Model Portfolio update

May 28, 2015

Latest Updated Model portfolio

Large Cap

Name of the company	Weightage(%)
Consumer Discretionary	12
United Spirits	4
Tata Motors DVR	4
Bajaj Auto	2
Titan	2
BFSI	29
HDFC	7
HDFC Bank	7
SBI	8
Axis Bank	7
Power, Infrastructure & Cement	15
L & T	8
UltraTech Cement	7
FMCG	7
ITC	7
Metals & Mining	4
Tata Steel	4
Oil and Gas	6
ONGC	6
Pharma	7
Lupin	3
Sun Pharma	4
IT	15
Infosys	6
TCS	6
Wipro	3
Telecom	3
Bharti Airtel	3
Media	2
Zee Entertainment	2
Total	100

- **Exclusion-** GAIL

Mid Cap

Name of the company	Weightage(%)
Consumer Discretionary	34
Bosch	6
Bata India	6
Arvind	6
Voltas	8
Castrol	8
BFSI	14
CARE	6
IndusInd Bank	8
FMCG	8
Kansai Nerolac	8
Pharma	12
Natco Pharma	6
Torrent Pharma	6
Media	8
PVR	8
Capital Goods	6
Cummins	6
Realty/Infrasturcture/Cement	18
Star Ferro & Cement	6
Container Corporation of India	6
Shree Cement	6
Total	100

- **New Inclusion** – Bata India, Star Ferro & Cement & Torrent Pharma
- **Exclusion-** Cox & Kings, Info Edge & Heidelberg Cement
- **Diversified portfolio** has 70% weightage to large cap and 30% to midcap Portfolio

Source: Bloomberg, ICICIdirect.com Research

Outperformance continues across all portfolios…

- Our indicative large cap equity model portfolio ("Quality-20") has continued to deliver an impressive return (inclusive of dividends) of 84% since its inception (June 21, 2011) vis-à-vis the index return of ~57% during the same period, an outperformance of ~27%. This validates our thesis of selecting companies with sound business fundamentals that form the core theme of our portfolio. Our midcap portfolio ("Consistent-15") outperformed the benchmark by ~1.6x since June 2011. Our consistent outperformance demonstrates our superior stock picking ability as markets in H1CY15 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 and TCS in the large cap portfolio while Natco Pharma and Shree Cement have delivered stupendous returns in the midcap portfolio
- 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
- On a YTD basis, the markets have been consolidating in a broad range of 8000-8800 on the Nifty. This is owing to a) markets awaiting a turnaround on the ground and, hence, corporate earnings and b) taking a breather post a stupendous rise witnessed in CY14, wherein valuations in some areas where ahead of fundamentals. Going ahead, in the medium term, stocks with reasonable earnings visibility and valuations should do well and will find flavour among investors
- Thus, we rebalance our portfolio, to capture the essence of a broader economic revival, growing urbanisation and companies having reasonable earnings visibility. Accordingly, in the large cap portfolio, we have eliminated Gail (conundrum on subsidy sharing impacting earnings) and simultaneously increased 1% points across IT stocks like TCS and Infosys (earnings to improve gradually and cross currency headwinds relatively declining amid reasonable valuations). We have also reduced the weight on ITC (volume growth to remain negative and FMCG to grow moderately) and HDFC by 1% (valuations will consolidate in medium term) points each while we have increased 1% weight across Sun Pharma and Lupin (valuation correction calls for a weight increase)
- In midcap portfolio, we have made three changes wherein we have dropped Cox & Kings (high exposure to Europe and fair valuations do not leave enough room for earnings surprise and, hence, valuations), InfoEdge (base business not performing as per expectations amid stretched valuations) and Heidelberg Cement (earnings recovery not as per expectations, thereby making valuations fully priced in). On the other hand, we have included Star Ferro Cement (proxy for development in North East India having superior margin profile that is comparable to large cap cement players in India), Bata India (negatives priced in and earnings recovery to set in CY15E and CY16E) and Torrent Pharma
- We continue to remain underweight on **oil & gas** as we have chosen to drop Gail and have only ONGC, which has a better risk-reward (muted RoIs from unrelated investments could impact the former while the latter has reducing regulatory challenges). We continue to remain neutral on pure play defensives (**IT, FMCG**) as secular earnings coupled with sector rotation could lead to consolidation in near term valuations and offer stock specific opportunities. We remain positive on **auto, pharma, financials, capital goods and infrastructure**
- In individual names, we are strongly overweight on L&T and UltraTech in the infra space while we prefer Axis Bank and SBI in financials

