Model Portfolio update

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Markets on Your Fingertips

ICICI Securities

"Quality-21/Consistent-15" continues to outperform…

- Our indicative large cap equity model portfolio ("Quality-21") has continued to deliver an impressive return (inclusive of dividends) of ~74% since its inception (June 21, 2011) vis-à-vis the index return of ~52% during the same period, an outperformance of ~22%. This validates our thesis of selecting companies with sound business fundamentals that forms the core theme of our portfolio. Our midcap portfolio ("Consistent-15") outperformed the benchmark by ~1.5x since June 2011 (~1x during June 2014). Our consistent outperformance demonstrates our superior stock picking ability as markets in H2CY15 aligned to our view of favourable risk-reward, good franchisee vs. reward-at-any-risk businesses. Some key performers of our portfolio are Lupin, Sun Pharmaceuticals, Axis Bank, TCS and Info Edge delivering ~120-230% returns since inception
- We have always suggested the SIP mode of investment and still find a lot of merit in it as the preferred mode of deployment given the market conditions and volatility associated since the inception of the portfolio. It has outperformed other portfolios, thus, reinforcing our belief in a plan of investment. However, now we are also advising clients to look at lump sum investments at any possible dips
- The last six months saw a paradigm shift in the global energy industry as crude prices declined to a historic five-year low to $58 (down ~46% YTD). Intense competition among oil-producing nations for market share (Opec vs. non-Opec) and ramp-up in US shale resources led to this slump in global commodity aided further by languishing global growth prospects. While world economies adjust to this new normal, India, which fulfils ~80% of its oil demand through imports, could be a major beneficiary of this benign oil scenario. Thus, domestic equities attracted strong FII flows (YTD $16 billion, highest ever) helped by a stable, reformist central government. Consequently, sectors geared towards a pick-up in domestic economy like consumer discretionary, banks, auto and cement outperformed the benchmark index. On the other hand, defensives saw profit booking as YTD CNX IT and FMCG indices underperformed by ~13% each on moderating valuations and changing investor preference
- Thus, we rebalance our portfolio, to capture the essence of a broader economic revival, growing urbanisation and benefits of crude declines. Accordingly, thus add stocks like Castrol India (crude), CARE (economy), Voltas (consumerisation) and Heidelberg Cement (value buying) while we feel Tata Steel, ONGC are well placed to be added to large cap portfolio. Though we have a tilt towards higher beta that could generate substantial returns given their respective market dominance, we have not deviated from our core focus on holding good brands. We exit DCB (74% returns), JK Cement (71%) to book profits since potential upside appears limited, hereafter, and remove Tata Global Beverages and Oberoi Realty as company-specific headwinds could likely persist in the medium term
- Our conviction in domestic recovery is visible in terms of relative weightage of sector vis-à-vis the index. We remain overweight on the **consumer discretionary** (auto, consumer), **financials** (private sector banks in particular), and **the infra space** (cement, infra and power). This has been primarily triggered by hopes of a rate cut by the RBI on the back of moderating inflation and possibility of decisive action in the infrastructure and real economy space by the new government. We are also overweight on **telecom, media** owing to reducing concerns & better earnings growth
- We have turned underweight on **oil & gas** as we have chosen to replace Reliance with ONGC has better risk-reward (muted RoIs from unrelated investments could impact the former while the latter has lessening regulatory challenges). We continue to remain underweight on pure play defensives (**IT, FMCG**) as secular earnings coupled with sector rotation could de-rate valuations and offer limited upside. We remain equal weight on **pharma, metals** (global generic opportunity, stock specific play)
- On individual names, we are strongly overweight on companies like L&T and UltraTech in the infra space while we prefer HDFC & SBI in financials

