IndiaNivesh

Trust......we earn it.

IndiaNivesh Securities Private Limited

e-mail: research@indianivesh.in | Website: www.indianivesh.in

IndiaNivesh
Trust......we earn it.

Diwali Picks

- Ashiana Housing
- Capital First
- Meghmani Organics
- Pennar Industries
- Reliance Industries

Daljeet S. Kohli
Head of Research

Mobile: +91 77383 93371, 99205 94087
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

From the desk of HOR

Dear Investors,

WISH YOU ALL VERY HAPPY DIWALI & A PROSPEROUS NEW YEAR.

India at present is in the sweet spot

India at present is in the sweet spot with global commodity prices coming off significantly. The greatest advantage for India is falling crude prices. According to street estimates every $10/bbl fall in international crude prices can boost GDP by 10 bps, add about USD 9 bn to current account balance and improve fiscal deficit by 0.1%. All this means comfortable current account situation for the country. However we wish to highlight that lower crude is good for India only in short term as it fixes our deficit problems but in the long term lower crude prices means lower demand in global economies effectively meaning faltering global growth. In the absence of global economic recovery it is difficult to fathom that India can still continue to grow. We are not in the camp that believes India can de-couple to a large extent from the global economies. It (India) will surely be impacted by whatever happens in the world albeit the impact may be lesser.

On the domestic front after lapse of almost 3 decades India witnessed a decisive change in Indian Polity with general elections giving a clear & decisive verdict resulting in strong political establishment at the centre. This political stability with strong leadership can do wonders for reviving growth which somehow has been faltering on lower side for quite some time. In the past, many executive decisions that have been deferred on some pretext or the other can be taken now.

Consistent & diligent efforts by RBI on managing inflation as well as government's finances have started yielding results. All the hard work of last couple of years is coming to fruition in form of manageable inflation & under control twin deficits.

In view of the aforesaid discussion India may emerge as a preferred destination of investment for anyone in the world as it (India) is positioned as a large economy with high growth potential, having stable & reform oriented government & big beneficiary of commodity super cycle coming off.

Clear & Present Danger Ahead

In the midst of all round euphoria on probably all aspects it may appear to be a bit of out of place for someone to strike a cautious chord. However we believe analysis is all about deriving inferences after taking into consideration many possible scenarios.

There is this risk of US FED increasing interest rates in near future. Many market participants believe that given the economic revival in US, Interest rates cannot remain at near zero levels for long time. Hence interest rate going up is a matter of "time" & not a matter of "IF".

FED raising rates means that over the course of next couple of months we will be entering in unprecedented territory of uncertainty as US FED would be following a contractionary monetary policy while at the same time Japan & Euro region Central Banks are likely to continue with expansionary monetary policy. The financial world has not seen this scenario ever in its history. No one knows how the global stock markets will react to a

From the desk of HOR *(contd…)*

situation of diametrically opposite policies followed by very large economic blocks. We cannot assess how it will impact the flows of money into or out of various markets. In our opinion in such a situation of heightened uncertainty usually Emerging Markets are at the receiving end. Hence we believe all Emerging markets have a clear & present danger of money flowing out of the markets & India may not be an exception.

Just to remind our investors last year in May 2013 when FED Chairman made statements on withdrawal of quantitative easing India witnessed very large scale of pull out of funds by FIIs resulting in deep cuts in our markets (Nifty fell 871 points between May 20, 2013 to August 28, 2013.).

However an important point to note is that in last year's fall, majority of outflow was from equity markets, not any significant amount of money was withdrawn from debt. However this time the risk is arising from interest rates going up meaning differential with Indian rates will narrow down leading to funds may be withdrawn from debt too. If debt outflows start then we can be in for a very strong downturn & our currency again may become highly vulnerable which in turn would mean huge negative impact on equity markets. We wish to highlight that many of our peer brokerages are not estimating any large scale withdrawals from India (neither from Equities nor from Debt). We remain optimistically cautious & hope no large out flows happen. Nevertheless this is a cause of concern for equity market performance over next couple of months.

