KARVY STOCK BROKING

Market Strategy:

Wealth Maximizer

New Year Special:

January - 2015

Karvy wishes you a very

Happy, & Prosperous

New Year 2015

Karvy's Top 10 Largecap Picks

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India Research – Stock Broking

Wealth Maximizer

Stellar Performance of Indian Equities

Indian equities had outperformed major global indices, barring China during CY2014, mainly driven by MODIfied political and investment scenario. Among the domestic factors, Lok Sabha elections 2014, in which BJP under the leadership of Mr Modi had got the decisive mandate removing the political uncertainty and brought hopes for good governance. Sharp drop in crude oil prices and stronger rupee had improved fiscal health and led to a turnaround in Indian macros. Globally, steady recovery in the US economy had led to the US Fed ended the QE and readying for increase in interest rates, confirming the healthy recovery in the worlds' largest economy.

Our Wealth Maximizer 2014 performed well with Nine out of ten stocks exceeding the targets. We retain six out of the ten stocks and replaced four stocks due to expected under-performance in the next few quarters.

Wealth Maximizer - 2015

NSE Symbol	R	CMP (₹)	TP (₹)	US (%)
ASIANPAINT	B	752	888	18
DIVISLAB	B	1723	2090	21
HDFCBANK	B	952	1150	21
ITC	B	369	450	22
JSWSTEEL	B	1048	1500	43
LT	B	1495	2000	34
RELIANCE	B	891	1110	25
TATAMOTORS	B	496	655	32
TCS	B	2558	2960	16
ULTRACEMCO	B	2676	3200	20

R: Rating, (CMP as on Dec 31, 2014), US: Upside, B: Buy, TP: Target Price (Time Frame: 9-12 Months)

Wealth Maximizer 2014 - An update

NSE Symbol	Entry (Rs.) *	TP (Rs.)	US (%)	LTP	RTD (%)	High	Peak Return%	Comment
BAJAJ-AUTO	1950	2450	26	2432	24.7	2695	38.2	Exceeded the target
DRREDDY	2423	2950	22	3246	34.0	3666	51.3	Exceeded the target
HDFCBANK	683	780	14	952	39.3	973	42.5	Exceeded the target
IDEA	177	216	22	154	-13.1	178	0.6	Missed the target
ITC	311	390	25	369	18.6	400	28.6	Exceeded the target
LT	1096	1250	14	1495	36.4	1759	60.5	Exceeded the target
RELIANCE	867	1100	27	891	2.8	1145	32.1	Exceeded the target
TATAMOTORS	391	460	18	496	26.7	550	40.7	Exceeded the target
TATASTEEL	423	520	23	399	-5.6	574	35.7	Exceeded the target
TCS	2000	2500	25	2558	27.9	2833	41.7	Exceeded the target

***Entry** as on Dec 06, 2013, **High: Period** High, **LTP & RTD** (Return till date): As on Dec 31, 2014*

Changes in Wealth Maximizer

Stock	Status	Comment
ASIANPAINT	A	Market leadership with pricing power
DIVISLAB	A	Consistency in growth, focussed on core business
JSWSTEEL	A	Efficient steel maker focussed on high margin products
ULTRACEMCO	A	Consolidating the leadership position with focus on improving efficiency
HDFCBANK	R	Consistency in loan book growth, NIMs and lowest NPAs
ITC	R	Superior brands with pricing power delivering consistent growth
LT	R	Proxy to ride the Indian economic growth
RELIANCE	R	Firing the next growth engine; investments to yield results
TATAMOTORS	R	Ready to race with new launches at JLR and up-cycle in domestic CVs
TCS	R	Consistent growth with superior margins
BAJAJ-AUTO	D	Stiff competition in the 2-wheeler segment from Honda and Hero
DRREDDY	D	Potential negative impact due to sharp fall in Russian Ruble
IDEA	D	Uncertainty over spectrum auction pricing and competition from Rel Jio
TATASTEEL	D	Continued uncertainty in European operations

A: Added, R: Retained, D: Dropped

Outlook for 2015

- **Economic growth to reach 6.5%-7.0% during 2015 driven by good governance under the leadership of Mr. Modi:** During the year 2015, Indian economic growth could be driven by reform momentum. The government has taken the initiatives to introduce GST, land acquisition amendments, insurance sector reforms and coal blocks auction bills. Under the 'Make in India' campaign, Govt is opening opportunities for domestic manufacturing in Defence, Electronics Hardware & Medical equipment from the 25 sectors identified to be given priority. The ordinance route chosen by the government for three out of the above four bills indicates the urgency in reviving the economic growth.
- **Interest rate cuts to help in credit growth:** Expectations over RBI cutting the interest rates by over 50 basis points were reflected in 10Year G-Sec yields. The reduction in interest rates coupled with the improving business climate could trigger a pick-up in credit cycle.
- **Subdued inflation amid softening commodity prices:** Crude oil prices after falling nearly 40% in 2014, are expected to remain soft in 2015 due to supply glut and lack of consensus among OPEC countries to cut the production. Expectations over lower consumption from China, European Union and lower import demand from the US could keep the global crude oil price under check.
- **Up-cycle in interest rates in the US reflects confidence about the sustainability of growth:** US Fed is expected to increase the interest rates by up to 75 bps during 2015, for the first time after 2006, amid expectations over strong recovery in GDP growth to around 3%. The sharp increase could result in outflow of capital from emerging markets to the US. However, rising interest rates reaffirm the health of the US economic recovery.
- **Improved macros could bring stability in Indian currency markets:** Amid expectations over lower fiscal deficit of 4% and current account deficit of 2%, on the back of lower import bills for crude oil and gold, INR is expected to display relative strength during 2015.
- **Sustainability of earnings growth:** Corporate earnings in India are expected to grow over 15%-18% during 2015, which is likely to be revised further based on improvement on execution at ground level, softening commodity prices and sustainability of the global growth momentum.
- **Large equity issuance through disinvestment:** Large equity issuances either to comply with SEBI guidelines on minimum public holding or new issuances like RINL could help the Government in meeting the disinvestment target as well as keep the IPO market buoyant.
- **Money flows into Indian equities to remain robust during 2015:** Indian equities continue to be the 2nd best performing asset in the world equity markets, as well as the best performing asset class in India. Indian equities are expected to attract FII inflows in 2015, that were around Rs 97,600 cr in 2014. Amid political/economic stability, direct participation of retail investors has increased, while retail participation through mutual funds has also risen as indicated by the increase in individual folios by 8.4 lakh during Apr-Nov 2014, reflecting confidence among the retail investors on Indian equities.

Our take on the market

We expect Sensex to trade in the band of 27720 - 35640. There could be short-term volatility as markets have priced in growth post the elections and multiples are at the middle of the trading band. The Sensex consensus EPS for FY15E is Rs.1635 and for FY16E is Rs.1980, implying a P/E band of 14 - 18x for FY16EPS. Sensex currently trades at 14x FY16E EPS. We remain overweight on Automobiles, BFSI, Cement, Consumer Goods, Infrastructure, Metals, Software and Pharma.

We expect

- Earnings upgrades and in a more conducive environment for the businesses, corporate earnings are expected to grow over 18% in the next one year
- On ground execution of the capex cycle to pick up

- Stable currency and improved government finances along with a decline in inflation likely to present the case for lower interest rates
- Growing income levels and better job prospects trigger for higher domestic consumption

Overall, the scenario is conducive for cyclicals, manufacturing and export oriented sectors. With the expected growth in corporate earnings, continued inflow of funds from FII's and renewed interest from the domestic investors, we expect equities to outperform other asset classes in the next one year and recommend to stay invested in equities.

Wealth Maximizer - Largecap (WM) is an investment product of Karvy Stock Broking Ltd formulated by our Equity Research team. It enlists 10 stocks from the Karvy Large-cap stock list.

The objective of 'Wealth Maximizer' is to deliver superior returns over an extended time frame. The investment philosophy works on simple but superior fundamental research.

The 10 large cap companies in this product in our opinion reflects superior businesses with consistent future cash flows, run competently and have potential for exponential stock price growth.

We also track short-term price distortions that create long-term value, driven by sound economic fundamentals of the company. This reflects, stocks that have margin of safety will converge to their intrinsic value over a period of time and will reflect superior returns.