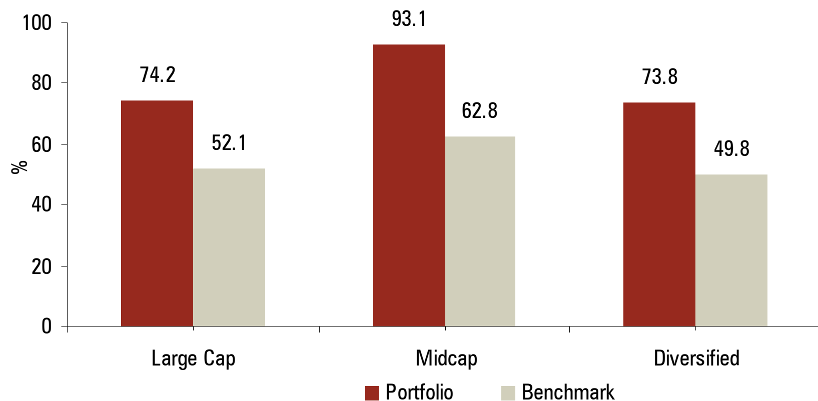
House view on Index

- **Factoring in the fall in inflation, comfortable CAD, improved sentiments and pick-up in GDP growth, we expect Sensex EPS to grow 15%, 20% to ₹ 1570 and ₹ 1890 during FY15E, FY16E respectively (CAGR of 17% over FY14-17E). Pickup in earnings could index get further re-rated and hence, we assign a P/E multiple of 15x on FY17E EPS to arrive at a fair value of 32500 by end CY15 with Nifty reaching 9750.**

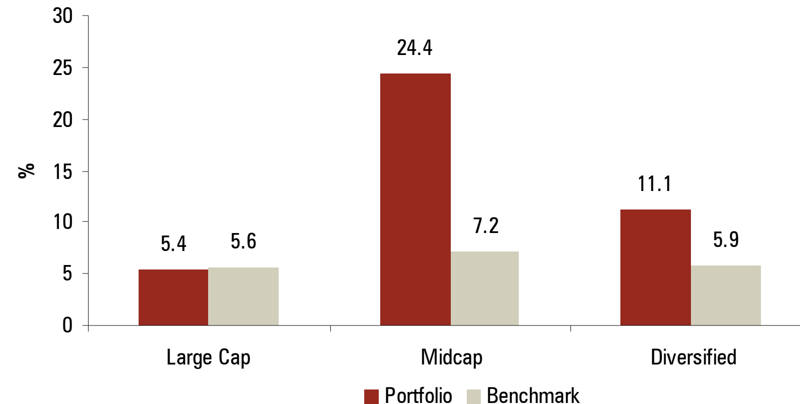
Strategy 2015 - Sensex & Nifty Target

	FY14	FY15E	FY16E	FY17E
Sensex EPS	1365	1570	1890	2167
Growth (%)	17.1%	15.0%	20.4%	14.7%
Target Multiple				15x
Sensex Target - December 2015				32500
Corresponding Nifty Target				9750

