India Equity Strategy 2016

Challenging year ahead; remain stock specific

Top Picks:

Aurobindo Pharma | Camlin Fine Science Ltd | Capital First Ltd. | Force Motors Ltd
KPR Mills | Majesco Ltd. | Nesco Ltd. | NTPC | Reliance Industries Ltd | Tata Motors Ltd

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Dear Investors,

Equities surprised on the downside in CY15 with overall negative returns

At the start of CY15 the euphoria about India growth story was very high. It looked as if nothing can go wrong for investors in India. Many analysts (global & domestic) were making a case for very strong upmove in Indian equities on the back of expectations of high economic growth, large number of economic reforms & relatively much stronger position of India amongst emerging markets pack. Analysts were gung-ho about political stability in India via single large party rule v/s about 3 decades of coalition politics. Plethora of economic reforms aimed at reducing corruption, increasing productivity & implementation of many programs like "Make in India", "Digital India" &"Jan Dhan" program etc. By the budget time in Feb 2015 the euphoria was at its peak & our markets touched all-time high at that time. Then came Union Budget which turned out to be a damp squib. Since then till date the markets have not scaled those highs & in fact we are closing the calendar year at about 16% lower than the peaks.

The key highlights of Union budget in which the central government would devolve more powers to the States by increasing fund allocation by 10%, so that States can plan their growth better actually did not show any meaningful change in economic upliftment of masses. Issues related to taxation on foreign investors with retrospective effect (though a legacy one) also spooked the markets. The hopes of any big bang reforms from budget remained unfulfilled & economic revival continued to linger on.

While reported GDP data of Q1FY16 showed that we exceeded growth of China, the wide divergence between what was visible on ground & what was being reported, made the market to ignore the reported numbers.

Throughout the year, one important parameter that our policy makers completely ignored was the collapse of global trade. The headline exports from India declined (in double digits) consecutively for last 12 months. Despite adjusting for collapse in crude & gold/silver prices, exports are still down significantly each month of the year.

In our note dated Dec 30, 2014 titled "Outlook for 2015", we had clearly mentioned that we expect outflow of funds from India both in equity as well as debt segments. We marked this as "Clear & Present danger". In CY15 we have witnessed net outflow of funds by FIIs probably the first time after global financial crisis. FIIs have been net sellers in India since past many months. To some extent the impact of their selling in markets was cushioned by inflows from domestic savings. However despite DIIs net buying equities worth Rs 663 bn ($10.4bn) throughout the year they were not able to arrest continuous fall in our markets. FIIs net sale of ~$3.4 bn was more severe than DIIs buying of $10.4bn. This shows the impact of foreign money on our markets & how vulnerable we are to selling by FIIs.

Arrogant attitude of ruling dispensation & belligerent attitude of opposition parties lead to near halting of economic reform agenda. There were high hopes of GST being passed by parliament but that was not to be. We witnessed 2 consecutive sessions of parliament being washed out. This has led to serious disappointment amongst the investing community especially the foreigners.

Now investors doubt the deliverability of pre-election promises by the government and consequently "The hope trade" has completely collapsed. Now everyone wants to see actual numbers being delivered instead of just the plans/estimates.

After a year of poor performance for markets in CY15, it is natural that we all turn more cautious about future returns. In our opinion CY16 will be a challenging year in which making handsome returns from equity investments will be much more difficult than they were in CY15. We believe better returns will be made from proper stock selection since we expect huge dispersion in performance of companies within a sector. Hence choosing right stocks will be the name of the game.

Key factors that will influence the direction of Indian equity markets in CY16:

A) US Fed Lift-off

Since the global financial crisis in 2008 world has witnessed immense liquidity mainly pumped in by Central banks across the globe but more prominently from US, ECB & Japan. However after 7 years of ZIRP (Zero interest rate policy) USFED has moved to increasing rates with first one initiated on Dec 16, 2015. Trajectory of FED lift- off of this policy has also been articulated. While it is emphasized that increase in rates in US is data dependent but what is clear now is that the US economy is moving towards contractionary monetary policy. Contrast this to policy followed by ECB & Japan, which have continued with pumping in more funds even after Fed's recent action implying that they will continue with expansionary policies. The effect of this divergence is still not clear. At least in last fortnight it has been benign. However that should not lead us to complacency.