This is also a part of managing the overall risk, the objective is to attain higher risk adjusted returns and deliver consistent out performance.

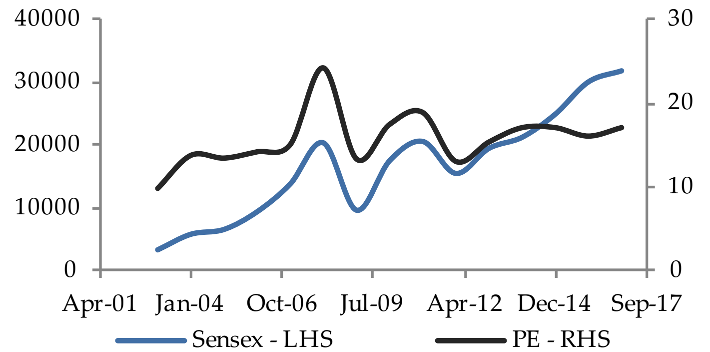
The stock's performance will be assessed on an ongoing basis and the composition of the stocks in the product will be altered based on target achievement, changes in the fundamentals of the stocks, industry position, market performance and broad macro-economic factors.

The product is being given to the clients in the form of non-binding investment recommendations so that they can decide to capitalize on the robust fundamentals and future plans of the company, which is being discussed in detail in the report.

Wealth Maximizer 2015: Our top ten Largecap picks in the Wealth Maximizer (for a time frame of 9-12 months) are Asian Paints, Divis Lab, HDFCBank, ITC, JSWSteel, L&T, Reliance Industries, Tata Motors, TCS and Ultratech Cement.

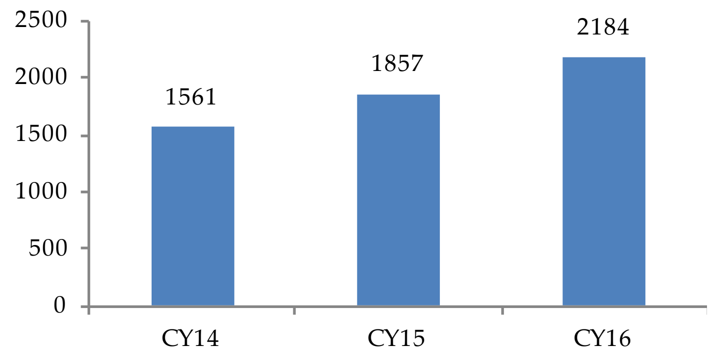
Risk to our call: In our view, the predominant risk is global growth slowdown as evident in the sharp drop in crude oil prices. Lower crude oil prices for a prolonged period could result in economic crisis in most of the oil dependent economies. Any drastic slowdown in China or resurfacing of sovereign debt crisis in the Euro zone and sharp rise in US interest rates, could be a risk for our assumptions. Slower reform momentum in India and spike in commodity prices could play a spoil sport.

Exhibit 1: Sensex P/E to be on the higher band of 14-18x



Source: Karvy Research, Bloomberg

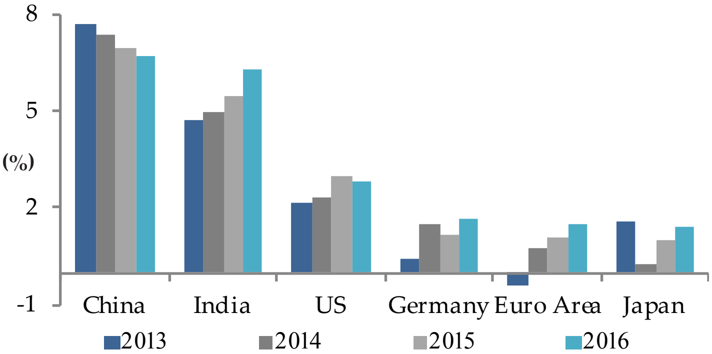
Exhibit 2: Sensex EPS is estimated to grow over 16%



Source: Karvy Research, Bloomberg

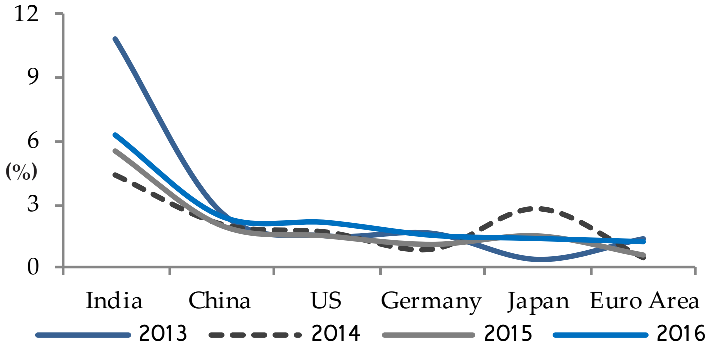
Key Trends to watch in 2015

Exhibit 3: Convergence of GDP growth between India & China



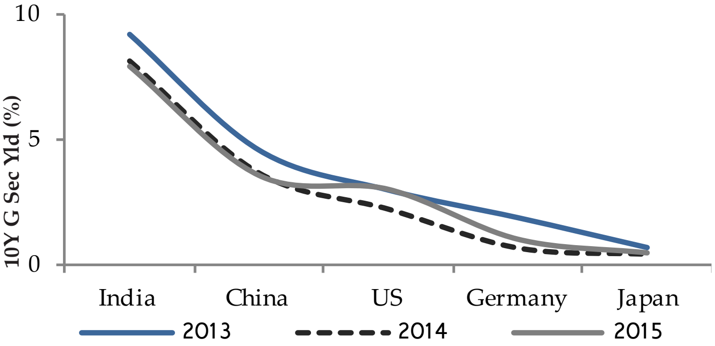
Source: Karvy Research, Bloomberg

Exhibit 4: Lower CPI inflation (%)