So what should an investor do now?

In our opinion, the fundamentals of economy at macro level are surely in much better shape than what they were at this time last year. Inflation is under manageable limits with probability of remaining under RBI's comfort zone. Position on current account deficit also seems to be under control benefiting from falling crude prices. However artificial curbs on gold/silver imports are still the biggest reason for comfortable external position. In our view RBI does not have much room for complacency as Crude prices can re bound any time & any fall out of large withdrawals of funds by FIIs in wake of rising US rates may again make our currency vulnerable.

While battle on inflation may seem to be under fist of RBI, economic growth of country is still eluding. Many more reforms in terms of fast decision making, removing bottlenecks in execution are still required to revive growth. Even after lapse of couple of months of taking over reins of the country by present government the ground realty on execution has not changed too much. While sentiment & business confidence have been boosted but actual recovery is still some time away. First step by government on gas pricing & diesel de-regulation may hint a start of long awaited growth recovery. We believe micro level growth may still be at least 2 quarters away.

We believe in next 6 months our markets movements will be driven by international events especially what the Central banks in US, Euro regions & Japan do. We are of the opinion that while domestic news flow in terms of any reform oriented actions taken by the government may provide cushion on downside, the upside will remain capped due to global news.

From the desk of HOR *(contd…)*

We suggest investors should stay put in the market *with strong set of companies in their portfolio. They should avoid high beta stocks. Only fundamentally strong stocks may be held on even at this level.*

Avoid weak balance sheet companies & the ones that have seen stretched valuations. There is lot of hope built around capital goods, infra or cyclical stocks on basis of government action leading to recovery in these sectors. We remain cautious of too much of optimism built around these sectors hence remain very choosy in the sector. In the past export related sectors like IT & pharma have yielded good results. We still remain bullish on these sectors. However we expect some growth retardation in few pharma stocks due to high base effect & lesser new launches. We maintain our bullish stance on Energy sector as a whole which includes Oil/ Gas, Coal & power. Autos (2 wheelers), NBFC & Cement (especially mid cap) also remain in our buy list. We still remain away from real estate/ construction due to governance issues while FMCG is avoided due to high valuations.

5 stocks for Diwali 2014

We have been following the tradition of recommending 5 stocks each year at the time of Diwali for investment with 1 year time horizon. I hope our esteemed investors would have benefited from our earlier recommendations & added to their prosperity. Our Diwali 2013 stocks have given returns in the range of 19% to 60% from our recommended price to stated target price. However if we look at high price these stocks reached after our recommendation, the stocks have given much higher returns. All the 5 stocks given last year are still in our recommendation list. For the benefit of our esteemed investors we have given our latest view on those stocks too.

This Diwali of 2014, we are presenting you another set of 5 stocks which we believe have the potential to yield superior returns. Read the following pages to know those ideas.

Once again I wish you & your family members a Very Happy Diwali & Prosperous New Year.

Happy Investing

Regards

Daljeet S Kohli
Head of Research (HOR)

Ashiana Housing Ltd. (AHL)

CMP Rs.155 |P/E (FY15E) 19.9x | P/E (FY15E) 7.8x
Target Rs. 202

Investment Rational

- **Developer with Unique Business Model:** Ashiana Housing Ltd. (AHL) is a unique asset light developer, with strong focus on pursuing Real Estate business in Tier II and III cities. AHL has unique business model, (1) where land cost as % of construction cost is lesser (vs. their listed peers), (2) does not build huge land banks, (3) does in-house construction as well as sales, & (4) consistently explore the alternative of deploying lower capital across projects. This asset light strategy and focus on cash flow generation has helped AHL remain debt free and experience above industry level Internal Rate of Returns (IRRs) of >30% across most of the projects.
- **Highest Return Ratios in the Industry:** AHL is the only listed developer, which has consistently maintained >25% RoE as well as RoCE for last few years (with exception of FY13 & FY14). Sudden drop in FY13-14 return ratios is owing to company's strategy to shift its accounting methodology. With most of the ongoing projects reaching completion, we expect AHL to report FY16E RoE and RoCE of 35.0%, each.
- **FY15-16E to see strong earnings growth:** AHL is likely to report ~149% top-line CAGR during FY14-16E (to ~ Rs 6.9 bn), on the back of 3 projects entirely getting completed (Tree House, Utsav and Anantara) and some phases of remaining 7 projects getting completed (Ashiana Town, Rangoli Gardens, Aangan, Gulmohar Gardens, Navrang, Vrinda Gardens, Dwarka and Umang). We expect AHL to report ~192% PAT CAGR during FY14-16E (to ~Rs 1.8 bn; PAT margins would expand from 19.8% in FY14 to 27.1% in FY16E).