In our opinion, by middle of January 2016 when allocations to various regions start, we may witness more pronounced effect of FED lift off. So we are keeping fingers crossed & hope it does not lead to wide scale "risk-off" trade in emerging markets.

B) Crude & commodity super cycle collapse impact on liquidity

In the past most of the foreign money that was coming to India was due to excess cash available with oil producing countries. Many countries especially in Middle East were running huge surplus budget hence were looking for avenues to invest. Some were investing directly into emerging markets while some through Sovereign funds etc. With crude going down to multi year lows most of these countries are facing cash crunch. Going by some analyst's estimates many of these countries would have come into fiscal deficit by now as cost of production is much higher than their fiscal balance breakeven point. In effect this means that availability of money is going to reduce even further. Sovereign funds may be forced to sell out assets immaterial of profit or loss to meet their home country demands. According to many commodity experts there is more probability of crude going further down before reversing by Q3 of CY16, implying more liquidity crunch for funds. We expect fund outflow from emerging markets (including India) to exacerbate at least in initial part of the next year.

C) China impact

China is going through a period of continued sluggish growth. According to IMF & World Bank, India is likely to overtake China's GDP growth in CY16 itself. China is surely concerned about downward trajectory of its economy. It is likely to take all steps necessary to revive its economy.

Throughout the global investing community there is near consensus that China is ripe for hard lending. In view of commodity cycle going off & global growth at its low point impacting Chinese exports, China is moving towards its domestic market. This transition from outward looking economy (importer of commodities from across the world) to inward looking (consumer spending & services dependent) economy will again have its own repercussions on financial markets all over the world. As step to revive its competitive strength China devalued its currency in August 2015 by 1.9%. This surprise move resulted in world markets going into tailspin. We wish to highlight the impact of such devaluation in future if it going to be of higher magnitude. We expect significant devaluation in Chinese currency over CY16 & this may result in competitive currency devaluation amongst other emerging markets in order for them to maintain their fragile trade balances. We believe key monitorable through CY16 would be Chinese currency & any severe devaluation in Chinese Yuan will be amongst the biggest risk for global equity markets (especially other emerging markets like India).

View on domestic macro-economy

There is no doubt that in last year India's macro-economic indicators have turned favorable (all thanks to collapse in crude & other commodities prices). Since India is net oil importing country, steep fall in crude has reduced its import bill substantially. However unintended impact of falling crude & other commodities prices has led to a steep fall in top line of corporate results, as per unit realization came off in tandem. Net result is we saw continuous fall in exports as well as imports. Meanwhile Indian Rupee remained stable & perhaps performed the best amongst its currency peers. Consequently current account deficit appears to be comfortable.

A) Inflation optically under control but devil lies in details

Headline inflation seems to have been under control with CPI under/near RBI's comfortable zone while WPI has been consistently in negative zone for many months consecutively. However one need to understand that inflation is mainly down due to base effect & commodity prices coming off. Food & related articles have been the main reason for high CPI inflation & unfortunately those do not seem to come under control. Vegetables & Fruits, Pulses etc. are still increasing in double digits m-o-m & for a prolonged period notwithstanding seasonality in these items.

B) Government fiscal to deteriorate in next year leading to less headroom for many development activities

While the Government's fiscal position looks comfortable till now, it is likely to deteriorate in CY16. Significant portion of benefit of fall in crude prices has been retained by the government to improve its fiscal situation and as a result it will be able to manage it's targeted fiscal deficit for FY16. However the same benefit of crude fall will vanish in CY16 or FY17 as crude may not fall by similar percentage as it did in CY15. Other important deterrent will be nominal GDP which is likely to be much lesser than expected today. This year will be first year when we will witness real GDP higher than nominal GDP as GDP deflator used is WPI which has been in negative zone for an extended period. In effect this means that government will need to cut down expenses as tax collection will not be as high as was estimated earlier. Global economists will be keenly watching Budget in Feb 2016 for the fiscal deficit number.

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There is a high probability that government will miss on the already stated fiscal deficit target of 3.5% in FY17E. If this situation actually pans out then we should see sharp negative reactions from investors & heightened volatility in stock markets.