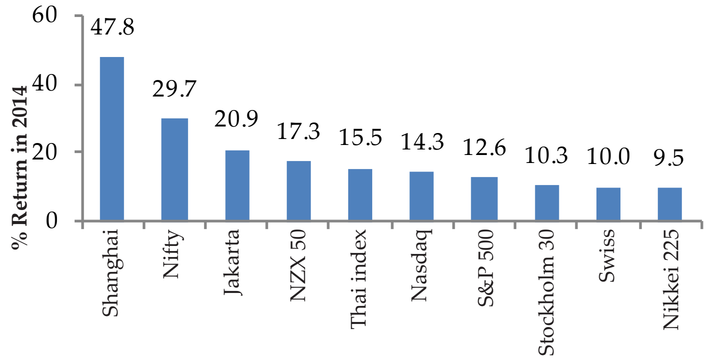
Source: Karvy Research, Bloomberg

Exhibit 5: Scope for lower interest rates in India



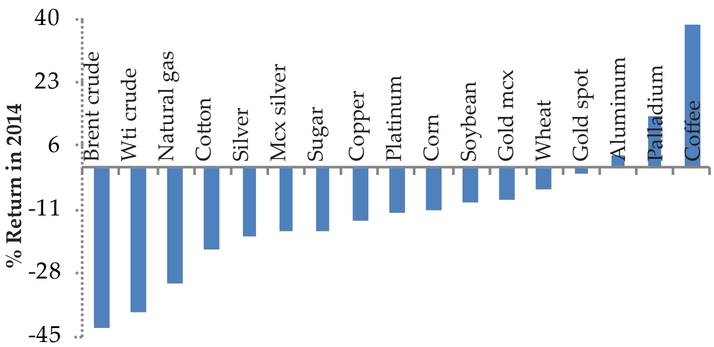
Source: Karvy Research, Bloomberg

Exhibit 6: Nifty is 2nd best performing index globally



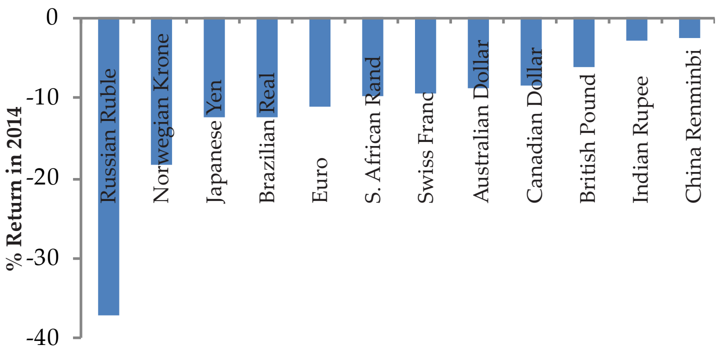
Source: Karvy Research, Bloomberg

Exhibit 7: Crude oil has seen sharp fall and is likely to be subdued



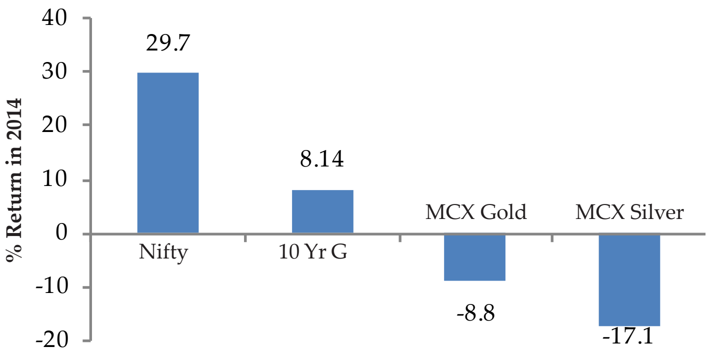
Source: Karvy Research, Bloomberg

Exhibit 8: INR is among the best performer and likely to be stable



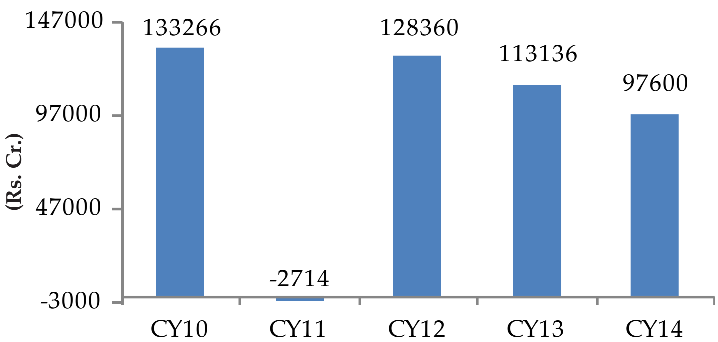
Source: Karvy Research, Bloomberg

Exhibit 9: Equity is the best performing asset class in India



Source: Karvy Research, Bloomberg

Exhibit 10: FII's remain net buyers of Indian equities



Source: Karvy Research, Bloomberg

Exhibit 11: Summary (‘KEEP GROWING’ to consolidate the leadership position)

Symbol	Key Growth Drivers	Risks to Our Call	Investment Argument
ASIANPAINT	Strong traction with double digit growth in domestic decorative paints. Volumes in industrial and automotive segments to improve amid uptick in economic growth. Organic and inorganic growth plans to strengthen the leadership position. Softening RM prices to drive profitability	Slowdown in demand from tier - II & III cities. Sharp spike in raw material prices. Currency volatility.	Market leadership with pricing power
DIVISLAB	Revenue traction to continue in Custom Synthesis. Higher Yields to strengthen leadership in Generics. Nutraceuticals to scale up	Currency volatility.	Consistency in growth & industry leading margins
HDFCBANK	Loan book is expected to grow at a CAGR of 20%. Capital raising plan will support balance sheet growth. NIM is expected to be around 4-4.5%. Lowest NPAs reflect superior risk management	Lower than expected credit growth.	Consistency in loan book growth, NIMs and lowest NPAs
ITC	Strengthen leadership position in cigarettes with double digit growth. Stringent anti-tobacco measures to hurt unorganized players and benefit organised players like ITC. Strong traction in FMCG business to drive growth and softening commodities to expand margins. Steady performance in other non-FMCG segments	Stringent implementation of anti - tobacco measures.	Superior brands with pricing power delivering consistent growth
JSWSTEEL	India’s largest private sector steel maker to benefit from robust economic growth. Product mix in favour of value added products for better realizations. Organic & in-organic growth plans to drive quality growth. Converting low grade iron ore into high value products boosts outlook	Lower than expected economic growth. Volatility in raw material prices and disruptions in supply.	Efficient steel maker focussed on high margin products
LT	Proven leadership reflected in robust order book build-up. Excellent execution capabilities makes it the preferred partner. Strong traction in infrastructure segment to drive growth. Any divestment or induction of strategic partner in its business segments / projects to unlock value	Lower than expected economic growth and slower than expected execution of capex on ground.	Proxy to ride the Indian economic growth
RELIANCE	Capex in core business (Refining & Pet-chem) to drive growth & profitability. Upstream, Petro products retailing and Shale gas to drive growth. Launch of Rel Jio 4G services could be a game changer in the telecom market. Aggressive expansion in retail to strengthen leadership position	Volatility in global energy prices affecting GRMs. Delay in launch of 4G services and other risks associated with operating with a new technology.	Firing the next growth engine and investments to yield results
TATAMOTORS	New Launches at JLR to Drive growth. JLR’s China JV to drive volumes Domestic M&HCVs and PVs - All Set for Next Bull Run.	Slower than expected GDP growth in China.	Ready to race with new launches at JLR and up-cycle in domestic CVs
TCS	Maintaining industry leading growth rate consistently. Steady improvement in margins. Well diversified revenue model. Proven capabilities in managing currency volatility	Currency volatility and uncertainty in client’s IT budgets.	Consistent growth with superior margins
ULTRACEMCO	India’s largest cement manufacturer to benefit from robust economic growth. Organic & inorganic expansion to drive growth. Economies of scale to contribute for higher realizations. Softening raw material prices to aid profitability	Lower than expected economic growth.	Consolidating the leadership position with focus on improving efficiency

Source: Karvy Research

Exhibit 12: Valuation Summary of Wealth Maximizer - 2015

Symbol	Sector	CMP (Rs.)	Mcap (Rs.mn)	6M ADV# (Rs.mn)	FY17E P/E (x)	FY17E RoE (%)	FY17E EPS (Rs.)
ASIANPAINT	Consumer	752	721604	807.3	31.5	36.1	23.9
DIVISLAB	Pharma	1723	228734	272.8	16.6	29.3	103.5
HDFCBANK	Banking	952	2300405	1580.0	14.6	22.6	14.5
ITC	FMCG	369	2947917	2299.7	21.3	36.6	17.3
JSWSTEEL	Metals	1048	253264	653.2	7.0	12.8	150.1
LT	Infra	1495	1388304	2728.3	18.7	15.0	79.9
RELIANCE	Oil&Gas	891	2882932	3022.0	8.4	13.3	105.8
TATAMOTORS	Auto	496	1496843	2639.6	7.0	20.1	71.0
TCS	Software	2558	5010916	2588.2	18.0	32.1	142.2
ULTRACEMCO	Cement	2676	734317	640.0	16.6	18.1	161.3

Source: Company, Karvy Research, Bloomberg; # ADV: Average Daily Turnover

Exhibit 13: Comparative Valuation of Wealth Maximizer - 2015

Symbol	CMP (Rs.)	Mcap (Rs. mn)	PE (x)			EPS (Rs.)			EPS CAGR (%) FY14-17E
			FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	
ASIANPAINT	752	721604	47.3	37.8	31.5	15.9	19.9	23.9	23
DIVISLAB	1723	228734	26.9	20.9	16.6	64.0	82.3	103.5	21
HDFCBANK	952	2300405	22.8	18.2	14.6	41.7	52.4	65.0	23
ITC	369	2947917	28.6	24.6	21.3	12.9	15.0	17.3	16
JSWSTEEL	1048	253264	9.5	8.2	7.0	110.1	128.4	150.1	105
LT	1495	1388304	30.4	23.1	18.7	49.1	64.7	79.9	15
RELIANCE	891	2882932	11.2	10.3	8.4	79.8	86.7	105.8	11
TATAMOTORS	496	1496843	9.0	7.7	7.0	55.1	64.1	71.0	16
TCS	2558	5010916	23.6	20.4	18.0	108.5	125.1	142.2	14
ULTRACEMCO	2676	734317	28.3	21.1	16.6	94.6	126.7	161.3	29