Performance* so far …



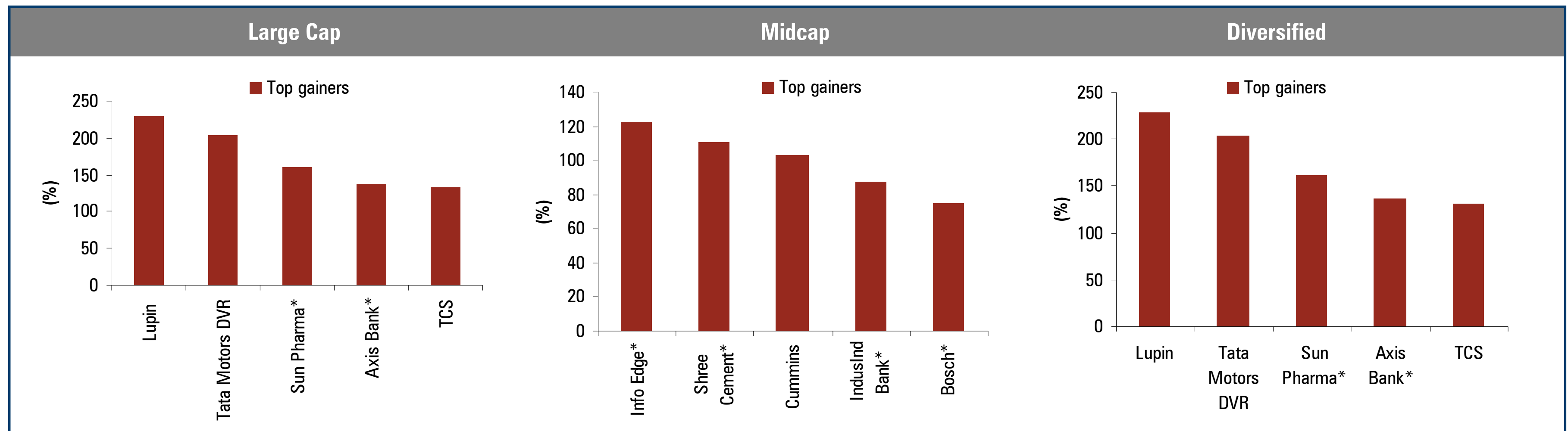
- The large cap equity model portfolio-"Quality-21" continued to heavily outperform the index with ~74% return since its inception (June 21, 2011) vis-à-vis index return of ~52% in the same period. Our sustained preference for high quality names has aided this outperformance on a consistent basis. We continue to be rewarded for our meticulous approach towards stock selection while we endeavour to emulate the broader index.
- The "Consistent-21" midcap portfolio recovered lost ground and surged ahead of its benchmark index (~30% outperformance). During the last six months, our view materialised and "C-21" benefited from the market's refocus towards robust business models. Simultaneously, expectations led rally in fundamentally weaker stocks took a breather. We had deliberately chosen to stay away from this rally
- The diversified portfolio (combination of Q-21/C-15 in a 70/30 ratio) has also outperformed its benchmark indices, given the overall outperformance of both the portfolios