Valuations

With substantial chunk of ~6.8 mn sq. ft. of ongoing projects reaching revenue recognition threshold, we expect revenue visibility to sharply improve from here-on. With debt free balance sheet, at CMP of Rs 155, AHL is trading at FY15E and FY16E, EV/ EBITDA multiple of 17.6x and 5.7x, respectively. We have valued AHL using Sum-of-the-parts (SoTP) basis to arrive at FY16E based price target of Rs 202.

YE March (Rs mn.)	Net Sales	EBITDA	PAT Adj.	ROE (%)	EPS (Rs)	PE (x)	EV/EBITDA (x)
FY14A	1,106.5	197.4	218.6	7.7	2.3	66.0	70.6x
FY15E	2,470.4	786.1	726.4	20.7	7.8	19.9	17.6x
FY16E	6,869.5	2,385.0	1,858.6	35.0	20.0	7.8	5.7x

Source: Company Filings; IndiaNivesh Research   Note: CMP as of 17/10/2014

Capital First Ltd. (CFL)

CMP Rs 290|P/ABV (FY15E) 2.0x|P/ABV (FY16E) 1.7x
Target Rs 360 (P/ABV FY16E 1.9x)

Investment Rationale

- Capital First Ltd (CFL) is the leading Non Banking Financing Company (NBFC) providing finance to Retail (SME) and Wholesale businesses. In Retail Financing it offers Consumer Durable Loans, Two-wheeler Loans, Loan against Property, Mortgage, Gold Loans and Small Business Loans while in Wholesale business it provides loans majorly to real estate developers. CFL has a total AUM of Rs 106 bn with strong distribution network of 161 branches and 1,090 employees spread across 40 cities.
- Asset Under Management (AUM) of CFL has grown at 79% CAGR over FY10-14 led by low base. As a strategy to focus on retail segment (which includes Consumer Durable Loans, Two wheeler Loans, Loan against Property, Mortgage, Gold Loans and Small Business Loans), AUM of CFL has gradually moved towards retail from 10% in FY10 to 81% in FY14. We believe CFL is well poised to grow at 28% CAGR over FY14-16E with more focus on retail segment. (AUM of CFL grew 32% y-o-y in Q1FY15 to Rs 106 bn).
- After the change in management in FY10, Credit rating of CFL has improved materially from A+ in FY11 to AA+ in FY13 which is indication of safety in terms of servicing and also one of the highest ratings in financial services industry. As a result, Significant portion of CFL's borrowings forms the term loans from banks which are raised at close to base rate.
- Net Interest Margin (Calc) of CFL has remained stable at 4.5-4.7% in last 2 financial years. With stable borrowing profile and company's increasing presence in high yielding segments (i.e. two wheeler, gold, consumer durable loans), margins are likely to improve slightly going forward. However, we remain conservative and expect it to remain broadly stable around 5.0% over FY14-16E. (NIM of CFL was at 4.9% in Q1FY15).
- CFL was successful in maintaining its asset quality with the lowest Gross and Net NPAs in the industry at 0.5% and 0.1%, respectively as of Q1FY15. 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.