Source: Company, Karvy Research, Bloomberg

Exhibit 14: Price Performance of Wealth Maximizer - 2015

Symbol	CMP (Rs.)	Mcap (Rs. Mn)	Absolute Performance (%)					Relative Performance (%)				
			1M	3M	6M	12M	YTD	1M	3M	6M	12M	YTD
ASIANPAINT	752	721604	1.0	19.5	26.6	53.5	53.5	5.4	15.7	17.0	18.2	18.2
DIVISLAB	1723	228734	-0.3	-4.3	18.1	41.1	41.1	4.1	-7.3	9.1	8.6	8.6
HDFCBANK	952	2300405	-0.6	9.0	15.8	42.9	42.9	3.7	5.6	7.0	10.0	10.0
ITC	369	2947917	1.5	-0.4	13.4	14.6	14.6	5.9	-3.6	4.8	-11.8	-11.8
JSWSTEEL	1048	253264	-12.8	-9.4	-15.3	3.0	3.0	-9.0	-12.2	-21.7	-20.7	-20.7
LT	1495	1388304	-8.8	2.5	-12.2	39.7	39.7	-4.9	-0.7	-18.8	7.5	7.5
RELIANCE	891	2882932	-10.1	-5.8	-12.2	-0.5	-0.5	-6.2	-8.7	-18.9	-23.4	-23.4
TATAMOTORS	496	1496843	-7.1	-1.3	14.9	31.7	31.7	-3.1	-4.4	6.2	1.4	1.4
TCS	2558	5010916	-3.2	-6.5	7.1	19.6	19.6	1.0	-9.5	-1.0	-7.9	-7.9
ULTRACEMCO	2676	734317	7.7	1.7	3.2	51.7	51.7	12.4	-1.5	-4.6	16.8	16.8

Source: Company, Karvy Research, Bloomberg

India Research – Stock Broking

Asian Paints Ltd

Bloomberg Code: APNT IN

BUY

Asian Paints (APL): Market leadership with pricing power

- **Strong traction with double digit growth in domestic decorative paint segment:** Asian Paints is expected to register strong growth and strengthen the leadership position in the domestic decorative paints segment, which contributes for 81% of its revenue amid higher double digit volume growth due to incremental demand from tier-II and tier III cities. Its innovative products, superior brand image, strong marketing & distribution network under the brands colour world & colour ideas continue to drive volume growth.
- **Volumes in industrial and automotive segments to improve amid uptick in economic growth:** APL is likely to gain market share in the industrial and automotive segments amid expectations over strong recovery in the Indian economy in the next 2-3 years. Strong traction in the two-wheeler segment is likely to boost demand from automotive segment, while, recovery in the industrial activity to drive volume growth in industrial coatings segment.
- **Organic and inorganic growth plans to strengthen the leadership position:** APL is expanding its Rohtak plant and has proposed to set-up a Greenfield plant in Andhra Pradesh. APL plans to set up green field plant in Indonesia and acquisition (51%) of Kadisco chemicals Ethiopia are likely to boost international revenues that account for around 13% of its revenue. The recent acquisitions like Sleek and EssEss are likely to get benefit of APL's strong distribution network.
- **Softening RM prices to drive profitability:** APL which generally undertakes small price hikes is likely to see higher margin expansion due to softening of RM prices amid steep fall in crude oil prices. Steady decline in crude oil prices are likely to result in lower solvent and monomer prices, while titanium di-oxide prices are relatively stable. This could result in higher profitability, if APL being a market leader prefers to wait for some more time to pass on the benefits onto consumers.

Valuation

At CMP of Rs 752 the stock trades at 31.4x FY17E EPS of Rs 24. Considering superior brand leadership & pricing power, consistency in earnings growth and various organic & in-organic growth plans being pursued, we value the company at 37x FY17E EPS with a target price of Rs 888, representing an upside potential of 18%.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	108744	125816	148121	172920	204082
EBIDTA	17465	20285	24174	29899	35556
EBIDTA Margin (%)	16.1	16.1	16.3	17.3	17.4
Adj. Net Profit	11139	12188	15233	19074	22976
EPS (Rs.)	11.6	12.7	15.9	19.9	23.9
RoE (%)	36.3	32.8	34.5	35.7	36.1
PE (x)	64.8	59.2	47.3	37.8	31.5

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	752
Target Price	888
Upside (%)	18

Stock Information

Mkt Cap Rs.mn/US$	721604 / 11429
52-wk H/L	809 / 460
3M Avg. Daily Volume (mn)	1.5
Beta (x)	0.8
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	959.2

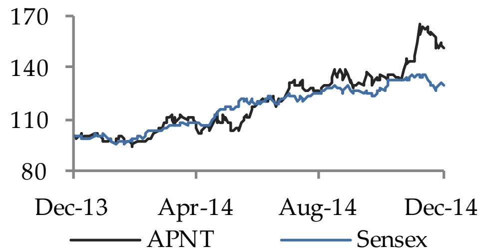
Shareholding Pattern (%)

Promoter	52.8
FII's	18.1
DII's	9.2
Others	19.9

Stock Performance (%)

	1M	3M	6M	12M
Absolute	1.0	19.5	26.6	53.5
Relative to Sensex	5.4	15.7	17.0	18.2

Performance



Source: Bloomberg

Company Background

Asian Paints Ltd (APL) is India's leading paint manufacturer and operates 23 plants in 17 countries with a total capacity of over 1.26 million KL. APL is the market leader in decorative paints in India, while it operates in industrial and automotive segments through its 50-50 JV with PPG USA. Its products are sold in over 65 countries and international operations contribute for 13% of its revenues. APL also has presence in home improvement business through Sleek (kitchen solutions provider, EssEss (Bath & wash segment). APL also manufactures chemicals like PAN and Penta that are used as raw materials for paints. APL has a strong distribution network, with over 34000 dealer network.

India Research – Stock Broking

Divi's Laboratories Ltd

Bloomberg Code: DIVI IN

BUY

Divi's: Consistency in growth & industry leading margins

- **Consistent growth, industry leading margins:** Divi has a good track record of delivering consistent growth, maintaining industry leading margins and debt free status that led to premium valuations, at the same time its strict adherence to client's intellectual property make Divi the preferred choice of partner for pharma MNCs.
- **Revenue traction to continue in Customs Synthesis:** The company's Customs Synthesis Segment is currently selling intermediates for 6 products which are being marketed by innovators. The company yet has 10-15 years of commercialization. This will enable the company to sustain revenues in this critical segment.
- **Higher Yields enables company to gain leadership status in Generics:** Divi's continues to have a sizeable presence in some of the critical segments of the generics business. Key molecules where the company has leadership status include Dexomethorphan , Naproxen and Iopimadol . Supplies for Valsartan has also commenced and should be an important molecule for the company. The Top 6 APIs contribute significantly to the company's revenues.
- **Nutraceuticals business to scale up:** Divi's is getting validations for Astaxanthene (Fish Feed) Vivatal, Leucopine and Xanthophil. We believe the company can scale this business from Rs 1.27 bn in FY 14 to Rs 3.6 bn in FY 17.