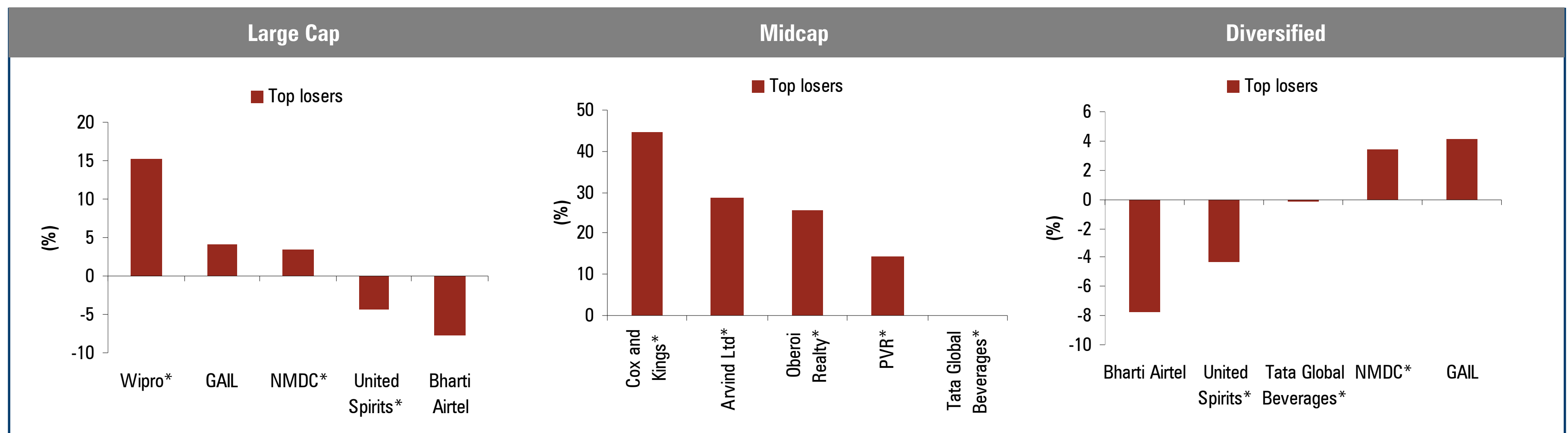


- Our last portfolio update (June 13, 2014) saw the inclusion of Gail along with reallocation of weights in favour of real economy sectors (power, infrastructure & cement) and financials. This aided our portfolio's performance to mirror that of benchmark as our weights were more aligned with the broader index. While our core portfolio holdings continued to deliver exceptional returns (Axis Bank and SBI delivered 37% and 18%, respectively), defensives saw a healthy run-up on value buying. Thus, "Q-21" marginally underperformed by 0.2% during the period in consideration
- Our midcap portfolio delivered a superior outperformance of ~3x (24.4% vs. 7.2% for CNX Midcap) since June 2014 as quality names were back in demand. We gained substantially from our latest additions, DCB Bank and JK Cement, that rallied in excess of 70% each while others managed decent returns in double digits (barring Tata Global). This helped us in bridging the wedge that was created by the high beta rally in H1CY14

Source: Bloomberg, ICICIdirect.com Research

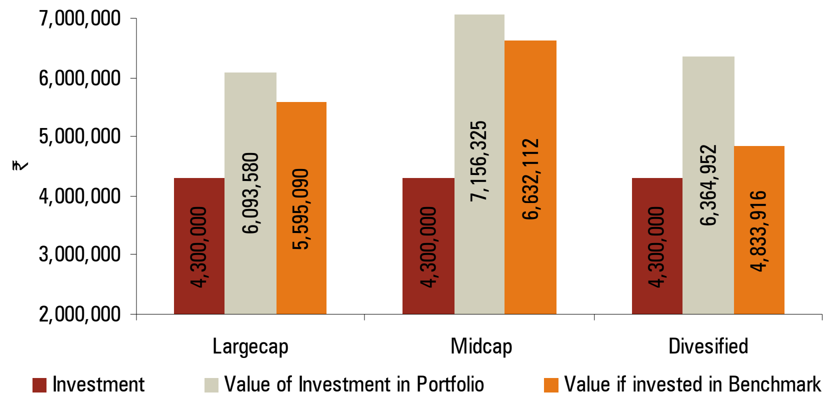
Top movers* so far…





*Source: Bloomberg, ICICIdirect.com Research , *Starred stocks have been included in the portfolio since the last rejig in July 2012/May, August ,December 2013/ April & June 2014. Rest all are since inception in June 2011*

Performance* so far in SIP mode …



- Systematic investments at regular intervals in all our three portfolios have outperformed their respective benchmarks acting as a perfect shield to the volatility encountered by the market in the last year
- Assuming ₹ 1,00,000 invested as SIP at the end of every month
- Start date of SIP is June 30, 2011

Source: Bloomberg, ICICIdirect.com Research

What's in?

Name	Portfolio	Weight
Oil and Natural Gas Corporation	Largecap	6%
Tata Steel	Largecap	4%
Castrol India	Midcap	8%
Voltas	Midcap	8%
CARE	Midcap	6%
Heidelberg Cements	Midcap	6%

What's out ?

Name	Portfolio	Weight
Reliance Industries	Largecap	11%
NMDC	Largecap	4%
DCB	Midcap	8%
JK Cement	Midcap	6%
Tata Global Beverages Ltd	Midcap	6%
Oberoi Realty	Midcap	6%

Source: ICICIdirect.com Research

The story of stocks…

Tata Steel (TISCO)

- Established in 1907, Tata Steel is a global steel manufacturer with an installed crude steel making capacity of ~ 28 million tonnes per annum (MTPA). The company is one of the world's most geographically diversified steel producers, with operations in 26 countries and a commercial presence in 50 countries
- We have a positive view on Tata Steel on the back of the growing share of the high margin domestic business in the overall sales mix. Tata Steel India is currently implementing a capacity expansion plan wherein it is augmenting its domestic capacity from 9.7 MT currently to 12.7 MT. Subsequently, the share of higher margin Indian operations in overall group sales is expected to increase from ~27% in FY12 to ~34% in FY16E, leading to an expansion of consolidated operating margins
- Tata Steel has also signed an MoU with the Klesch Group to undertake detailed due diligence and negotiations for the potential sale of its long products Europe business and associated distribution activities. If this deal goes through it will lead to improvement in EBITDA/tonne of European operation and also aid in possible debt reduction
- Going forward, Indian operations are expected to continue to provide stability of earnings while its European business has reported operational efficiencies in the last few quarters on a consistent basis. Current valuations, thus, appear alluring