Valuations

CFL's management has delivered the promises of changing the business strategy which has yielded positive results despite struggling environment for financial services industry. We believe that CFL is well placed to move on to next stage of growth. Though return profile of CFL is lower than its closest peer but we believe ROEs are likely to improve to double digit by FY16E from current low single digit. The company reported stellar sets of numbers in Q1FY15 which were way above our expectations. We believe the current growth momentum is likely to continue during coming quarters on the back of strong execution capabilities. At CMP of Rs 290/-, CFL is trading at P/ABV of 2.0x and 1.7x for FY15E and FY16E respectively. We maintain 'BUY' rating on the stock with target of Rs 360/- (P/ABV of 2.1x for FY16E).

Financials:

Rs mn	NII	PAT	EPS (Rs)	ROA (%)	ROE (%)	BV (Rs)	ABV (Rs)	P/E	P/BV	P/ABV
FY12	3,063	922	14	2.0	11.9	126	126	9.9	1.1	1.1
FY13	3,084	698	10	1.1	8.0	134	134	16.5	1.2	1.2
FY14	4,038	370	5	0.4	3.6	138	138	34.1	1.1	1.1
FY15E	5,204	915	11	0.8	7.8	147	144	25.4	1.9	2.0
FY16E	6,717	1,276	14	0.9	9.0	176	171	20.4	1.8	1.7

Source: Company, IndiaNivesh Research; Standalone; closing price as of October 17, 2014

Meghmani Organics Ltd. (MOL)

CMP Rs.17 | EV/EBITDA (FY15E) 5.4x | (FY16E) 4.8x
Target Rs.34 (5.9x FY16E P/E)

Investment Rationale

- Absence of incremental growth capex from here on could lead to higher free cash flow generation, repayment of debt (paid Rs.500 mn in Oct-2014) and better net profit margin.
- Investments in pollution control equipment and permissions in place from state level pollution control board. This could result in higher plant utilization and margin expansion.
- Given that all safety and environment certifications are in place, MOL could attract new order wins and also remain eligible for contract manufacturing order from MNCs .
- All newly commenced facilities both in Pigments & Agrochemical segments are stabilized and ready to deliver higher revenue growth going ahead.

Valuations

At CMP of Rs.17, the stock is trading at EV/EBITDA multiple of 5.4x FY15E and 4.8x FY16E estimates. In our view, the current valuations are significantly below 7.5x global peer average. On back of various triggers like: (1) debt reduction, (2) margin expansion, and (3) higher plant utilization the stock is poised for re-rating. We have assigned 5.9x EV/EBITDA multiple (21% discount to global peers) to arrive at FY16E based price target of Rs. 34/share with BUY rating.

YE March (Rs mn)	Net Sales	EBITDA	Adj PAT	EV/EBITDA(x)	EPS (Rs)	PE (x)	ROE(%)
FY 14A	11,783	1,959	228	6.0	0.9	18.2	17.8
FY 15E	13,367	2,205	325	5.4	1.3	12.4	33.6
FY 16E	14,871	2,454	567	4.8	2.2	7.3	33.6

Source: Company Filings; IndiaNivesh Research *Note: CMP as of 17/10/2014*

Pennar Industries Ltd. (Pennar)

CMP Rs. 52 |P/E (FY15E) 9.7x | P/E (FY16E) 6.5x
Target Rs. 81

Investment Rationale

- **Moving from commodity to value added products:** Pennar Industries is moving from pure commodity player to value added player with its range of engineering products. This transition is helping the company improve its consolidated margin as company has added many high margin segments in its portfolio.
- **Direct Play on overall macro-economic recovery:** As company caters to the large part of economy's sectors like Automobile, Infrastructure, Railway etc, it is well placed to take the advantage of any economic uptick through its diversified business portfolio.
- **High Operating leverage and Low Financial leverage provides high upside and limited downside potential:** Muted economic environment has reduced capacity utilization for Pennar Industries in last couple of years. With likely economic cycle revival, increase in capacity utilization will act as major margin booster for the company. On the other hand delay in revival should not be major concern as company has low financial leverage and large part of its debt is working capital debt.
- **Subsidiary PEBS is Key Growth Driver:** Other major growth driver for the company will be PEBS, which is amongst top 5 players in India. As the concept of pre-engineered building products (PEBS) is catching up fast in India; anyone setting up an industry now would look for early commissioning of plants, PEBS is poised for abnormally strong growth. A corporate action by the company on getting this subsidiary (PEBS) separately listed on exchanges could be the additional trigger for the stock.