Valuation

Divi has completed its major capex and all units of its DSN SEZ – Vizag are operational. With only maintenance capex required for the next two years, strong return ratios in excess of 25 % and strong revenue growth of 20-25 % for the next couple of years, we rate the stock as a BUY. Divi's is all set to clock revenue CAGR of 21 % in the period FY 15E-17E on back of good volume growth, commencement of the DSN SEZ and EBDITAM in excess of 35%. With muted capex for the next two years and strong return ratios, we rate the stock as a **'BUY'** with a price target of Rs 2090 based on 22.5x on average of FY16E-17E EPS of Rs 93, representing an upside potential of 21%.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	21448	25321	30699	37469	44977
EBIDTA	8152	10145	11574	14541	17717
EBIDTA Margin (%)	38.0	40.1	37.7	38.8	39.4
Adj. Net Profit	6020	7733	8490	10918	13734
EPS (Rs.)	45.4	58.3	64.0	82.3	103.5
RoE (%)	26.0	28.3	26.2	28.2	29.3
PE (x)	38.0	29.6	26.9	20.9	16.6

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	1723
Target Price	2090
Upside (%)	21

Stock Information

Mkt Cap Rs.mn/US$	228734 / 3623
52-wk H/L	1888 / 1210
3M Avg. Daily Volume (mn)	0.2
Beta (x)	0.5
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	132.7

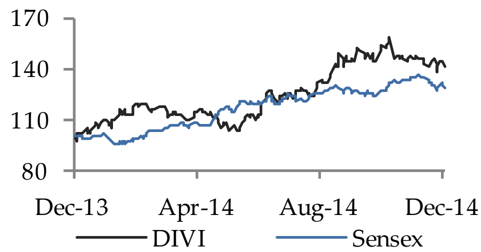
Shareholding Pattern (%)

Promoter	52.1
FII's	19.1
DII's	12.8
Others	16.1

Stock Performance (%)

	1M	3M	6M	12M
Absolute	-0.3	-4.3	18.1	41.1
Relative to Sensex	4.1	-7.3	9.1	8.6

Performance



Source: Bloomberg

Company Background

Divi's Laboratories Ltd (Divi) engages in the manufacture of generic APIs and nutraceuticals. It also undertakes custom manufacturing of APIs, advanced intermediaries and specialty ingredients for innovator pharma companies in the global markets. Divi has one manufacturing unit in Hyderabad and three in Vizag, all the facilities are approved by US FDA. It also has four R&D centers and two pilot plants. It has two wholly owned subsidiaries, Divis Laboratories (USA) and Divis laboratories Europe AG Basel, Switzerland. Exports consitutes for over 90% of Divi's revenue. Divi has a total of 38 drug master files (DMFs) with USFDA and 214 EDMFs and 18 CoS (Certificates of Suitability) with various European Union authorities. Divi has filed a total of 8 patents for generic products.

India Research – Stock Broking

HDFC Bank Ltd

Bloomberg Code: HDFCB IN

BUY

HDFC Bank: Consistency in loan book growth, NIMs and lowest NPAs

- **Loan book is expected to grow at a CAGR of 20%:** HDFC Bank is expected to outpace the credit growth in the system by 3-4 percentage points and to grow at a CAGR of 20% in the next few years. Its loan book growth is driven by healthy mix of retail and corporate loans.
- **Capital raising plan will support balance sheet growth:** The bank is planning to raise ~Rs100bn in next few months, which will aid growth plans over the next few years and BASEL III implementation. This will support the loan book growth in the next 2-3 years.
- **NIM is expected to be around 4-4.5%:** HDFC Bank is expected to maintain its NIM around in the range of 4-4.2%, led by the bank's strong CASA franchise along with higher proportion of fixed rate retail loans. Further, current deposits are likely to grow strongly due to recovery in capital markets, where the bank has higher market share.
- **Lowest NPAs reflect superior risk management:** HDFC Bank is relatively immune from asset quality strain in the banking industry primarily due to superior risk management practices along with lower exposure to stressed sectors. We expect further moderation in fresh slippages.

Valuation

HDFC Bank was able to command premium valuation in the market for its consistent growth of over 20% in net profits, healthy balance sheet growth, higher NIMs, lower NPAs, superior return ratios coupled with good corporate governance. Its proposed capital raising plan will lead to rerating in the stock in the coming months. At CMP HDFCBank trades at 3xFY17E BVPS. We value the stock at 3.7x FY17E BVPS and recommend a **'BUY'** for a price target of Rs. 1150, implying an upside of 21% from current levels.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Interest Income	158111	184826	222398	267733	333870
Operating profit	114276	143601	176148	216365	241677
PAT	67263	84784	105077	131973	158403
EPS (Rs.)	28.3	35.3	41.7	52.4	65.0
Book Value (Rs.)	151.2	179.3	244.8	289.0	313.0
P/BV (x)	6.3	5.3	3.9	3.3	3.0
P/E (x)	33.7	26.9	22.8	18.2	14.6
ROE (%)	18.6	19.5	16.9	18.0	22.6
ROA (%)	1.82	1.9	1.96	2.09	2.0

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	952
Target Price	1150
Upside (%)	21

Stock Information

Mkt Cap Rs.mn/US$	2300405 / 36438
52-wk H/L	973 / 616
3M Avg. Daily Volume (mn)	1.8
Beta (x)	1.0
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	2417.4

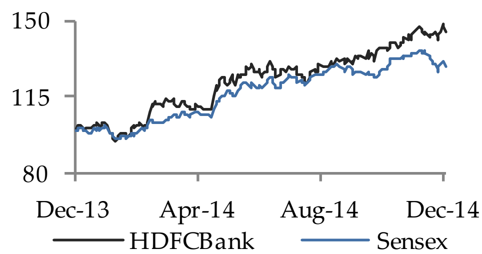
Shareholding Pattern (%)

Promoter	22.5
FII's	33.8
DII's	9.9
Others	33.8

Stock Performance (%)

	1M	3M	6M	12M
Absolute	-0.6	9.0	15.8	42.9
Relative to Sensex	3.7	5.6	7.0	10.0

Performance



Source: Bloomberg

Company Background

HDFC Bank Limited is a private sector bank offering retail banking, wholesale banking and treasury services, with a balance sheet size of Rs 5099 billion. It operates through a network of 3600 branches and 11515 ATMs spread across 2272 towns. Its various products and services include auto loans, personal loans, credit cards, home loans, commercial vehicle / construction equipment finance, gold loans, savings account, current account, fixed deposits on the retail side and working capital, term loans, bill collection, forex & derivatives, cash management services for corporate clients on the wholesale front. In its treasury segment, it offers forex and derivatives, local currency Money Market & Debt Securities and Equities products.

India Research – Stock Broking

ITC Ltd

Bloomberg Code: ITC IN

BUY

ITC: Superior brands with pricing power delivering consistent growth

- **Strengthen leadership position in cigarettes with double digit growth:** ITC is a dominant player in the Cigarettes segment with a revenue market share of over 75%. It is expected to maintain double digit growth of around 15% in revenue and EBIT, driven by its strong pricing power, distribution reach, tight control over the entire value chain and consumers' strong bonding towards the company's brands at various price points. Higher disposable income in rural areas could result in consumers switching from lower end products like beedis and local made cigarettes to 64mm micro filter cigarettes.
- **Stringent anti-tobacco measures to hurt unorganized players and benefit organised players like ITC:** Any stringent anti-tobacco measures like ban on sales of loose cigarettes, need to cover 80% of the pack with health warnings, banning advertisements at POS to benefit organized players and will hurt the non-legal cigarette manufacturers more severely. Organized players like ITC can tide over with its well established brands that may not require advertisements and innovative packing & distribution strategy.
- **Strong traction in FMCG business to drive growth and softening commodities to expand margins:** ITC is likely to register a double digit revenue growth on the back of new product launches and higher spending on advertisement & promotion on the back of its wide distribution network. Softening of commodity prices would provide scope for margin expansion in FMCG business.
- **Steady performance in other non-FMCG segments:** Other segments like agri-business, paperboards and Hotels are likely to improve their performance driven by strong recovery in the economy.