C) Expectation from RBI: 50 bps cut in rates over full calendar

In view of back to back 3 seasons of poor/below normal monsoon, increased FED rates leading to pressure on currency, partial transmission of previous rate cuts & risk of slippage on previously targeted fiscal deficit of FY17 we expect RBI to go slow on any further rate cuts in CY16. We expect at most 50 bps (in tranches) reduction in policy rates over CY16. However savings in interest expense at user/customer level may be higher, as we expect banks to initiate higher amount of rate cuts as they move to new lending rate calculation formula from April '16 onwards. Hence, this year, savings on interest expense may be more than what RBI gives.

D) Rupee to remain under pressure, INR USD may touch Rs72

We expect Rupee to remain under pressure, more so in first quarter of calendar, as global liquidity may be strained. Expectation of increased outflows by FIIs, probability of Chinese currency devaluation & continued strength in dollar may put immense pressure on Rupee. We expect Rupee to depreciate against dollar till Rs 70-72 levels but most part of the year Rupee is likely to hover around Rs 70 levels.

View on corporate earnings for FY17E: Downside risk still persist

Since INSL active coverage universe comprise of mainly mid & small cap stocks,we do not calculate earnings for headline indices on our own.

However in the past every year we have given our view on headline indices earnings & it gives me pleasure in writing that in all last 5 years we have been proved right that consensus always starts year on a very optimistic note & then keeps downgrading the expectations over the year. We do not expect this year to be different.

As of now consensus is building about 20% growth in earnings of both headline indices in FY17E over FY16E estimates. We agree that FY17E will have the immense benefit of low base of FY16 which probably has seen worst commodity cycle & with slightly more than half of index companies deriving their earnings from global markets are therefore are less dependent on Indian domestic growth. For the remaining half constituents the consensus is relying on 2 important factors for growth-1) sharp increase in government spends especially on roads/railways & 2) consumption boom coming from application of 7th Pay Commission report.

In our view the construction of index itself may help in showing optically good number but to achieve growth in high teens, we need to see sharp growth in remaining half of index companies which are mostly in cyclical sectors. Till now we have not heard any encouraging commentary from companies in cyclical sectors that can give us confidence that high growth can be expected in FY17E. Regarding government spend on roads/railways till now not many companies have reported numbers showing conversion of government's intentions into purchase order flows. We have seen some EPC activity in road sector but any BOT/annuity or PPP activity is completely missing. Given government's strained fiscal position how long or for how much this EPC activity can continue is a question? Similarly in railways we are yet to hear any initiation of projects on ground.

Till now we have only heard of big bang projects like Bullet trains, Smart cities etc. which are many years away from execution. Not much of Rs 8.5 tn to be spent on railway capex has come to public domain. Hence we have apprehensions on being too optimistic on government expenses.

While government has given hints of accepting recommendations of 7th pay commission & will apply these from April 2016, much would depend upon overall fiscal position of government. As discussed above in this report since we expect next year fiscal deficit to be very tight, the government may not have liberty to do so. Also CY16 is politically less active (not many elections) so government may not be under too much pressure to accept this recommendation with immediate effect. In earlier years we have seen governments deferring the decision & then pay arrears.

To conclude we believe FY17E earnings revival is predicated on boost from government on both capex expenditure as well increase in salaries of its employees. Some visibility on earnings will emerge from March 16 or June 16 quarter results & management commentary following these results. Until then we cannot say with confidence that 17% growth can be expected in FY17E. As of today we think there is scope of downward revision in corporate earnings expectations for FY17E.

Themes to play in CY16

1. Contra play in Oil/Gas space (RIL, ONGC, OIL)

In view of continuous fall in crude prices stocks in Oil/Gas space are trading at multi year lows. Most of these stocks have not returned any significant gains in last many years therefore they are highly under owned especially from institutions side.

We believe that steep fall in crude is already hit the bottom as most of the producers are already loosing too much & may not be in position to continue in this situation for a long time. While headline crude indices Brent & WTI have touched multi year lows the actual prices in other countries is already ruling around $20-25/bbl. We tend to believe assessment of many oil analysts that Crude may reverse trajectory by around middle of CY16. In that case if crude goes back to ~60$ global growth may come back & stocks in oil/gas space can perform very well. At operating level at current crude prices of ~$35-36, ONGC/ OIL are in marginal profit. We recommend out of consensus buy on upstream oil companies. We are avoiding downstream companies as their profit depends on government's discretion to pass on the benefit to them or not.

