EPS of 1880 at 31000 by next Diwali

Exhibit 1: Sensex and Nifty Target

	FY14	FY15E	FY16E
Sensex EPS	1365	1586	1880
Growth (%)	17.1%	16.2%	18.5%
Target Multiple			16.5x
Sensex Target - Diwali 2015			31000
Corresponding Nifty Target			9250

Source: Company, ICICIdirect.com Research

- We are positive on auto, cement on the back of the robust demand outlook and capital goods on account of balance sheet improvement and margin expansion. In addition, declining crude prices also makes the oil & gas sector attractive. We would avoid the infrastructure and real estate sector for now as the outlook for both is still hazy. Moreover, these sectors would perform with a lag as the benefit from initial phase of economic recovery may not accrue to them

State Bank of India — Target - ₹ 3234

SBI		FY14	FY15E	FY16E
NII	₹ crore	49,282.2	53,475.2	57,595.4
Growth	%	11.2	8.5	7.7
PAT	₹ crore	10,891.4	13,817.1	15,908.1
PAT growth	%	-29.3	26.9	15.1
P/E	x	17.1	13.5	11.7
P/ABV	x	2.1	2.0	1.8
NNPA	%	2.6	2.6	2.5
RoE	%	10.0	11.1	11.7
RoA	%	0.6	0.7	0.7

Source:: ICICIdirect.com Research

- SBI has consistently managed ~16-17% market share in both deposits, advances. Retail deposit funds ~82% of total deposit that is stable in nature while its bulk deposit proportion is sub 10%. Hence, liquidity risk & interest rate risks are limited for SBI. Going ahead, we expect SBI to maintain its market share and grow in line with industry at 15.5% CAGR for deposit to ₹ 1860692 crore and credit CAGR of 15.2% to ₹ 1604457 crore in FY16E
- Supported by the strong liability franchise (14000 branches and 44% CASA ratio), its cost of fund (sub 6%) is among the lowest in the industry, which enables the bank to earn such strong NIM of 3.2% (domestic NIM - 3.5%) on such a large base. We expect the margins to be maintained
- GNPA stood at ₹ 60434 crore (4.9% of credit) while its standard restructured assets are manageable at 3.5% (₹ 42226 crore) as on June 2014. Considering the large size of SBI, its exposure to stressed sectors is relatively low compared to its peers. We expect GNPA and NNPA ratio to be 4.7% and 2.5%, respectively, by FY16E
- We expect the bank to post healthy 18% CAGR in profit to ₹ 15908 crore, over FY14-16E with return ratios of RoA at 0.7-0.8% and RoE of 11-12%+. We continue to recommend SBI led by comfort on scale and relatively lower headwinds on the asset quality. We assign a target price of ₹ 3234, valuing the core book at 2x FY16E ABV (i.e. 1.4x P/BV) and adding ₹ 450 for associate banks and subsidiaries (life and general insurance, AMC, etc.)

UltraTech Cement — Target - ₹ 3180

Ultratech cement		FY14	FY15E	FY16E
Net sales	₹ crore	20,077.9	23,899.5	28,030.0
Growth	%	0.3	19.0	17.3
EBITDA margins	%	18.0	18.7	19.6
PAT	₹ crore	2,144.5	2,531.5	3,206.5
PAT growth	%	-19.2	18.0	26.7
P/E	x	32.6	27.6	21.8
P/BV	x	4.1	3.6	3.1
RoE	%	12.5	12.9	14.4
RoA	%	9.0	9.7	11.4

Source:: ICICIdirect.com Research

- UltraTech Cement is one of the most geographically diversified and undoubted leader in the Indian cement space with a capacity of 62.0 MT and market share of ~17% in the domestic cement industry. Also being one of the most efficient players in the industry, it has commanded better margins compared to its peers. In FY10-14, the company's sales and PAT have grown at a CAGR of 29.9% and 18.3%, to ₹ 20,078 crore and ₹ 2144.5 crore, respectively
- The company has consistently remained ahead of its peers in terms of capacity expansion with a CAGR of 23% vs. peer's CAGR of 13% over the past five years. The acquisition of the 4.8 MTPA Gujarat cement unit of Jaypee Cement Corporation at a cost of ₹ 3800 crore has strengthened the company's presence in the growing western market. Further, UltraTech is aiming to reach its total capacity of 70 MT by FY16E, which we believe would help it to maintain its leadership
- We believe the industry's capacity utilisation bottomed out at ~69% in FY14. We think low capacity addition & demand recovery should lift utilisation levels from hereon given the cyclical upturn in the economy coupled with an expected policy push to drive investments in infrastructure sector. We forecast pan-India utilisation at 78% by FY16E that may offer pricing power. Given the scenario, we expect UltraTech, as an industry leader with strong balance sheet, to trade at premium valuations