Valuation

ITC is expected to register over 15% growth in the next 2 years, by strengthening its leadership position in cigarettes segment, higher growth in FMCG business and steady performance in non-FMCG segments. At CMP the stock trades at 21x FY17E EPS, we value the stock at 26x FY17E EPS which is lower than the last 7 year average PE of 29x. We recommend a **'BUY'** with a target price of Rs 450 representing an upside potential of 22%.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15	FY16E	FY17E
Net Sales	313235	349847	399014	458130	526805
EBIDTA	111662	131579	151203	176731	205394
EBIDTA Margin (%)	35.6	37.6	37.9	38.6	39.0
Adj. Net Profit	76081	88914	102035	119383	140132
EPS (Rs.)	9.6	11.1	12.9	15.0	17.3
RoE (%)	35.7	35.3	34.7	35.7	36.6
PE (x)	38.4	33.2	28.6	24.6	21.3

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	369
Target Price	450
Upside (%)	22

Stock Information

Mkt Cap Rs.mn/US$	2947916 / 46697
52-wk H/L	400 / 310
3M Avg. Daily Volume (mn)	6.6
Beta (x)	0.7
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	7995.4

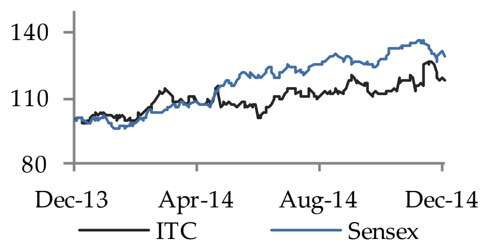
Shareholding Pattern (%)

Promoter	-
FII's	20.3
DII's	34.8
Others	44.9

Stock Performance (%)

	1M	3M	6M	12M
Absolute	1.5	-0.4	13.4	14.6
Relative to Sensex	5.9	-3.6	4.8	-11.8

Performance



Source: Bloomberg

Company Background

ITC Limited is a market leader in cigarettes business and engaged in diverse businesses ranging from cigarettes (contribute for 84% of EBIT), FMCG - packaged foods & personal care (contribute for 22% of rev & 0.2% of EBIT), Agri business (contribute for 21% of rev & 7% of EBIT), paperboards &, packaging (13% of rev & 7.5% of EBIT), hotels (3% of Rev & 1.2% of EBIT) and information technology. Its popular brands include – 'Gold Flake', 'Bristol', 'NavyCut' (Cigarettes), 'Aashirvad', 'Sunfeast', 'Bingo', 'Kitchens of India', 'Candyman', 'mint-o' (packaged foods), 'Wills Lifestyle', 'John Players' (lifestyle), 'Fiama Di Wills', 'Vivel' (personal care), Classmate, Paperkraft (paper & stationary), ITC Hotels. ITC's products are sold through 2 million retail outlets.

India Research – Stock Broking

JSW Steel Ltd

Bloomberg Code: JSTL IN

BUY

JSW Steel: Well integrated efficient steel maker focussed on high margin value added products

- **India's largest private sector steel maker to benefit from robust economic growth:** JSW Steel is well positioned to benefit from the expected cyclical uptrend in the domestic steel industry that is likely to witness a volume growth of 4-5% amid robust economic growth in India in the next 2-3 years. Its collaboration with JFE steel to manufacture high grade steel for automobiles and white goods is well suited for the 'Make in India' campaign.
- **Product mix in favour of value added products for better realizations:** JSW Steel's focus on increasing the share of value added CR products like automobile grade steel and coated products to over 33% of its volumes resulted in higher realizations, while minimizing the impact of pricing pressure in HR products.
- **Organic & in-organic growth plans to drive quality growth:** JSW Steel's brown-field expansion at Dolvi to increase the capacity from current 3.3 MTPA to 5 MTPA to complete before Sep'2015 to drive quality growth with the commissioning of 4 MTPA pellet plant, coke oven battery and waste heat recovery power plant. The company's recent acquisition of Welspun Maxsteel would bring in synergies. Its expansion programs at Vijaynagar plant will enhance the capacity by over 2 MTPA.
- **Converting low grade iron ore into high value products boost long term outlook:** JSW steel with its in house facilities for iron ore beneficiation, pellets, coke oven and value add CR steel is well positioned to convert low cost raw materials into high value steel, thus extracting maximum value out the value chain when compared to its competitors

Valuation

JSW Steel, with its integrated operations, focussed growth in high margin value added products, expansion plans for quality growth is better placed to ride the cyclical uptrend in the domestic steel sector in the next 2-3 years. At CMP, the stock trades at 4.7xFY17E EV/EBITDA, we recommend a **'BUY'** for a target of Rs 1500 valuing at 5.5x FY17E EV/EBITDA, representing an upside potential of 43%.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	382097	512196	541180	586432	638097
EBIDTA	65205	91767	104893	116037	125526
EBIDTA Margin (%)	17.1	17.9	19.4	19.8	19.7
Adj. Net Profit	9631	4520	26499	30887	36377
EPS (Rs.)	41.9	17.5	110.1	128.4	150.1
RoE (%)	5.6	2.2	11.6	12.2	12.8
PE (x)	25.0	59.9	9.5	8.2	7.0

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	1048
Target Price	1500
Upside (%)	43

Stock Information

Mkt Cap Rs.mn/US$	253264 / 4011
52-wk H/L	1366 / 804
3M Avg. Daily Volume (mn)	0.5
Beta (x)	1.2
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	241.7

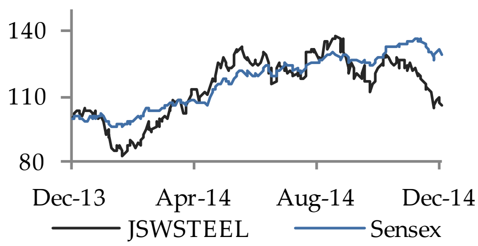
Shareholding Pattern (%)

Promoter	39.3
FII's	20.4
DII's	3.7
Others	36.6

Stock Performance (%)

	1M	3M	6M	12M
Absolute	-12.8	-9.4	-15.3	3.0
Relative to Sensex	-9.0	-12.2	-21.7	-20.7

Performance



Source: Bloomberg

Company Background

JSW Steel is a leading steel manufacturer (both long and flat products such as HR & CR coils, galvanized products, steels for automobiles and white goods, bars), with a capacity of 14.3 (MTPA) in India. It has plants at Vijayanagar – Karnataka (10 MTPA), Dolvi – Maharshtra (3.3 MTPA) and at Salem – Tamil Nadu (1 MTPA). In Maharashtra, it has downstream facilities at Tatapur, Vasind and Kalmeshwar that manufacture value added galvanised & coated flat products. It has a manufacturing (Plates, Pipes) facility in the US and iron ore mining operations in Chile. JSW Steel has a strategic collaboration with JFE Steel Corp., Japan, in the area of technical know-how for manufacturing value added products like high end auto steel. It has a retail chain (JSW Shoppe) to market steel in 450 locations in India.

India Research – Stock Broking

Larsen & Toubro Ltd

Bloomberg Code: LT IN

BUY

L&T: Proxy to ride the Indian economic growth

- **Proven leadership reflected in robust order book build-up:** L&T's outstanding order book at the end of Sep'2014 stood at Rs 2144 billion from diversified sectors, while the order inflow for the year is expected to be around Rs 1400-1500 billion. Robust order book build up reflects its proven leadership in the infrastructure & engineering segments and gives revenue visibility with order book coverage of over 2.5x.
- **Excellent execution capabilities making it the most preferred partner:** L&T has an excellent track record of executing the most complex projects in diverse sectors like infrastructure, Oil & Gas, defence, power and others making it the most preferred partner resulting in repeat orders from the clients.
- **Strong traction in infrastructure segment to drive growth:** L&T Infrastructure segment constitutes for 68% of the order book and 46% of its new order inflow during FY15, continue to drive growth with strong traction in order inflows and revenue growth along with sustained EBITDA margins of over 11-12%.
- **Any divestment or induction of strategic partner in its business segments / projects to unlock value:** Any divestment or induction of strategic partner on the lines of Canada Pension Plan Investment Board's Rs 2000 cr investment in L&T infrastructure Development Projects or listing of its subsidiaries would unlock value.