Can the same logic work for metal stocks? Our answer is NO. In the case of metals also the recovery in metal prices is dependent on global growth (more on China growth) but metals are not politically sensitive while oil is highly geo-politically sensitive. Also bear markets in metals are usually quite long. And third, most metal companies have highly stretched balance sheets so their capability to withstand adverse situation is constrained. While valuation wise Tata Steel & Hindalco appears attractive but any significant gains from investment in these stocks will be quite long drawn.

2. Consumption related stocks (auto/banks/NBFC/HFC/home improvement etc.)

If the Pay commission recommendations are accepted then government employees may get bonanza of around Rs 3.8 tn (including pension & central state govt employees.

Besides this a push can come from OROP for defense personnel involving ~Rs 100 bn. In the past cases of pay revisions we have seen strong spurt in demand for cars/2 wheelers/consumer durable like TV, Fridge, Washing machine, ACs & electronic appliances etc. Even house purchases increase due to more disposable income. Given the fiscal constraints this theme may not play out fully in this year but the expectation that salary hike is on the way may keep stocks in these sectors abuzz.

3. Power utilities (NTPC/PGCIL/KPTL/Alstom TD/KEC etc.)

Since the present government has come to power, maximum reforms have been initiated in power sector. Benefits of rationalization in coal allocation, implementation of UDAY etc. shall help this sector. NTPC is likely to witness 60% increase in regulated equity by FY19E on back of additional 15GW capacity addition. This increase in capacity is substantially higher than seen in many past years hence stock may see re-rating. Transmission is likely to remain focus area hence PGCIL, Kalpatru; KEC & Alstom will be key beneficiaries of that.

Strategy to play in CY16: Be stock specific, tone down return expectation and take short term tactical calls

We expect lower returns coupled with higher uncertainty in CY16. Therefore our strategy would be to take tactical calls for shorter time horizon. As volatility will be high, investors should remain nimble footed meaning book profits faster & tone down return expectations. Though headline indices may not return very high but CY16 returns will still be higher than CY15 returns.

We recommend investors should be stock specific instead of taking broad theme/sector calls. In our view CY16 will year of stock selection. To help you in this exercise, at the end of this report, we have appended list of 10 stocks which have potential to generate superior returns.

In our note dated Dec 30, 2014 we had recommended 10 stocks to play in CY15. It gives me great pleasure that those stocks have delivered -33 to 113% returns (equal weighted average of 10.9% v/s Nifty avg of -6.6% & BSE500 avg of -2.2%) taking into consideration our recommendation day price & price on Dec 22, 2015. However returns are much higher (avg 33.7%) if we consider the highest price these stocks have reached after our recommendation. I hope our esteemed investors would have benefitted from those recommendations.

Read on ensuing pages to know CY16 winning ideas.

*……..**Happy Investing & Once again Wish You All A Very Happy & Prosperous 2016.***

Daljeet S. Kohli

Head of Research

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Aurobindo Pharma (ARBP)

CMP: Rs 869 | Reco: BUY | Target Price: Rs 995

- We remain positive as there is relatively less regulatory risk and enough scope of earnings upside subject to ANDA approval. ARBP has target action dates for 33 ANDAs over next 12-18 months, which gives us confidence of 32% CAGR in adjusted PAT over FY15-FY17.
- ARBP has cumulative filing of 382 ANDAs. The cumulative ANDAs pending for approval stands at 158, which has good mix of complex molecules which would enable not only enhanced sales growth but also improved profitability for sustained period. The upside in earnings is subject to regulatory approval.
- ARBP has ~47 products pending for approval in injectables space and 16 products in controlled substance space.
- ARBP's R&D effort towards peptides, microspheres as well as hormones would also deliver better growth over 3-5 year period.
- The faster turnaround of acquired Actavis operation in Europe would help in further improvement in overall margins of the company. ARBP has maintained its guidance of shifting 50% of Actavis products to India facility by FY17
- ARBP has appreciated by 60% on relative basis with respect to Nifty. Despite such sharp appreciation, we remain positive on the stock as there are enough levers for further outperformance in the stock.

Valuation: At CMP of Rs 869, the stock is trading at 22.2x FY16E EPS of Rs39.4 and 17.7x FY17E EPS of Rs 49.7. We believe there could be upside based on further re-rating as well as earnings growth over 2-3 years. We have BUY rating with price target of Rs995, based on 20x FY17E earnings

Camlin Fine Science Ltd (CFSL).

