Market outlook

Domestic markets traded volatile amid global uncertainty regarding the Greece financial crisis & the US Fed rate hike along with domestic factors like a subdued monsoon forecast and the hawkish tone in the RBI monetary policy. From a sectoral perspective, we are positive on auto, cement and capital goods (cyclical recovery in earnings aided by lower input costs and declining interest rates will provide strong operating and financial leverage). We have a neutral rating on IT, pharma and consumers (rich valuations amid moderation in earnings) while we are negative on metals, oil & gas and real estate. Going ahead, we expect Sensex earnings to grow at ~18.3% each in FY16E and FY17E to ₹ 1608 and ₹ 1901, respectively. Hence, we assign a P/E multiple of 16.5x on FY17E EPS to arrive at a fair value of 31400 by end CY15 with the Nifty reaching 9400.

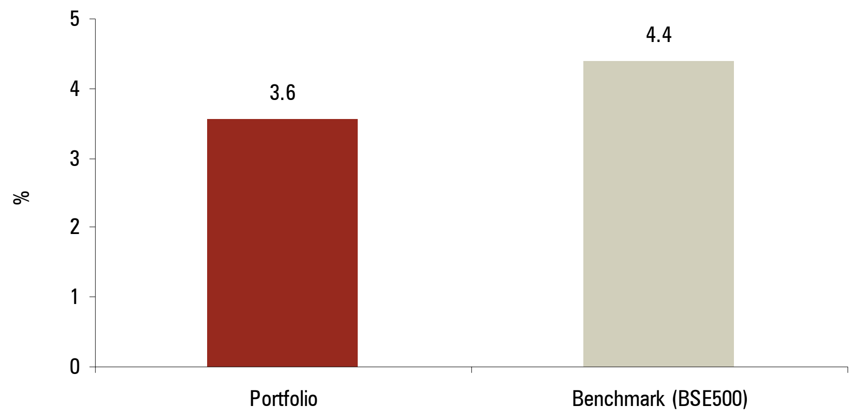
What's in : MRPL, PVR

What's out : Maruti Suzuki, L&T, Dr Reddy's, Torrent Pharma, Bata India

Top Picks

Company	Recommended Price	CMP	Market Cap	P/E (x)		P/BV (x)		ROE (%)	
	(₹)	(₹)	(₹ crores)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
MRPL	75	75	13144	6.4	7.8	1.9	1.6	30.0	20.8
Coal India	388	418	264119	14.3	11.7	5.9	5.1	41.6	43.2
Idea Cellular	174	180	64921	18.9	29.1	2.8	2.5	14.6	8.7
TCS	2,606	2615	512109	21.3	19.4	7.6	6.1	35.6	31.6
CARE Ratings	1,519	1452	4211	29.8	22.0	11.2	10.4	37.6	47.2
Voltas	331	322	10638	23.4	20.8	4.4	3.9	18.8	18.8
Timken India	602	565	3855	40.6	31.9	8.6	7.2	21.1	22.6
Star Ferro Cement	152	159	3539	25.3	14.6	3.9	3.1	15.4	21.6
PVR	701	701	2919	64.0	33.8	6.0	5.2	9.4	15.4

Performance* so far …



- The portfolio outperformance during June 2015 was driven by Bata India (10.2%), Torrent Pharma (9.1%), L&T (8.7%) and Maruti Suzuki (6.0%) while Timken India (-5.9%), CARE (-4.7%) and Voltas (-2.9%) were laggards. We have booked profits in Bata India, Torrent Pharma, L&T, Maruti Suzuki and Dr Reddy's and substituted them with MRPL and PVR for July 2015
- The start date is June 5, 2015

Source: Reuters, ICICIdirect.com Research

I-Direct Top Picks

PVR Limited (PVRLIM)

- PVR with a screen market share of ~25%, with 464 screens of the total 1600 multiplex screens in India is a force to reckon with in the Indian cinema exhibition industry. It has a combined revenue share of 17-22% (Bollywood) and 30-35% (Hollywood) of multiplex revenues. PVR further cemented its position by acquiring 29 screens from DT Cinemas recently
- The consolidation is leading to concentration of the market in the hands of three to four larger players who would, in turn, be in a position to take an ATP hike. PVR being a market leader and catering to the higher income class is in a better position to take price hikes. We expect PVR's ATP and spend per head (SPH) to grow at 4.0% and 3.8% CAGR in FY15-17E to ₹ 188.3 and ₹ 68.1, respectively, by FY17E
- Despite FY15 being a subdued year in terms of movie releases, PVR witnessed 19% YoY growth in its advertisement revenues to ₹ 168.7 crore. PVR has ~60 million footfalls, which provide advertisers with an easily reachable audience with undivided attention. We expect the stream to grow at 13.8% CAGR in FY15-17E to ₹ 218.6 crore
- We expect consolidated revenue and EBITDA growth of 13.2% and 23.8% CAGR in FY15-17E, respectively, led by a strong content pipeline, ATP uptick and increased occupancies

Key Financials		FY15	FY16E	FY17E
Net sales	₹ crore	1,476.4	1,666.4	1,893.5
Growth	%	9.2	12.9	13.6
EBITDA margins	%	13.9	15.6	16.6
PAT	₹ crore	12.8	41.7	79.0
PAT growth	%	-77.3	226.8	89.4
P/E	x	218.7	64.0	33.8
P/BV	x	6.8	6.0	5.2
RoNW	%	3.1	9.4	15.4
RoCE	%	7.9	11.3	13.5

Mangalore Refinery (MRPL)

- Mangalore Refinery & Petrochemicals (MRPL), a standalone refinery with a capacity of 15 MMTPA, has successfully commenced commercial production of polypropylene (PP) post-completion of its Phase III refinery expansion and upgradation project, to enter the league of complex refineries. The operation of secondary processing units has enhanced the complexity of the refinery from 6 to 10. The company has guided that the polypropylene unit will improve GRMs by further US$1/bbl on its stabilisation. The operational efficiencies that will kick in due to higher complexity will boost refining margins from negative US$0.6/bbl in FY15 to US$5.9/bbl and US$ 5.7/bbl in FY16E and FY17E, respectively
- MRPL has the lower policy leverage and gearing on the balance sheet among PSU refineries. With the improvement in operational performance, we expect the company to deliver strong refining margins, thus creating value for shareholders in coming years. The company has recently increased its holding from 3% to 46% in ONGC Mangalore Petrochemicals (OMPL). OMPL is situated adjacent to MRPL phase III and can receive feedstock directly from MRPL. This acquisition is positive for the company's diversification.
- We expect the company to report a net profit of ₹ 1703.7 crore in FY17E vs. loss of ₹ 1712.2 crore in FY15. The stock is trading at 1.6x FY17E book value against a historical six year average of 1.7x. On an EV/EBITDA basis, it is trading at 5.1x FY17E EBITDA.

Key Financials		FY15E	FY16E	FY17E
Net sales	₹ crore	57,645.4	50,093.4	50,249.6
Growth	%	-20.6	-13.1	0.3
EBITDA margins	%	-3.6	7.8	6.5
PAT	₹ crore	-1,712.2	2,082.9	1,703.7
PAT growth	%	-384.8	-221.6	-18.2
P/E	x	-7.8	6.4	7.8
P/BV	x	2.6	1.9	1.6
RoE	%	-33.5	30.0	20.8
RoCE	%	-18.6	22.9	18.9

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

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