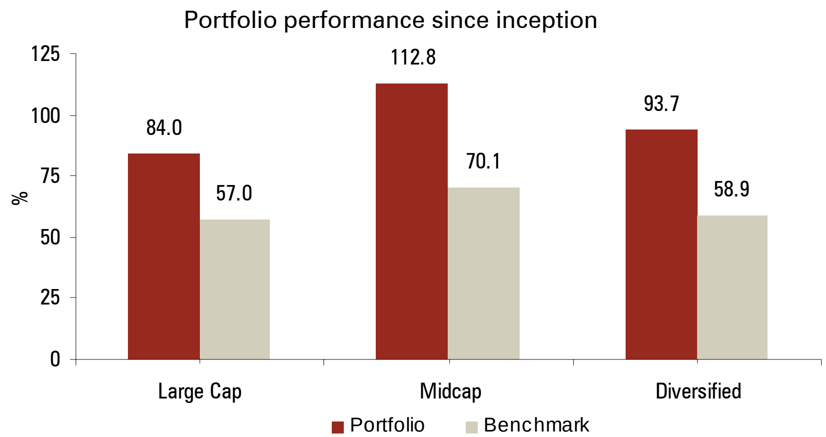
House view on Index

- **Factoring in the fall in inflation, comfortable CAD, improved sentiments and pick-up in GDP growth, we expect Sensex EPS to grow 13.5%, 17.8% to ₹ 1475 and ₹ 1674 during FY16E, FY17E, respectively (CAGR of 16% over FY14-17E). A pick-up in earnings could see the index get further re-rated. Hence, we assign a P/E multiple of 16.5x on FY17E EPS to arrive at a fair value of 32500 by end CY15 with the Nifty reaching 9750**

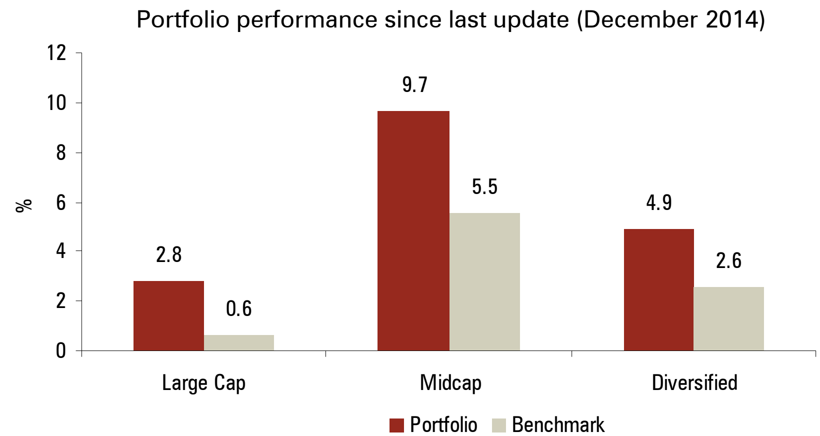
Strategy 2015 - Sensex & Nifty Target

	FY14	FY15E	FY16E	FY17E
Sensex EPS	1365	1475	1674	1972
Growth (%)	17.1%	8.1%	13.5%	17.8%
Target Multiple				16.5x
Sensex Target - December 2015				32500
Corresponding Nifty Target				9750

Performance* so far …



- The large cap equity model portfolio-"Quality-20" continued to heavily outperform the index with ~84% return since its inception (June 21, 2011) vis-à-vis index return of ~57% 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-15" midcap portfolio recovered lost ground and surged ahead of its benchmark index (~42% outperformance)
- 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 portfolios