CMP: Rs 101 | Reco: BUY | Target Price: Rs 136

- **Dahej Capacity Key Positive:** CFSL's capacity expansion in Dahej-SEZ should lead to significant reduction in sales-to-raw-material ratio. Further, Europe subsidiary selling Hydroquinone (~4900 MTPA) in open market will result in higher realization. As a result, the commencement of Dahej facility would have two-ways margin expansion.
- **Emerging Blend Company:** CFSL is strongly positioning to enter into the food formulations & antioxidant blends industry. In order strengthen its global presence CFSL started subsidiaries in China, Mexico & US to service these markets closely. This will also help CFSL to expand global presence and qualify to bid for global bids and clinch deals from players like Cargill Oil Co, TATE & LYLE, etc.
- **New Product to Drive Growth:** As a part of its growth strategy, the company has progressed towards expanding its product portfolio in Food Ingredients and Industrial Products Divisions. On the same line, the company launched four new products (HQMME, MDB-Methylene, 1-Chloro-2,5-DImethoxy Benzene, and MDB-Methyelen) in FY16. Given the cost and quality advantage, we expect these products to gain sizeable market share and likely to deliver higher revenue growth over near- to-medium-term.

Valuation: At CMP of Rs.101, the stock is trading at EV/EBITDA multiple of 10.9x FY16E and 8.9x FY17 estimates. Given the technology led moat in business and ability to expand in various diphenol derivatives, CFSL is well positioned to deliver higher revenue and margin over medium-to-long-term. We value CFSL at EV/EBITDA multiple of 13.0x (Industry average 13.4x) FY17E and arrive at target price of Rs.136 on the stock.

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Capital First Ltd. (CFL)

CMP: Rs 413 | Reco: BUY | Target Price: Rs 468

- **AUM likely to grow by 25% in FY15-17E –** Assets under Management (AuM) of CFL has grown at a CAGR of 44% over FY11-15 and performance towards retail loan assets has grown 15x since FY11 which is one of the best in the industry. With such a strong foundation, the company is well set to maintain current growth momentum in the coming years. We believe CFL is well poised to grow at a CAGR of 25% over FY15-17E mainly led by retail credit assets.
- **No fret on asset quality –** CFL has maintained its risk return profile efficiently even during difficult macro-economic periods. (Gross NPA / Net NPA at 0.86% / 0.48%, respectively as of Q2FY16). This is based on the fact that asset mix has shifted towards comparatively safer segments like LAP, Mortgage, two wheelers and Consumer Durables than riskier segments of developer loans. We don't expect any significant deterioration in asset quality and expect it to remain broadly stable.
- **NIMs to improve –** Change in borrowing mix coupled with focus on high yielding consumer finance will help the company to maintain NIM at high level. We expect the company will be able to maintain its margins at current level of 6.5% over FY15-17E .

Valuation: CFL has emerged as a specialized player in financing MSMEs by offering different products for various financing needs. The management continued to deliver robust result quarter over quarter. We continue to like the stock at current levels and we are positive on the company's long term future prospects. It remains one of the top picks among our NBFCs coverage universe. At CMP of Rs 413/-, CFL is trading at P/ABV of 2.1x and 1.9x for FY16E and FY17E respectively. We continue to maintain 'BUY' rating on the stock with price target of Rs 468/- (2.3x P/ABV for FY17E).

Force Motors Ltd (FML)

CMP: Rs 3066 | Reco: BUY | Target Price: Rs 3780

- **Increasing demand of LCV Traveller to boost revenue** - FML focuses on the niche passenger segment of the overall LCV market (where FML has a market share of around 40%), and more specifically in the market for LCVs with a maximum mass of five tonnes (where FML has a market share of around 75%). Force Motors Traveller is the main reason for improvement in performance of the automobile segment as even with 75% market share in less than 5 Tonne category FML is still growing while the other two competitors- Mahindra Tourister (10% market share) and Tata Motors (15% market share) are de-growing. Key drivers of growth for Traveller class of vehicles are: Ambulances, Bus aggregators, School bus segment and Diversified segment. Even this year, LCV segment has grown by 20% on YTD basis
- **Tie-up with BMW and Mercedes ensures long term revenue visibility-** FML is also engaged in the contract manufacturing business for leading automobile companies wherein the company assembles engines, axles, and gearboxes for Mercedes-Benz India Pvt Ltd and BMW India Pvt Ltd. Force Motors is the only company in the world to assemble engines for both BMW and Mercedes. With the addition of new customers in the auto component business, FML's revenue dependence on OEM's segments is expected to reduce to 52% by FY17E. Luxury car sales in India have grown from 8516 units in FY09 to 32362 units in FY15. We have conservatively taken ~ 17% CAGR growth in total luxury Car market in FY16e and FY17e.