Rallis India Target - ₹ 302

Rallis India		FY14	FY15E	FY16E
Net sales	₹ crore	1,727.2	2,026.6	2,360.8
Growth	%	19.9	17.3	16.5
EBITDA margins	%	15.1	15.6	16.5
PAT	₹ crore	151.9	183.7	217.4
PAT growth	%	27.6	20.9	18.4
P/E	x	30.9	25.5	21.6
P/BV	x	6.5	5.6	4.8
RoE	%	21.2	22.0	22.2
RoA	%	18.1	19.3	21.0

Source: Company, ICICIdirect.com Research

- Rallis India, a Tata enterprise, is a major crop protection (agro chemicals) player domestically with presence across the agricultural value chain including hybrid seeds (through its subsidiary Metahelix), plant growth nutrients and organic manure & soil conditioners. In FY10-14, sales and PAT recorded a CAGR of 18.4% and 10.6%, to ₹ 1727 crore and ₹ 152 crore, respectively

- Rallis also has a notable presence in the contract manufacturing segment wherein it manufactures chemicals and formulations for other reputed industry players. It is developing its new Dahej SEZ unit for the purpose of contract manufacturing and clocked a topline of ~₹ 250 crore from this segment in FY14. The company also possesses good brand recall and enhanced farmer reach. Its distribution network comprises 2,000 dealers and 30,000 retailers. Rallis is also de-risking its business profile through increasing share of non-pesticide portfolio in the total product mix

- Rallis has a lean balance sheet with minimal leverage and strong return ratios with FY14 RoCE & RoE at 21% & 28%, respectively. The company also possesses relatively better working capital cycle with net working capital days at 23 days in FY14 vis-à-vis industry average of ~44 days. We expect sales and PAT to grow at a CAGR of 16.8% and 21.6%, respectively, in FY14-17E. We have valued the company at 24x P/E on an average FY16E and FY17E EPS of ₹ 12.6 and arrived at a target price of ₹ 302 with a long term (18-24 months) investment horizon

Exide Industries Target - ₹ 220

Exide Industries		FY14	FY15E	FY16E
Net sales	₹ crore	5,964.3	7,442.3	8,511.9
Growth	%	-1.8	24.8	14.4
EBITDA margins	%	13.7	15.2	16.6
PAT	₹ crore	713.6	910.5	1,070.2
PAT growth	%	46.5	27.6	17.5
P/E	x	30.2	20.6	16.2
P/BV	x	3.9	3.5	3.0
RoE	%	13.1	16.9	18.6
RoA	%	12.6	16.4	18.1

Source: Company, ICICIdirect.com Research

- Exide Industries is the largest battery manufacturer in India and largest supplier of batteries for motorcycles, passenger vehicles, trucks and tractors. With the estimated registered vehicles in India nearly doubling to 12.3 crore during FY03-10 (up 83%), ~9 crore batteries are likely to be sold from FY15-17E (considering three cycle replacement). Exide's enviable network of >20,000 retail touch points is the major factor in maintaining the leadership position in the burgeoning replacement segment

- Exide's performance has been improving in the past couple of quarters after about three years of underperformance in financials with low utilisation levels (~70%), loss of pricing power leading to a systemic downgrade of EBITDA margins from 20%+ levels to as low as ~8%. Going ahead, with expectation of a strong pick-up in demand from the automotive segment and higher levels of industrial activity leading to higher volumes and therefore utilisation levels, Exide's operating margins are likely to improve

- With strong replacement demand likely to continue and OEM demand also likely to pick up, Exide's financial performance is likely to remain on an uptrend, with topline, bottomline growth of ~17%, ~30% CAGR in FY14-17E. Consequently, RoCE and RoE are also likely to improve to ~26%, ~19%, respectively, by FY17E

SKF India		CY13	CY14E	CY15E
Net sales	₹ crore	2,246.4	2,466.5	2,804.9
Growth	%	1.9	9.8	13.7
EBITDA margins	%	11.5	12.4	13.2
PAT	₹ crore	166.7	217.5	263.6
PAT growth	%	-12.3	30.4	21.2
P/E	x	36.1	27.7	22.8
P/BV	x	4.7	4.2	3.6
RoE	%	13.1	15.1	15.9
RoA	%	13.0	15.0	15.9

Source: Company, ICICIdirect.com Research

SKF India — Target - ₹ 1448

- SKF India is the largest bearing manufacturer in India with an overall market share of ~28%. Known for deep groove ball bearings (forming ~35% of revenues and ~45% market share), SKF has an equal presence across the industrial (46% of sales) and automotive segment (54% of sales), spread across OEMs (55% of sales) and aftermarket
- We believe that SKF, with leadership in the bearing space, commands scalability bandwidth coupled with a lean balance sheet and is poised to capture the opportunity arising from the revival of demand in the automotive segment. Consequently, we expect SKF's manufactured product (auto) sales to exhibit ~14.6% CAGR over CY13-16E. We also expect import substitution of industrial bearings, through ramp up in SKF Technologies, to be a key revenue driver for SKF's revenues and margin expansion as SKF would improve its turnaround time. Consequently, we expect industrial sales to grow at 11.3% CAGR over CY13-16E
- Going ahead, with an anticipated recovery in end user industry, we expect revenues to bounce back at 13.4% CAGR over CY13-16E and margins to recover to 13.6% in CY16E vs. 11.5% in CY13, driving earnings growth at a CAGR of 24% in CY13-16E. A healthy balance sheet, robust cash flow generation, strong parentage & product profile/ strong distribution reach are other key positives.