Valuation

L&T is well positioned to capture growth in various segments of the Indian economy with its excellent execution capabilities in diverse sectors like infra, oil & Gas, defence, metals & mining, railways and various others. L&T's superior execution capabilities coupled with its balance sheet strength when compared with the highly stressed balance sheets of its many smaller competitors in the sector, resulted in strong order book build-up for L&T. We value the company at 25x FY17E EPS of Rs 80 and recommend a **'BUY'** with a target price of Rs 2000, representing an upside potential of 34%.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	744980	851284	945485	1116566	1320982
EBIDTA	103634	110951	116957	144864	176137
EBIDTA Margin (%)	13.9	13.0	12.4	13.0	13.3
Adj. Net Profit	52057	49020	45791	60450	74290
EPS (Rs.)	37.4	52.7	49.1	64.7	79.9
RoE (%)	16.5	13.7	11.9	13.8	15.0
PE (x)	40.0	28.4	30.4	23.1	18.7

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	1495
Target Price	2000
Upside (%)	34

Stock Information

Mkt Cap Rs.mn/US$	1388304 / 21991
52-wk H/L	1776 / 951
3M Avg. Daily Volume (mn)	1.6
Beta (x)	1.5
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	928.8

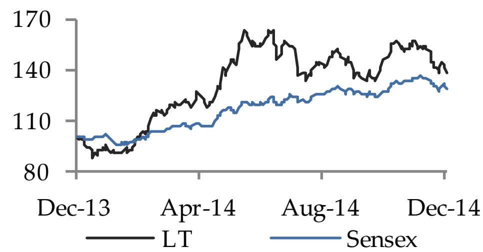
Shareholding Pattern (%)

Promoter	-
FII's	18.8
DII's	35.7
Others	45.5

Stock Performance (%)

	1M	3M	6M	12M
Absolute	-8.8	2.5	-12.2	39.7
Relative to Sensex	-4.9	-0.7	-18.8	7.5

Performance



Source: Bloomberg

Company Background

L&T is India's largest Engineering & Construction Company with interests in Design & Engineering, EPC Projects, Manufacture & Fabrication and Construction. It operates in Infrastructure, Manufacturing, IT & Financial Services. L&T has strong presence in Infrastructure, Power, Metallurgical-material handling, Heavy Engineering, Electrical Automation, Hydrocarbon, Development projects, IT, Financial services and others. It undertakes contracts in Buildings & Factories, Transportation infrastructure, heavy civil infrastructure, Power, water & renewable energy, ship building, Defence, Machinery & Ind products. L&T, through its subsidiaries, associates and JVs it operates in Financial services, Infotech, Infrastructure, hydrocarbon, SPVs for manufacturing, fabrication and other services etc.

India Research – Stock Broking

Reliance Industries Ltd

Bloomberg Code: RIL IN

BUY

Reliance Industries: Firing the next growth engine and investments to yield results

- **Capex in core business (Refining & Pet-chem) to drive growth & profitability:** RIL is investing in pet-coke gasification plant that is expected to come on stream in FY16 which is expected to reduce annual energy (LNG) cost and is likely to increase the GRMs by $1 / barrel. The capex for Refinery off-gas cracker will increase the production capacity of polymers with much lower cost of production. RIL's core strength in operations reflecting in capacity utilization of over 100% at its high complexity refinery at Jamnagar delivering superior GRM's as against the Singapore GRM's.
- **Upstream, Petro products retailing and Shale gas to drive growth:** RIL's upstream gas production is expected to increase along with increase in domestic natural gas prices to around $ 6.5 / mmbtu. Ramp-up in US shale gas production in its three JVs is likely to contribute for growth. RIL has the opportunity to re-enter the petro products retailing in a big way given that the government has decontrolled the petrol and diesel prices, which could contribute for growth.
- **Launch of Rel Jio 4G services could be a game changer in the Indian telecom market:** RIL is expected to launch its 4G services under Reliance Jio network could garner significant market share given its higher speed, wide coverage and competitive pricing. Jio has invested over $ 6 billion on infrastructure for a nationwide roll-out.
- **Aggressive expansion in retail to strengthen leadership position:** Reliance retail is expanding its retail network to strengthen its leadership position in all formats. It has over 2000 stores in 155 towns and over 15 million consumers enrolled for its loyalty program. It is among the fastest growing retail chain.

Valuation

RIL is expected to maintain the profitability in its core business with its capex that increase the operational efficiency even though steep fall in crude oil prices could result in lower sales revenue, however, the new businesses are likely to trigger next level of growth and boost revenue. At CMP Rs 891 RIL is trading at 8.4x FY17E EPS of Rs 106, We recommend a **'BUY'** for a price target of Rs. 1110, valuing at 10.5x FY17E EPS, implying an upside of 25% from current levels.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	3970620	4344600	4263259	4364131	4600088
EBIDTA	333830	357610	408065	467622	602174
EBIDTA Margin (%)	8.4	8.2	9.6	10.7	13.1
Adj. Net Profit	208790	224930	249409	271622	338115
EPS (Rs.)	70.7	76.6	79.8	86.7	105.8
RoE (%)	11.9	11.8	12.0	11.8	13.3
PE (x)	12.6	11.6	11.2	10.3	8.4

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	891
Target Price	1110
Upside (%)	25

Stock Information

Mkt Cap Rs.mn/US$	2882931 / 45666
52-wk H/L	1145 / 793
3M Avg. Daily Volume (mn)	3.1
Beta (x)	1.2
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	3235.1

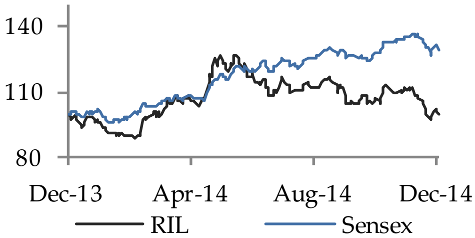
Shareholding Pattern (%)

Promoter	45.3
FII's	19.5
DII's	11.3
Others	24.0

Stock Performance (%)

	1M	3M	6M	12M
Absolute	-10.1	-5.8	-12.2	-0.5
Relative to Sensex	-6.2	-8.7	-18.9	-23.4

Performance



Source: Bloomberg

Company Background

Reliance Industries Ltd (RIL) is India's largest private sector enterprise, with businesses in the energy and materials value chain. Its key business activities span exploration and production of oil & gas, petroleum refining & marketing, petrochemicals (polyester, fibre intermediates, plastics and chemicals), textiles, retail, Telecom, SEZs and others. It operates Jamnagar refinery complex with a capacity of 1.3 million BPD and Petrochemicals facilities at Jamnagar, Hazira, Patalganga, Vadodara, Nagothane, nagpur. It operates retail stores across the country in value and specialty formats. RIL is the only company that holds pan-India 4G spectrum, it also has a unified telecom license to offer voice and data services under Reliance Jio.

India Research – Stock Broking

Tata Motors Ltd

Bloomberg Code: TTMT IN

BUY

Tata Motors: Ready to Race…with new launches at JLR and up-cycle in domestic CVs

- **New Launches at JLR to Drive growth:** Tata Motors is expected to witness strong traction with the launch of Jaguar XE range performance car with an Ingenium engine indigenously developed by JLR UK, at an indicative price of £27,000, that competes with BMW 3 series, Audi A4 and Merc-C Class. We expect new XE to help improve market share in small luxury saloon segment during 2015 that would drive overall volumes of JLR.
- **JLR's China JV to drive volumes:** We believe that price cut in Chinese market would bring healthy volumes for JLR, while tax benefit from its local assembly plant in China would be more than enough to compensate the impact of price cut in FY16. We believe that JLR's profitable business growth justifies capex.
- **Domestic M&HCVs - All Set for Next Bull Run:** Tata Motors has begun witnessing volume improvement in CV segment with M&HCV segment in Aug'14 reporting a YoY growth for the first time in the last 2.5 years. During the past CV cycle, industry declined 20% in down cycle and bounced back with ~35% growth. In current cycle, MHCVs declined at CAGR of 25% over FY12-FY14, which is steeper than previous cycle, indicates much stronger bounce back in new up cycle. We expect margin improvement in standalone operations, backed by CV up-cycle.
- **Domestic PV Business to improve:** Tata Motors has begun witnessing volume improvement in PV segment recently. Its newly launched Zest has received good initial response, while other models like Nano Twist, Vista VXTech, All-New Tata Aria, Tata Bolt, Safari Storme Facelift could contribute for recovery in domestic PV sales.