(Year-end March)	FY12	FY13	FY14	FY15E	FY16E
Total Operating Income (₹ crore)	132899.7	134711.5	148613.6	144989.9	155113.1
EBITDA (₹ crore)	12416.8	12321.2	16411.0	17569.8	18954.3
Net Profit (₹ crore)	2027.8	332.3	3622.5	4220.3	4792.1
EPS (₹)	20.9	3.4	37.3	43.4	49.3
P/E (x)	18.9	115.2	10.6	9.1	8.0
Price / Book (x)	0.9	1.1	0.9	0.8	0.8
EV/EBITDA (x)	7.1	7.7	6.5	6.4	5.8
RoE (%)	4.5	0.9	8.5	9.0	9.5
RoCE (%)	7.6	6.6	8.7	8.8	9.4

ONGC (ONGC)

- Oil & Natural Gas Corporation (ONGC), India's largest national oil & gas company, is primarily engaged in exploration, development and production of crude oil and natural gas in both India and abroad. ONGC's core strength lies in its strong resource base and increasing production resulting from aggressive capex. The company has managed to maintain a diversified portfolio of yielding assets through its wholly owned subsidiary ONGC Videsh (OVL)
- We expect an increase in domestic crude oil production with the expected ramp-up coming from some marginal fields that are expected to come on-stream and from the Cairn operated Rajasthan block
- With the sharp decline in crude prices and the government's deregulation of diesel prices we expect gross crude oil under recoveries to reduce from ₹ 1,39,869 crore in FY14 to ₹ 76,505 crore in FY17E. Given the strong government and the political sensitivity of the decision being the least, we expect the decision on the subsidy sharing mechanism to come sooner than later. An increase in US$10/barrel in net oil realisation would increase ONGC's EPS by ~₹ 6.5. Currently, we expect net realisation of US$44.3/barrel, US$45.5/barrel and US$57.5/barrel for FY15E, FY16E and FY17E, respectively. . Clarity on subsidy sharing mechanism would create value for shareholders, going forward.

(Year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales (₹ crore)	162386.3	174466.6	161498.8	168025.9	186023.1
EBITDA (₹ crore)	54900.5	58214.5	52384.9	59329.6	74784.0
Net Profit (₹ crore)	23990.3	26653.0	24974.0	30083.2	38844.2
EPS (₹)	28.3	31.0	29.5	34.7	44.9
P/E (x)	12.1	11.1	11.6	9.9	7.6
Price / Book (x)	1.9	1.7	1.6	1.5	1.3
EV/EBITDA (x)	5.1	4.0	4.9	4.4	3.4
RoE (%)	15.7	15.8	13.7	15.2	17.5
RoCE (%)	19.6	18.6	16.1	18.1	22.7

Source: ICICIdirect.com Research

The story of the stocks…

Castrol Ltd (CASIND)

- Castrol India, a 71% subsidiary of BP plc, is one of the leading players in the domestic lubricants business. The main focus of the company is on the lucrative automotive lubricant segment where it commands a market share of ~22% in value terms. The company derives ~90% of its revenues from the automotive segment and ~10% in industrial segment.
- Castrol's volume had remained subdued over the past few years due to the slowdown in the economy. We expect Castrol's volume to increase at 3.8% CAGR over CY13-16E from 196.8 million litre in CY13 to 220 million litre in CY16E mainly on the back of improvement in auto sales and industrial growth.
- Castrol is the price maker in the automotive lubricant industry. With the sharp decline in crude oil prices over the past few months, raw materials costs (base oil prices) for Castrol are expected to come down, aiding the improvement in margins. Subsequently, we expect EBITDA to increase from ₹ 34.9 per litre in CY13 to ₹ 60.4 per litre in CY16E.
- Castrol's strong brand positioning and superior distribution network allows it to command higher pricing power and premium for its products over its competitors. The company's focus on the personal mobility segment will remain the key driver for the automotive lubricant business and will create value for shareholders, going forward.