Valuations

At CMP of Rs.52, Pennar Industries is trading at P/E multiple of 9.7x FY15E and 6.5x FY16E earnings estimate, which is well below 14.3x – three year historical average. Average ROE for the company is past 3 year has been 12.9%. In FY15E and FY16E, the ROE of the company is likely to improve to 16.4% and 20.3% respectively on back of increased capacity utilization and margin expansion. We value this company at conservative PE multiple of 10x to FY16E EPS (Rs.8.1), which gives the target price of Rs 81.

YE March (Rs. Mn)	Net Sales	EBITDA	Adj. PAT	EPS (Rs)	ROE (%)	PE (x)	EV/EBITDA (x)
FY14A	11,133	898	260	2.0	6.9	26.5	3.9
FY15E	16,366	1,637	713	5.4	16.4	9.7	5.0
FY16E	20,784	2,182	1,063	8.1	20.3	6.5	3.7

Source: Company Filings; IndiaNivesh Research Note: CMP as of 17/10/2014

Reliance Industries Ltd. (RIL)

CMP Rs.934| Target Rs.1,111 (13x FY16E P/E)
P/E (FY15E) 11.5x | P/E (FY16E) 10.9x

Investment Rationale

- RIL is the largest private player in the refining, petrochemical and E&P sectors in India. RIL's refining complex in Jamnagar is the largest in the world and among the most complex. The company's US$4bn pet coke gasification project remains on schedule for implementation by FY16 end, which is likely to help in expansion on operating margin of refining business.
- Although RIL is not entitled to receive any benefit from the gas price hike as of now , If RIL is able to prove that the production cut was indeed due to geological reasons (as it claims), the 'company will be able to claim the amount parked in the escrow account. We believe gas price hike for RIL's KGD-6 is inevitable in medium to long term.
- We believe successful discovery in MJ1 well and exploration in R-Series gas field in KG D6 block would help to ramp up the production of natural gas in next 2-3 years.
- The company plans to invest Rs. 1.5t in the next 3 years in pet coke gasification, polyester expansion & off-gases crack, E&P activities, telecom and retail businesses. This should drive RIL's earnings growth over the medium to long term.
- Shale Gas and Retail business also showing remarkable growth and likely to be key revenue and profitability driver going ahead.

Valuation

We remain positive on RIL's strategy of organic growth in its core businesses, and continue to see strong earnings delivery with the commissioning of new capacities. RIL's new refining/ petchem projects likely to add to earnings from end-FY16/FY17,Further, Shale Gas and Retail business are also showing remarkable growth and likely to be key revenue and profitability driver going ahead. At CMP Rs. 932 stock is trading at 10.9x FY16E EPS which is lower than its mean of 15x. We maintain buy rating on the stock with target price of Rs. 1,111.

Rs. Mn	Net sales	EBITDA	Adj. PAT	EPS(Rs.)	EBITDA Margin (%)	ROE (%)	P/E(x)	EV/EBITDA(x)
FY14A	4344600	357610	224930	76.6	8.2	9,5	12.2	10.0
FY15E	4343647	412296	249824	80.7	9.5	10.5	11.5	9.0
FY16E	4494807	449481	276507	91.0	10.0	10.7	10.9	8.0

Source: Company Filings; IndiaNivesh Research; Bloomberg. Note: CMP as of 20/10/2014