Valuation: Force Motors net sales is expected to grow at CAGR 21% while the company's profit is expected to grow at CAGR of 43% for FY15-FY17E**.** At CMP of Rs. 3066, Force Motors is trading at 19.5x FY17e earnings; we recommend BUY with target price of Rs. 3780 (based on 24x FY17e earnings)

TOP PICKS *(Contd…)*

KPR Mills (KPR)

CMP: Rs.816 | Reco: BUY | Target Price: Rs 1059

- **Vertically Integrated Company:** KPR Mills Ltd is a vertically integrated company with capacity from yarn to garments. The company has been focusing on high margin garment segment to generate better profitability.
- **Self-sufficiency in power:** Since all the manufacturing facilities of the company are located in Tamil Nadu, a power deficit state, self-sufficiency in power is a key advantage. KPR Mills set up wind mills with a capacity of 61.9MW and Co-gen power plant of 30MW to achieve self-sufficiency in green power requirement throughout the year. Wind power season is April to September and Co-gen power season is October to March. Power cost of the company at ~3% is lowest amongst peers.
- **Expansion Plans:** KPR Mills is expanding its garment capacity (low capital intensive; high margin product) by 36 mn pieces per annum at cost of Rs 1750 mn. Post expansion, its garment capacity would reach 95 mn pcs per annum (March 2016), amongst the largest in India.
- **Decline in cotton price – a long term positive:** Due to declining Chinese import of raw cotton, cotton prices have been under pressure. As per USDA, world cotton production is likely to decline by 10% and cotton consumption is likely to increase by 2% in Cotton Season 2015-16. In our opinion, cotton prices would start increasing gradually post FY16 (after new cotton arrivals end). This would be beneficial for vertically integrated companies like KPR Mills as their raw material cost would be secured at lower prices.

Valuation: We believe that KPR Mills would re-rate due to improving profitability and focus on higher margin garments business. At CMP of Rs 816, KPR Mills trade at 12.9x and 9.3x its FY16E and FY17E earnings respectively. We maintain BUY rating on the stock with SOTP based target price of Rs 1059 per share.

Majesco Ltd. (MJCO).

CMP: Rs 642 | Reco: BUY | Target Price: Rs 778

- **Rated Industry Player:** MJCO's P&C platform is rated 3rd for Billing domain by Gartner. Also in group L&A insurance, the company platform stood at Top-3 position in US. Given the advance & unique offerings, the company has been able to scale its business from 30 Customer in FY08 to 100 customers in FY15.
- **Acquisitions Triggers Cross-Selling:** The recent acquisition of Agile (10 Clients) and merger of Cover-All Tech (30 Clients) should bring significant cross-selling opportunity. Further, the enhancement of presence across insurance technology post acquisition [P&C-Consulting, P&C-Personal Line, P&C-Commercial Line, Data Analytics, Cloud & Partnership] increases revenue visibility. As a result, MJCO management expects revenue CAGR in the range of 23.4-28.4% (to $200-225 mn) over next three years (FY15-18E).
- **Geography Expansion & L&A Potential Triggers:** MJCO is looking to enter new geographies in order to accelerate the growth. The first phase of diversification should start with launch of P&C platform in UK. Additionally, the company will be aggressively expanding its L&A business in N.America and Canada post the successful outcomes of Foresters/Unum Insurance implementation. We believe these initiatives will not only diversify the business risk but also increase licence revenue, which in-turn will boost margins.

Valuations: At CMP of Rs.642, the stock is trading at EV/Sales of 2.1x/1.5x FY16E/FY17E estimates (P/E 58.4x FY17E). We value MJCO at EV/Sales multiple of 2.4x FY17E and arrived at revised TP of Rs.778 from Rs.704 earlier. Given the 19% upside from TP, we Maintain BUY rating on MJCO.