Maharashtra Seamless — Target - ₹ 430

Maharastra Seamless		FY14	FY15E	FY16E
Net sales	₹ crore	1208.3	1633.5	2177.3
Growth	%	-30.1	35.2	33.3
EBITDA margins	%	7.4	10.6	14.1
PAT	₹ crore	101.5	187.9	301.4
PAT growth	%	-33.4	85.1	60.4
P/E	x	22.9	12.4	7.7
P/BV	x	0.8	0.8	0.7
RoE	%	3.5	6.3	9.5
RoA	%	3.3	6.0	9.4

Source: Company, ICICIdirect.com Research

- Maharashtra Seamless (MSL) is a leading manufacturer of seamless and ERW pipes in India. In addition to the large diameter seamless pipe plant, MSL also manufactures higher value-added products, such as drill pipes used in the oil & gas sector
- The company is likely to be a key beneficiary of the imposition of safeguard duty on import of seamless pipe and tubes. The central government has imposed a safeguard duty on imported seamless pipes and tubes which is as follows: a) 20% duty ad valorem when imported during August 13, 2014 to August 12, 2015, b) 10% duty ad valorem when imported during August 13, 2015 to August 12, 2016 and c) 5% duty ad valorem when imported during August 13, 2016 to February 12, 2017. This move is likely to aid Maharashtra Seamless in augmenting its sales realisations in the domestic market. Furthermore, the sales volume is also likely to witness healthy traction, going forward
- Going forward, we expect an improvement in capacity utilisation levels and realisations. We have assumed blended EBITDA/tonne to increase from ₹ 3551/tonne in FY14 to ₹ 6350/tonne in FY15E and further to ₹ 9163/tonne in FY16E. We have valued the company at 6x FY16E EV/EBITDA and arrived at a target price of ₹ 430 with a long term (18-24 months) investment horizon. Maharashtra Seamless has a strong balance sheet, healthy cash flow and net cash status, which augur well for the company

Kansai Nerolac Target- ₹2396

Kansai Nerolac		FY14E	FY15E	FY16E
Net sales	₹ crore	3136.1	3705.0	4446.3
Growth	%	10.4	18.1	20.0
EBITDA margins	%	11.5	13.8	13.9
PAT	₹ crore	206.6	303.0	374.3
PAT growth	%	-29.3	46.7	23.5
P/E	x	49.6	33.8	27.4
P/BV	x	7.2	6.3	5.4
RoE	%	14.5	18.6	19.6
RoA	%	13.2	17.0	18.2

Source: Company, ICICIdirect.com Research

- KNL is the biggest industrial paint company in India with ~35% market share in industrial paints and third largest player with an overall market share 14%. With sustainable growth in decorative paints and subdued industrial demand, KNL has increased its revenue contribution of decorative paints from 50% in FY09 to 55% currently. KNL has strong brands in interior, exterior and metal paints like Impressions, Excel, Surkasha, etc. and continues to invest in brands with 4-5% of sales going into A&P. We believe decorative paints would continue to grow strongly with the presence of limited players and strong repainting demand. We expect a revival in industrial paints demand (75% automotive paints), led by a recovery in automotive segments. We expect blended volume growth of 14.1% and 15.5% YoY in FY16E and FY17E, respectively
- Despite the company consciously increasing its decorative paints contribution to 55% of sales from 50%, we believe the stock is still trading at a discount to Asian Paints. With improving margins and better return ratios, we believe the discount to Asian Paints would shrink and the stock would command a premium to its historic average of 22x. Further, we expect industrial and decorative volume growth of 16% and 15% YoY, respectively, in FY17E resulting in revenue CAGR of 19.3% in FY14-17E. Moreover, stable raw material prices are expected to lead to an expansion in operating margins by 250 bps by FY17E over FY14. At the CMP, the stock is trading at 27.4x its FY16E earnings and 22.2x its FY17E earnings. We value the stock on 28x multiple to arrive at a target price of ₹ 2396/share

Performance of 2013 Muhurat Picks

Exhibit 2: Performance of Muhurat Picks 2013

Scrip Name	Reco price	Exit price/CMP	Return (%)
SBI	1705	1872	9.8
Bajaj Electricals	155	280	80.6
Entertainment Network	290	360	24.1
Wipro	478	570	19.2
Bajaj Auto	2075	2376	14.5

Source: Company, ICICIdirect.com Research

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