Review of 2013 Diwali Picks

Company	Last Diwali (25/10/2013)					Current View			
	CMP	Target	Reco	Achieved	High since Reco	CMP^	Target	Reco	Commentary /Current View
Bajaj Finance	Rs 1,286	Rs.1,648	BUY	YES	Rs. 2,810	Rs.2,556	Rs.2,855	HOLD	Bajaj Finance (BFL) continues to deliver consistent performance with strong growth in AUM led by focus on retail financing in Consumer and SME segment. On back of robust growth leading to consistent outperformance from industry and expansion in multiple across the industry, we increase the target multiple to 2.5x indicating the target price of Rs 2,855.
Coal India	Rs.279	Rs. 360	BUY	YES	Rs. 424	Rs. 351	Rs.422	HOLD	Our DCF based target price of Rs. 422 has already been achieved, we are waiting for better entry point for the stock. We maintain HOLD rating on the stock with same target price.
J.B. Chemicals & Pharmaceuticals	Rs.93	Rs.149	BUY	YES	Rs. 258	Rs. 213	Rs.295	BUY	The stock has delivered phenomenal return of 147% since our recommendation. We expect re-rating of the company based on robust business model and superior execution. We continue to remain bullish with price target of Rs295, with implied potential upside of 28% from current levels.
Mastek	Rs.160	Rs.193	BUY	YES	Rs. 337	Rs.260	Rs.550	BUY	Our target price of Rs. 193 is already achieved on Mastek Ltd. Post demerger of product and software business into separate companies, we raised our target price to Rs. 550/share with BUY rating. In our view, de-merger could lead to significant value creation for both Majesco Ltd (Product Business) & Mastek Ltd (Software Business).
Reliance Industries	Rs.886	Rs.1,053	BUY	YES	Rs. 1,145	Rs. 938	Rs. 1,111	BUY	Target Achieved, upgraded our target price to Rs. 1,111

^*CMP as of 17/10/2014*

RESEARCH TEAM

Daljeet S. Kohli
Head of Research
Mobile: +91 77383 93371, 99205 94087
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Amar Mourya
Research Analyst
Tel: +91 22 66188836
amar.mourya@indianivesh.in

Abhishek Jain
Research Analyst
Mobile: +91 77383 93433
Tel: +91 22 66188832
abhishek.jain@indianivesh.in

Yogesh Hotwani
Research Analyst
Mobile: +91 77383 93373
Tel: +91 22 66188839
yogesh.hotwani@indianivesh.in

Prerna Jhunjhunwala
Research Analyst
Mobile: +91 77388 92065
Tel: +91 22 66188848
prerna.jhunjhunwala@indianivesh.in

Tushar Manudhane
Research Analyst
Mobile: +91 75066 45373
Tel: +91 22 66188835
tushar.manudhane@indianivesh.in

Kaushal Patel
Research Associate
Mobile: +91 77383 93414
Tel: +91 22 66188834
kaushal.patel@indianivesh.in

Rahul Koli
Research Associate
Mobile: +91 77383 93411
Tel: +91 22 66188833
rahul.koli@indianivesh.in

DISCLAIMER

Thank You

IndiaNivesh Securities Private Limited
601 & 602, Sukh Sagar, N. S. Patkar Marg,
Girgaum Chowpatty, Mumbai 400 007.
Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in

This document has been prepared by IndiaNivesh Securities Private Limited (IndiaNivesh), for use by the recipient as information only and is not for circulation or public distribution. This document is not to be reproduced, copied, redistributed or published or made available to others, in whole or in part without prior permission from us. This document is not to be construed as an offer to sell or the solicitation of an offer to buy any security. Recipients of this document should be aware that past performance is not necessarily a guide for future performance and price and value of investments can go up or down. The suitability or otherwise of any investments will depend upon the recipients particular circumstances. The information contained in this document has been obtained from sources that are considered as reliable though its accuracy or completeness has not been verified by IndiaNivesh independently and cannot be guaranteed. Neither IndiaNivesh nor any of its affiliates, its directors or its employees accepts any responsibility or whatever nature for the information, statements and opinion given, made available or expressed herein or for any omission or for any liability arising from the use of this document. Opinions expressed are our current opinions as of the date appearing on this material only. IndiaNivesh directors and its clients may have holdings in the stocks mentioned in the report. **IndiaNivesh directors and its clients may have holdings in the stocks mentioned in the report.**