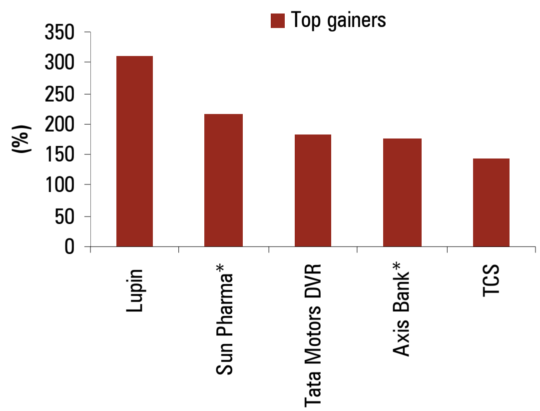


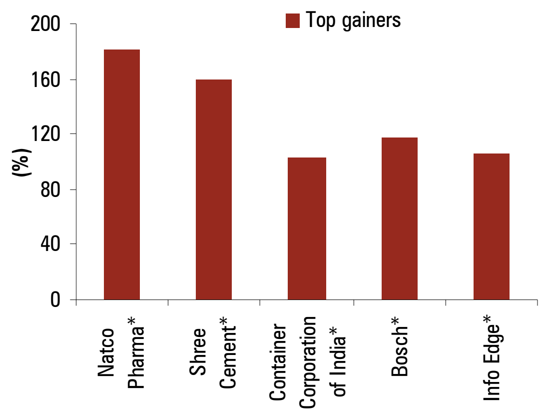
- Since the last update, our large cap portfolio has continued its outperformance (2.8% vs. 0.6% for Sensex). The consumers and pharma picks were the star performers with United Spirits, Lupin and Sun Pharma delivering 26%, 22% and 19%, respectively
- Our midcap portfolio also delivered an outperformance of 9.7% vs. 5.5% for CNX Midcap since December 2014. The key performers in the midcap portfolio were Natco, Voltas, Container Corp and Shree Cement

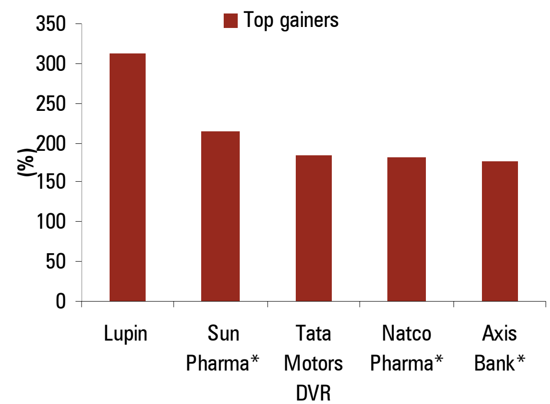
Source: Bloomberg, ICICIdirect.com Research