(Year-end December)	CY12	CY13	CY14E	CY15E	CY16E
Net Sales (₹ crore)	3120.9	3179.6	3405.0	3641.0	3910.9
EBITDA (₹ crore)	622.8	687.6	714.9	1207.1	1328.6
Net Profit (₹ crore)	447.4	508.6	480.1	812.0	889.1
EPS (₹)	9.0	10.3	9.7	16.4	18.0
P/E (x)	56.2	49.4	52.3	30.9	28.3
Price / Book (x)	38.7	33.4	43.4	36.1	31.2
EV/EBITDA (x)	39.4	35.7	34.5	20.2	18.2
RoE (%)	68.9	67.7	82.9	116.5	110.5
RoCE (%)	91.8	87.4	117.6	168.2	160.2

Credit Analysis & Research Ltd. (CARE)

- CARE, the second largest company by market share (~28%), is a pure play on rating business with ~99% (₹ 230 crore) of its FY14 core revenue generated from rating segment. The highlight of CARE's business is its best-in class EBITDA margin of 60%+ & PAT margin of 50%+. The business model is asset light in nature with not much capex (₹ 10-15 crore) while it generates strong operating cash flow. Dividend payout ratio has improved from 30% (FY12) to 63% (FY14), which we expect to grow to ~73% by FY17E. Considering the improving economic outlook, peaking of interest rates & gradual & structural development of the bond market we have factored in 18% PAT CAGR in FY14-17E to ₹ 210 crore.
- CARE is strong in the bank loan rating (BLR) & bond market while it does not have a significant presence in SME space as of now. Its strong margins can be attributed to i) relatively lower employee cost ii) high proportion of large ticket bank loans & bonds (high margin business) & iii) offices being largely owned saving on lease cost. Margins are expected to decline from 64% in FY14 to 62% by FY17E owing to rising focus on the low margin SME business & mainly due to expected rise in staff costs.
- CARE has emerged as a strong player in the rating business with best brand recall after CRISIL. The company has strong RoE of 27% for FY14 & potential to further enhance it to 46% by FY17E.

(Year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Revenue (₹ crore)	227.4	265.1	332.2	392.3	445.8
EBITDA (₹ crore)	133.9	146.6	172.9	207.3	237.1
Net Profit (₹ crore)	113.3	128.7	161.3	187.6	210.4
EPS (₹)	39.7	44.4	55.6	64.7	72.5
PE (x)	36.8	32.9	26.3	22.6	20.1
Dividend Payout ratio (%)	50.4	62.9	143.9	64.9	73.1
Dividend Per Share (₹)	20.0	27.9	80.0	42.0	53.0
ROE (%)	26.7	26.6	42.8	44.3	46.2
ROCE (%)	31.0	29.7	45.0	48.1	51.2

Source: Bloomberg ICICIdirect.com Research

The story of the stocks…

Heidelberg Cement (MYSCEM)

- Heidelberg Cement is a central regional player that contributes over ~94% of its total revenues. The company has recently doubled its cement capacity to 6 MT from 3 MT in CY13 at a total capex of ₹ 1570 crore. With a revival in demand along with stabilisation of new capacity, we expect its margin to reach over 15% by CY16E with capacity utilisation of over 85% during the same period
- After scaling up capacity, the company is now focusing on cost reduction. It has installed a conveyor belt between its limestone reserves and clinker units, which are 20 km away (at ₹ 200 crore) to transport limestone to its clinkerisation unit, which is currently being transported by trucks. This would help the company in achieving cost savings of about ~₹ 45-50/tonne. Further, to reduce its power costs, the company is currently setting up a 13 MW waste heat recovery plant (capex of ₹ 150 crore), which will be commissioned by early 2016E. Considering the benefit of conveyor belt, economies of scale coupled with better utilisations, we expect operating margins to improve to 14.8% in CY15E and 15.4% in CY16E from 6.3% in CY13.
- Healthy operating environment coupled with strong promoter back-up (Heidelberg AG: world's third largest producer) allay our concerns with regard to its debt servicing ability. The D/E currently stands at 1.2x. Overall we expect revenue CAGR growth of ~16.7% with expected net profit of ₹ 104 crore by CY16E