Nesco Ltd. (NSE)

CMP: Rs 1,615 | Reco: BUY | Target Price: Rs 1,896

- **I.T. Park & Realty Division [To Boost near-term Revenue]**
  In FY15, the segment delivered 89.6% y/y revenue growth and contributed 40.6% to the overall revenue. Given the 100% occupancy level for IT Building-3 [achieved in Q2FY16 & rent free period to expire soon], actual lease rentals to generate on ~0.65 mn sq. ft.(v/s ~0.45 mn sq. ft.) of leasable area, we expect 15% y/y increase in FY16E revenue from IT Park and Realty Division.
- **Bombay Exhibition Centre [Sustains its Competitive Advantage]**
  In FY15, the exhibition segment delivered 10% y/y revenue de-growth and contributed 38.5% to the overall revenue due to few cancellations and underutilization of space. However, BEC has witnessed a CAGR growth of ~28% in the past ten years on back of its location advantage [~0.45 mn sq. ft. of space combined with attractive offering]. As a result, BEC has been able to increase its monthly rental to Rs 159/per sq. ft (FY15) from Rs. 27/per sq. ft (in FY06).
- **Re-Rating Potential:** As excavation work of IT Buidinng-4 is in full progress and the revenue visibility becomes clearer, we expect significant revenue upside in medium to long term for Nesco. The grant of additional FSI for Exhibitions business could add to the revenue & profitability in long term. According to the management, the company can build ~1.5 mn sq. ft. (v/s existing ~0.45 mn sq. ft.) of Exhibition space and ~4.0 mn sq. ft. (vs existing ~12.2 mn sq. ft.) of IT Park space if FSI is approved.

Valuation: We forecast FY15-17E to see net profit CAGR of 19%, on the back of increase in occupancy levels at their recently commenced IT Building-3. At CMP of Rs 1,615, Nesco is trading at FY16E & FY17E EV/EBITDA multiple of 12.0x and 9.5x, respectively. We recommend BUY rating and a revised PT of Rs. 1,896 from Rs 1,646 earlier(Using SOTP based model)

NTPC (NTPC)

CMP: Rs 139 | Reco: BUY | Target Price: Rs 162

- NTPC currently has 23.5GW under construction of which it plans to capitalize 15.5GW (30% of existing 45GW base) between FY16e to FY18e. Once these projects executes this can potentially add ~60% to regulated equity (existing regulated Equity is Rs. ~370 bn) by FY19.
- NTPC has high earnings visibility since it earns minimum 15.5% costs plus as assured return on equity invested in power business under CERC norms. Though FY15 earnings were impacted due to change in CERC norms, management has been guiding for a revival in RoEs as company adjusts operations to more stringent norms (higher PLF and PAF) to earn efficiency gains.
- The company has a secure fuel supply with 90 per cent of its coal requirement being met from Coal India and the rest from imports. Apart from that, NTPC has captive mines too. Government has also allowed commercial mining by public sector units. Beneficiary of this move would be NTPC as the company will be able to sell their surplus coal or dependency on import would reduce.
- Solar capex is an additional 10GW targeted in next 7 years, which provides long term earning visibility.

Valuation: At CMP of Rs. 139, NTPC is trading at 1.15x FY17E BV. We maintain our BUY rating on the stock with target price of Rs 162 (1.4xFY17E BV)

TOP PICKS *(Contd…)*

Reliance Industries Ltd (RIL)

CMP: Rs 1004 | Reco: BUY | Target Price: Rs 1300

- In Q2FY16 RIL's reported GRM at $10.6/bbl vs. $10.4/bbl in Q1FY16 and $8.3/bbl in Q2FY15, which was its highest GRM in the past six years. We expect slowdown in capacity addition and higher demand for Gasoil and Gasoline on lower crude oil price will support higher GRM going forward.
- Further USD 4 bn Petcoke Gasification project is under rapid execution which is expected to provide competitive energy costs. RIL's dependency on imported gas will decrease with completion of coke gasification and GRM will improve by $2-2.5 per barrel.
- Besides the coke gasification project, RIL has earmarked USD 4 bn for a petrochemicals project in Jamnagar that will include a cracker unit. This project is expected to be commissioned in FY17 and would nearly double the ethylene capacity to 3.3 million tonnes a year.
- RIL reported ROE of 11.3% in FY15, down 50 bps YoY. The key reason for decline in ROE was increase of Rs 750bn in CWIP under the ongoing capex programme that pulled down asset turnover sharply. We expect ROE to improve from FY17, when its large projects will commence. Further retail business is continuously progressing well and telecom business is likely to contribute in overall revenue from FY17.