Top movers* so far…

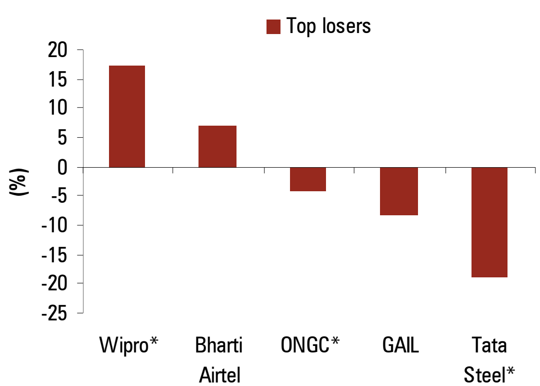
Large Cap	Midcap	Diversified

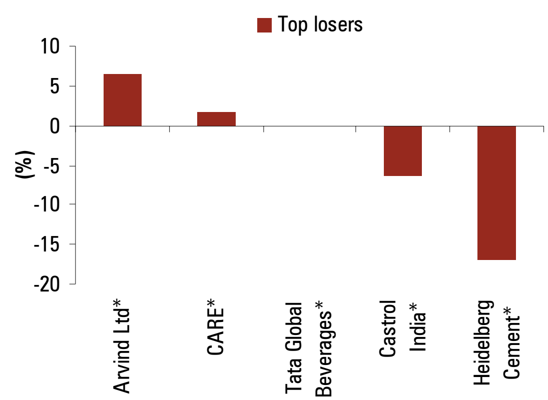


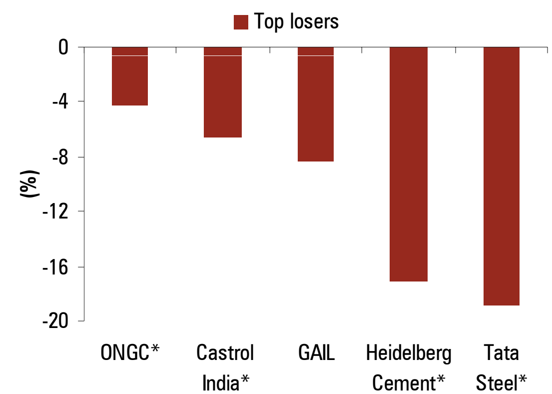




Large Cap	Midcap	Diversified

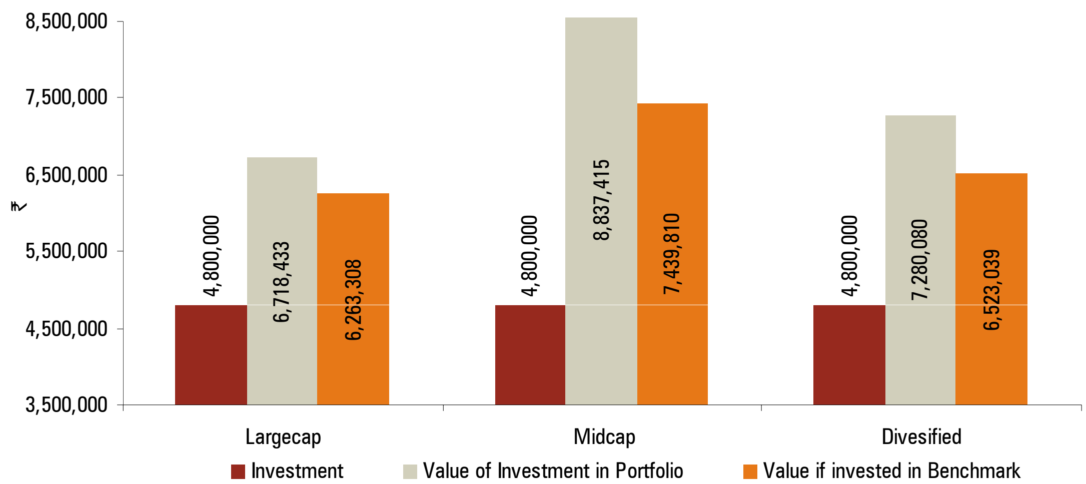






*Source: Bloomberg, ICICIdirect.com Research , *Starred stocks have been included in the portfolio since the last rejig in July 2012/May, August ,December 2013/ April, June & December 2014. Rest all are since inception in June 2011*

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, what’s out?

What's in?

Name	Portfolio	Weight
Bata India	Midcap	6%
Torrent Pharma	Midcap	6%
Star Ferro and Cement	Midcap	6%

What's out ?

Name	Portfolio	Weight
GAIL	Largecap	2%
Cox & Kings	Midcap	6%
Info Edge	Midcap	6%
Heidelberg Cement	Midcap	6%

Source: ICICIdirect.com Research

The story of stocks…

Bata India (BATIND)