(Year-end December)	CY12	CY13	CY14E	CY15E	CY16E
Net Sales (₹ crore)	1,101.2	1,364.8	1,638.0	1,896.6	2,166.5
EBITDA (₹ crore)	74.4	86.4	234.5	281.2	332.6
Net Profit (₹ crore)	30.8	(40.7)	65.5	70.8	104.4
EPS (₹)	1.4	(1.8)	2.9	3.1	4.6
P/E (x)	64.7	-	30.4	28.2	19.1
Price / Book (x)	2.4	2.4	2.3	2.1	1.9
EV/Tonne ($)	98.4	99.9	88.9	89.6	86.8
RoE (%)	3.6	(4.9)	7.6	7.6	10.2
RoCE (%)	2.3	(0.5)	6.2	8.2	10.2

Voltas (VOLTAS)

- Voltas, India's leading room air conditioner (RAC) manufacturer (with ~20% volume market share) & electro-mechanical project & services (EMPS) player, is set to benefit from a changing demographic profile & revival in India's investment cycle. Its unitary cooling products (UCP) division's revenue has grown at 16% CAGR in FY10-14 mainly due to a change in product mix towards premium products. With sustained demand from tier-II, tier-III cities and rising trend of urbanisation, we expect the UCP division to witness volume growth of ~8% (vs. ~5% industry growth) for FY14-17E.
- In the EMPS business, Voltas' strategy to focus on profitability by bidding for small size, high margin projects and their timely execution would help in margin expansion in future. Given the strong performance of UCP division, its contribution to revenue may change from current 39% to 44% by FY17E. We expect consolidated sales, earnings CAGR of ~12%, ~24%, respectively, in FY14-17E.
- Voltas is trading at a PE multiple of 20x FY16E and 18x FY17E earnings. We expect the EMPS segment to narrow its losses in FY14 and start contributing to the EBITDA in FY15E by executing high margin projects. It will help reduce working capital requirements with improving return ratios, going forward. The continuous outperformance of the UCP division makes Voltas a re-rating candidate in line with consumer durable stocks. Based on our SOTP valuation, we arrive at a target price of ₹ 348

(Year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales (₹ crore)	5531.0	5266.0	5572.4	6316.7	7395.2
EBITDA (₹ crore)	238.0	265.6	423.8	501.8	591.0
Net Profit (₹ crore)	207.8	245.4	486.9	410.3	464.8
EPS (₹)	6.3	7.4	14.7	12.4	14.1
P/E (x)	39.8	33.7	17.0	20.2	17.8
Price / Book (x)	4.5	3.7	3.3	3.0	3.0
EV/EBITDA (x)	33.2	28.8	17.3	14.3	11.9
RoE (%)	12.8	13.5	22.1	16.5	16.7
RoCE (%)	11.1	11.5	15.9	16.9	18.0

Source: ICICIdirect.com Research

Large cap portfolio

Earlier

Name of the company	Weightage(%)
Consumer Discretionary	10
United Spirits	2
Tata Motors DVR	4
Bajaj Auto	2
Titan	2
BFSI	27
HDFC	6
HDFC Bank	6
SBI	8
Axis Bank	7
Power, Infrastructure & Cement	13
L & T	8
UltraTech Cement	5
FMCG	10
ITC	10
Metals & Mining	4
NMDC	4
Oil and Gas	14
Reliance	11
Gail	3
Pharma	5
Lupin	2
Sun Pharma	3
IT	12
Infosys	3
TCS	6
Wipro	3
Telecom	3
Bharti Airtel	3
Media	2
Zee Entertainment	2
Total	100