Valuation: RIL is in the midst of executing its largest ever capex plans in core and non-core businesses. We expect the earnings growth trigger to play out in RIL in FY17, when its large core projects get commission. The Core projects are petcoke gasification plant at its refinery, refinery off-gas cracker in petrochemicals, polyester/aromatics capacity expansion. At CMP Rs. 1004 stock is trading at 11.0x FY17E EPS which is lower than its mean of 15x. We maintain BUY rating on the stock with target price of Rs. 1300(based on 14x FY17e earnings).

Tata Motors Ltd (TTMT)

CMP: Rs 379 | Reco: BUY | Target Price: Rs 496

- **Domestic business continued its strong performance** in Q2FY16 on back of growth in M&HCV and PV segment. TTMT's CV business is well placed to ride the recovery with wide and compelling product range-with new launches across Prima and Ultra Range, refreshes/variants in SCV and pick-ups. The company has done well in PV segment with launch of Zest and Bolt and we expect the good performance to continue as number of models are lined up for launch like Tata Zica Hatchback, Tata Hexa Concept SUV and Tata Nexon next year.
- **On consolidated front**, Tata Motors profitability was impacted due to inventory write down related to Tianjin port explosion. Insurance money is expected to come after few months. JLR continued to do well in US and Europe. The sales is expected to keep on improving in the next three or four years due to capacity addition and entry into new geography. The 16 Model Year Jaguar XJ is expected to be launched in Autumn this year and the Jaguar F-PACE and Evoque Convertible is expected to be launched in Q4 FY16. All these new products are expected to drive significant volume growth in 2016/17.
- **Strong numbers from US, Europe and UK neutralising lower China sales** – JLR showed 27% YoY growth in November. JLR sales are up 6% YTD inspite of 28 % fall in China sales compared to last year reflecting the slowdown in the China's economy. But sales have soared 23% in the UK, 35% in the rest of Europe and 28 % in North America which has made up for fall in China sales.

Valuation: At CMP of 379, the stock is trading at 10.2X of its FY17E EPS. We value JLR Standalone at Rs 410/share based on 4x FY17E EV/EBITDA, JLR JV at Rs 32/share based on 1x FY17E EV/Sales, Indian business along with subsidiaries and associates at ~Rs. 70/share, based on 8x FY17E EV/EBITDA and 25% discount on investments and Net Debt at ~Rs - 15/share. We maintain BUY rating with SOTP based TP of Rs. 496.

VALUATION TABLE

Company Name	Sales / NII (Rs. Mn)		EBITDA / PPP(Rs.Mn)		PAT (Rs. Mn)		EPS (Rs.)		Adj P/E (P/ABV)		RECO	CMP	TARGET
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E		Rs	Rs
Aurobindo Pharma	154,014	177,085	35,174	43,902	22,794	28,511	39.2	49.0	22.2	17.7	BUY	869	995
Camlin Fine Sciences	6,197	7,188	992	1,223	521	683	8.4	9.5	12.0	10.6	BUY	101	136
Capital First	8,642	10,661	4,476	5,738	1,671	2,297	18.3	25.2	2.1	1.9	BUY	413	468
Force Motors	29,833	34,598	2,476	3,079	1,640	2,076	124.4	157.5	24.6	19.5	BUY	3066	3780
KPR Mills	28,422	33,379	4,491	5,646	2,381	3,315	63.2	88.0	12.9	9.3	BUY	816	1059
Majesco	7,333	10,143	59	456	-48	254	-2.1	11.0	NA	58.4	BUY	642	778
Nesco	2,253	2,742	1,613	1,975	1,221	1,511	86.6	107.3	18.6	15.1	BUY	1615	1896
NTPC	831,301	853,268	191,199	196,252	87,957	84,153	10.7	10.2	1.4	1.2	BUY	139	162
RIL	4,343,647	4,494,807	412,296	479,625	249,824	258,235	80.7	91.0	12.4	11.0	BUY	1,004	1,300
Tata Motors	2,607,095	2,776,420	353,610	389,656	114,733	126,284	33.8	37.2	11.2	10.2	BUY	379	496

Note: CMP as of 23 Dec 2015; Net Sales = Net Interest Income, EBITDA = Pre provisioning profit and P/E = P/ABV for capital first
Source: Company Fillings; IndiaNivesh Research