- Bata India (Bata) is India's leading and one of the oldest footwear companies. Only 40% of the footwear market is organised and footwear is relatively lower penetrated compared to other consumption categories. Bata has embarked upon improving its financial position on the back of enhanced product mix, improved store layouts, launch of a promotion campaign, shift to an asset light business model and the store addition plans. Aggressive retail expansion and product portfolio augmentation would enable Bata revenue to grow at a CAGR of 16% over 2014-17
- India's per capita footwear consumption at 2.5 pairs per year (2012) is considerably lower than the average of four to five in developed countries. According to estimates, India's per capita expenditure on footwear is likely to go up from $6.3 in 2013 to $11.6 by 2017. Furthermore, improving demographics, rising rural penetration and a booming online retail industry will accelerate the growth
- The change in store format by improving the design and layout, extending the store timings by two hours (from the earlier 10 am – 7 pm to 10 am – 9 pm) would boost footfalls in stores. Additionally, the launch of brand specific stores (Hush puppies, etc.) and rationalising employee expenses will result in an improvement in margins over 2104-17

(Year-end March)	CY13	FY15E*	FY16E	FY17E
Revenue (₹ crore)	2,065.2	2,754.7	2,662.2	3,205.5
EBITDA (₹ crore)	333.7	358.6	402.7	499.7
Net Profit (₹ crore)	190.7	213.8	242.0	310.8
EPS (₹)	29.7	33.3	37.6	48.3
PE (x)	42.4	37.8	33.4	26.0
Dividend Payout ratio (%)	22.5	21.9	30.0	40.0
Dividend Per Share (₹)	6.5	10.0	15.1	19.3
ROE (%)	22.7	21.8	21.8	24.3
ROCE (%)	32.6	28.3	28.5	31.6

Star Ferro & Cement (STAFER)

- Star Ferro Cement (SFCL) is the largest cement player in the North East region (NER) with over 23% market share. Being located in a geographically complex region, SFCL enjoys a competitive advantage in NER, which also imports cement from other neighbouring states leading to higher cement prices in the NER region. Demand growth in this region has consistently remained higher than the growth at pan-India level. SFCL has expanded its capacity from 1.5 MT in FY13 to 3.6 MT in FY15. This, in turn, has helped SFCL to gain market share in the NER. With the government's thrust on infrastructure development, demand growth in NER is expected to remain healthy over the next three to four years. In this backdrop, SFCL is likely to clock 26.1% revenue CAGR in FY15-17E
- SFCL enjoys various fiscal benefits under NE industrial policy (NEIIPP 2007). SFCL also has cost advantage due to its own captive limestone mines, proximity to large reserves of coal and self sufficiency in terms of power requirement. As a result, it generates healthy EBITDA/tonne, which is over ~2.5x of cement players at the pan-India level
- Given SFCL's ability to generate over 2.5x EBITDA/tonne of its peer set and capability to expand through internal accruals, we believe SFCL will trade at premium valuations despite being a midcap cement player

(Year-end March)	FY13	FY14	FY15	FY16E	FY17E
Net Sales (₹ crore)	657.3	1,171.4	1,512.7	1,723.7	2,269.7
EBITDA (₹ crore)	118.3	254.9	449.3	581.5	770.7
Net Profit (₹ crore)	24.9	6.1	93.7	154.9	269.0
EPS (₹)	1.1	0.3	4.2	7.0	12.1
PE (x)	144.3	589.0	38.4	23.2	13.4
EV/EBITDA (x)	37.4	17.4	9.5	7.1	5.1
EV/Tonne (US$)	263.3	263.5	197.5	192.3	134.2
RoCE (%)	3.8	5.2	13.1	20.8	28.9
RoE (%)	3.6	0.9	13.8	17.0	23.2

Source: ICICIdirect.com Research

The story of the stocks…

Torrent Pharmaceuticals (TORPHA)

- Torrent Pharmaceuticals has remained ahead of the curve when it comes to strategic decision making. In domestic formulations, it concentrated on high yielding chronic therapies. It was one of the early entrants in Brazilian markets. Strong margins and high return ratios are some of the major differentiators for Torrent
- The exports business is witnessing strong traction, especially from the US. Brazil has started showing signs of a recovery with a recalibrated approach. Other export markets like Europe and ROW are growing at a steady pace. In the US, Torrent owns a healthy product pipeline (67 filed ANDAs, 48 approvals). We expect US sales to grow at a CAGR of 38.9% in FY15-17E to ₹ 1605.2 crore on a higher base
- Despite having a higher proportion of chronic therapies, Torrent remained an underachiever in the branded formulations space, growing at a CAGR of 17.3% in FY10-15. The acquisition of Elder Pharma's branded portfolio is likely to add new therapies to fill up the portfolio gaps. Elder's portfolio is also margin accretive. We expect Indian branded formulations to grow at a CAGR of 21.7% in FY15-17E to ₹ 2398.8 crore
- The US, Brazil and domestic formulations remain the troika for future growth based on new product launches and an improvement in market share. The US remains in good shape despite the exclusivity sunset of gCymbalta as the pipeline remains promising, which includes products like gAbilify. Brazilian growth is crawling back to normal with a recalibrated approach