Now

Name of the company	Weightage(%)
Consumer Discretionary	12
United Spirits	4
Tata Motors DVR	4
Bajaj Auto	2
Titan	2
BFSI	30
HDFC	8
HDFC Bank	7
SBI	8
Axis Bank	7
Power, Infrastructure & Cement	15
L & T	8
UltraTech Cement	7
FMCG	8
ITC	8
Metals & Mining	4
Tata Steel	4
Oil and Gas	8
ONGC	6
Gail	2
Pharma	5
Lupin	2
Sun Pharma	3
IT	13
Infosys	5
TCS	5
Wipro	3
Telecom	3
Bharti Airtel	3
Media	2
Zee Entertainment	2
Total	100

Source: Bloomberg, ICICIdirect.com Research

Mid cap portfolio

Earlier

Name of the company	Weightage(%)
Consumer Discretionary	20
Bosch	6
Cox & Kings Ltd	6
Arvind	8
IT	6
Info Edge	6
BFSI	16
DCB	8
IndusInd Bank	8
FMCG	14
Kansai Nerolac	8
Tata Global Beverages	6
Pharma	6
Natco Pharma	6
Media	8
PVR	8
Capital Goods	6
Cummins	6
Realty/Infrasturcture/Cement	24
JK Cement	6
Container Corporation of India	6
Oberoi Realty	6
Shree Cement	6
Total	100

Now

Name of the company	Weightage(%)
Consumer Discretionary	34
Bosch	6
Cox & Kings Ltd	6
Arvind	6
Voltas	8
Castrol	8
IT	6
Info Edge	6
BFSI	14
CARE	6
IndusInd Bank	8
FMCG	8
Kansai Nerolac	8
Pharma	6
Natco Pharma	6
Media	8
PVR	8
Capital Goods	6
Cummins	6
Realty/Infrasturcture/Cement	18
Heidelberg Cement	6
Container Corporation of India	6
Shree Cement	6
Total	100

Source: Bloomberg, ICICIdirect.com Research

Diversified portfolio (1/2)

Earlier

Name of the company	Weightage(%)
Consumer Discretionary	13
United Spirits	1
Tata Motors DVR	1
Bajaj Auto	2
Titan	3
Bosch	2
Cox & Kings Ltd	2
Arvind	2
BFSI	24
HDFC	4
HDFC Bank	4
SBI	6
Axis Bank	5
DCB	2
IndusInd Bank	2
Power, Infrastructure & Cement	16
L & T	6
UltraTech Cement	4
JK Cement	2
Container Corporation of India	2
Oberoi Realty	2
Shree Cement	2

Now

Name of the company	Weightage(%)
Consumer Discretionary	19
United Spirits	3
Tata Motors DVR	3
Bajaj Auto	1
Titan	1
Bosch	2
Cox & Kings Ltd	2
Arvind	2
Voltas	2
Castrol	2
BFSI	25
HDFC	6
HDFC Bank	5
SBI	6
Axis Bank	5
CARE	2
IndusInd Bank	2
Power, Infrastructure & Cement	16
L & T	6
UltraTech Cement	5
Heidelberg Cement	2
Container Corporation of India	2
Shree Cement	2

Source: Bloomberg, ICICIdirect.com Research

Diversified portfolio (2/2)

Earlier

Name of the company	Weightage(%)
FMCG	11
ITC	7
Kansai Nerolac	2
Tata Global Beverages	2
Metals & Mining	3
NMDC	3
Oil and Gas	10
Reliance	8
Gail	2
Pharma	5
Lupin	1
Sun Pharma	2
Natco Pharma	2
IT	10
Infosys	2
TCS	4
Wipro	2
Info Edge	2
Telecom	2
Bharti Airtel	2
Media	4
Zee Entertainment	1
PVR	2
Capital Goods	2
Cummins	2
Total	100

Now

Name of the company	Weightage(%)
FMCG	8
ITC	6
Kansai Nerolac	2
Metals & Mining	3
Tata Steel	3
Oil and Gas	6
ONGC	4
Gail	1
Pharma	5
Lupin	1
Sun Pharma	2
Natco Pharma	2
IT	11
Infosys	4
TCS	4
Wipro	2
Info Edge	2
Telecom	2
Bharti Airtel	2
Media	4
Zee Entertainment	1
PVR	2
Capital Goods	2
Cummins	2
Total	100

Source: Bloomberg, ICICIdirect.com Research

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