(Year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Revenue (₹ crore)	3,211.1	4,184.0	4,653.0	5,689.6	6,739.0
EBITDA (₹ crore)	692.2	952.0	1,020.0	1,351.4	1,693.2
Net Profit (₹ crore)	432.8	663.9	799.0	921.3	1,222.2
EPS (₹)	25.6	39.2	47.2	54.4	72.2
PE (x)	29.1	19.0	15.8	13.7	10.3
Dividend Payout ratio (%)	89.9	25.5	25.4	25.7	20.8
Dividend Per Share (₹)	23.0	10.0	12.0	14.0	15.0
ROE (%)	30.4	34.9	32.4	29.6	30.3
ROCE (%)	28.8	28.5	19.7	26.4	30.9

Source: Bloomberg ICICIdirect.com Research

Large cap portfolio

Earlier

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

Now

Name of the company	Weightage(%)
Consumer Discretionary	12
United Spirits	4
Tata Motors DVR	4
Bajaj Auto	2
Titan	2
BFSI	29
HDFC	7
HDFC Bank	7
SBI	8
Axis Bank	7
Power, Infrastructure & Cement	15
L & T	8
UltraTech Cement	7
FMCG	7
ITC	7
Metals & Mining	4
Tata Steel	4
Oil and Gas	6
ONGC	6
Pharma	7
Lupin	3
Sun Pharma	4
IT	15
Infosys	6
TCS	6
Wipro	3
Telecom	3
Bharti Airtel	3
Media	2
Zee Entertainment	2
Total	100

Source: Bloomberg, ICICIdirect.com Research

Midcap portfolio

Earlier

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

Now

Name of the company	Weightage(%)
Consumer Discretionary	34
Bosch	6
Bata India	6
Arvind	6
Voltas	8
Castrol	8
BFSI	14
CARE	6
IndusInd Bank	8
FMCG	8
Kansai Nerolac	8
Pharma	12
Natco Pharma	6
Torrent Pharma	6
Media	8
PVR	8
Capital Goods	6
Cummins	6
Realty/Infrasturcture/Cement	18
Star Ferro & 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	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

Now

Name of the company	Weightage(%)
Consumer Discretionary	19
United Spirits	3
Tata Motors DVR	3
Bajaj Auto	1
Titan	1
Bosch	2
Bata India	2
Arvind	2
Voltas	2
Castrol	2
BFSI	25
HDFC	5
HDFC Bank	5
SBI	6
Axis Bank	5
CARE	2
IndusInd Bank	2
Power, Infrastructure & Cement	16
L & T	6
UltraTech Cement	5
Star Ferro & 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	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	10.9
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

Now

Name of the company	Weightage(%)
FMCG	7
ITC	5
Kansai Nerolac	2
Metals & Mining	3
Tata Steel	3
Oil and Gas	4
ONGC	4
Pharma	9
Lupin	2
Sun Pharma	3
Natco Pharma	2
Torrent Pharma	2
IT	10.5
Infosys	4
TCS	4
Wipro	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

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

Disclaimer

ANALYST CERTIFICATION

We /I, Pankaj Pandey, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia,* engaged in the business of stock brokering and distribution of financial products. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

Disclaimer

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Pankaj Pandey, Research Analyst of this report has not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Pankaj Pandey, Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

ICICI Securities has received an investment banking mandate from Government of India for disinvestment in ONGC. This report is prepared based on publicly available information.