Valuation

Tata Motors is expected to deliver strong growth driven by new launches at JLR and recovery in the domestic CV business, better operating performance at JLR nullifies any negative earning impact of standalone business. We recommend a **'BUY'** on Tata Motors with an SOTP based target of Rs 655 (valuing standalone business at Rs. 90, JLR at Rs. 595 and other subsidiaries at Rs. 36 based on FY17E EBITDA, net debt of Rs. 66 per share), representing an upside potential of 32%.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	1860376	2301025	2791815	3063864	3444793
EBIDTA	217673	321065	427359	484350	540313
EBIDTA Margin (%)	11.7	14.0	15.3	15.8	15.7
Adj. Net Profit	103286	147276	177715	206717	228757
EPS (Rs.)	32.1	45.8	55.1	64.1	71.0
RoE (%)	28.5	28	23.9	22.2	20.1
PE (x)	15.5	10.8	9.0	7.7	7.0

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	496
Target Price	655
Upside (%)	32

Stock Information

Mkt Cap Rs.mn/US$	1496842 / 23710
52-wk H/L	550 / 332
3M Avg. Daily Volume (mn)	4.4
Beta (x)	1.1
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	2694.1

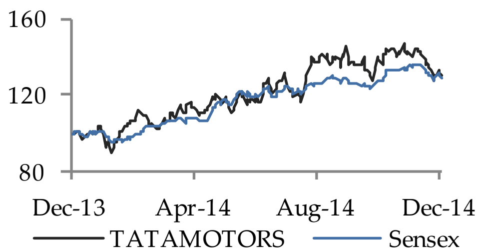
Shareholding Pattern (%)

Promoter	34.3
FII's	26.5
DII's	10.6
Others	28.5

Stock Performance (%)

	1M	3M	6M	12M
Absolute	-7.1	-1.3	14.9	31.7
Relative to Sensex	-3.1	-4.4	6.2	1.4

Performance



Source: Bloomberg

Company Background

Tata Motors Limited is India's largest automobile company. It is the leader in commercial vehicles with around 60% market volume share and among the leaders in passenger vehicles in India with 10% market volume share with products in the compact, midsize car and utility vehicle segments. It is also the world's fourth largest bus and fifth largest truck manufacturer. TataMotor's Jaguar LandRover (JLR) is a significant player in the global premium and luxury car market with a distribution network in 182 countries. Tata Motors key brands are Ace, Magic, Xenon, Ultra, Prima, Winger, CityRide, Starbus, Divo, Nano, Indica, Indigo, Vista, Bolt, Zest, Manza, Safari, Aria. JLR's Premium and Luxury brands: Jaguar - XF, XJ, XK, XE; LandRover- Freelander, Defender, Discovery, Range Rover, Range Rover Sport, Evoque.

India Research – Stock Broking

Tata Consultancy Services Ltd

Bloomberg Code: TCS IN

BUY

TCS: Consistent growth with superior margins

- **Maintaining industry leading growth rate consistently:** TCS has grown USD revenue at a 4.1% CQGR over the past 8 quarters, ahead of its peers like Infosys, HCL Technologies and Wipro. This reflects admirable consistency. On a YoY basis, 2QFY15 was the 20th successive quarter of double digit USD revenue growth. We expect TCS to maintain broad-based growth going forward and maintain a CAGR of 15% in USD terms over FY14-FY17E.
- **Steady improvement in margins:** TCS has improved the margins steadily in the last many years from around 28% to around 30.75% in FY14, even when other competitors margins were under pressure. This was due to continuous improvement in operational efficiency through higher employee utilization levels and increased share of high margin projects.
- **Well diversified revenue model:** TCS has maintained the broad-based revenue growth in various geographies and verticals, with growth drivers being BFSI (3.3% CQGR), retail (4.2%), manufacturing (6.7%) and life sciences & healthcare (6.6%). TCS has maintained a balance between bread-and-butter businesses and newer growth avenues.
- **Proven capabilities in managing currency volatility:** TCS generates 51% of its revenue from North America, while the remaining in various currencies in Europe and Asia Pacific. TCS was able to manage the currency volatility even during turbulent times in the global currency markets.

Valuation

TCS with its broad based service delivery model is expected to register consistent growth of over 15% in USD revenue terms with superior margins of around 30% in the next few years. TCS continue to command premium valuations due to its consistent growth and we value TCS at 20.8x FY17E EPS and recommend a **'BUY'** with a target of Rs 2960, representing an upside potential of 16%.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	629895	818094	951974	1078323	1199148
EBIDTA	180872	251323	275403	319632	364864
EBIDTA Margin (%)	28.7	30.7	28.9	29.6	30.4
Adj. Net Profit	139060	191168	213871	246484	280244
EPS (Rs.)	70.6	97.0	108.5	125.1	142.2
RoE (%)	37.8	39.7	35.0	33.6	32.1
PE (x)	36.2	26.4	23.6	20.4	18.0

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	2558
Target Price	2960
Upside (%)	16

Stock Information

Mkt Cap Rs.mn/US$	5010915 / 79380
52-wk H/L	2839 / 1968
3M Avg. Daily Volume (mn)	1.1
Beta (x)	0.6
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	1958.7

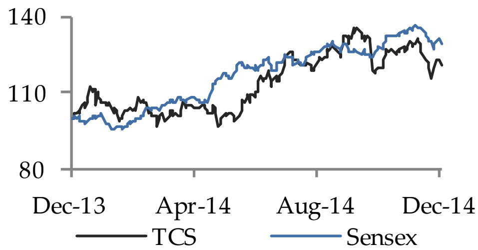
Shareholding Pattern (%)

Promoter	73.9
FII's	16.8
DII's	4.8
Others	4.5

Stock Performance (%)

	1M	3M	6M	12M
Absolute	-3.2	-6.5	7.1	19.6
Relative to Sensex	1.0	-9.5	-1.0	-7.9

Performance



Source: Bloomberg

Company Background

Tata Consultancy Services Limited (TCS) is an integrated Information Technology, Consulting and Business Solutions provider offering a wide range of services like Application Development and Maintenance, Enterprise Solutions, Assurance services, Engineering and Industrial services, Infrastructure services, Global Consulting, Asset Leveraged Solutions and Business Process Outsourcing services. It has a total employee base of 313757 working from 183 offices spread across 43 countries. It derives 51% revenue from North America, 2% from Latin America, 17% from UK, 11.2% from Continental Europe, 10% from Asia Pacific, 2% from MEA and 6.5% from India.

India Research – Stock Broking

Ultratech Cement Ltd

Bloomberg Code: UTCEM IN

BUY

Ultratech: Consolidating the leadership position with focus on improving efficiency

- **India's largest cement manufacturer to benefit from robust economic growth:** Ultractech being the largest cement manufacturer with presence across the country is well positioned to benefit from the likely higher spending on infrastructure and housing amid robust economic recovery during which cement sector is likely to see volume growth of over 8% in the next 2-3 years.
- **Organic & inorganic expansion to drive growth:** Ultratech has planned for a capex of over Rs 10,000 cr to expand and modernize its existing facilities, while pursuing in-organic growth opportunities like the acquisition of JP group's MP (4.9MTPA) cement plants with a target to reach 70 MTPA to strengthen the leadership position.
- **Economies of scale to contribute for higher realizations:** Ultratech is expected to benefit from its network of cement, captive power, ready mix plants, material handling terminals is well positioned to benefit from better coordination & mobilization of materials within India and for export markets. Also, being a market leader with a strong brand the company is likely to command a premium pricing over smaller competitors. With its size that brings in operational efficiency and pricing power resulting in higher realizations per ton.
- **Softening raw material prices to aid profitability:** Softening crude oil, pet-coke and coal prices are likely to contribute for lower operating expenses and aid profitability. Sharp decline in crude oil prices and the resulting softening diesel prices could ease pressure on transportation costs.

Valuation

Ultratech is likely to benefit from strong revival in the economy, organic & in-organic growth plans, improved operational efficiency and leadership position in the Cement industry. We expect Ultratech to deliver a CAGR of 12% in sales and 29% in EBITDA driven by 6% growth in realization during FY14-17E. We recommend a **'BUY'** for a target of Rs 3200 valuing at 10x FY17E EV/EBITDA, representing an upside potential of 20%.

Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	201800	202798	248206	297118	341849
EBIDTA	46755	38179	51165	66952	82364
EBIDTA Margin (%)	23.2	18.8	20.6	22.5	24.1
Adj. Net Profit	26555	20489	25958	34766	44263
EPS (Rs.)	96.9	74.7	94.6	126.7	161.3
RoE (%)	18.9	18.2	14.2	16.6	18.1
PE (x)	27.6	35.8	28.3	21.1	16.6

Source: Company, Karvy Research

Recommendation (Rs.)

CMP	2676
Target Price	3200
Upside (%)	20

Stock Information

Mkt Cap Rs.mn/US$	734317 / 11633
52-wk H/L	2872 / 1634
3M Avg. Daily Volume (mn)	0.2
Beta (x)	1.2
Sensex/Nifty	27499 / 8282
O/S Shares (mn)	274.4

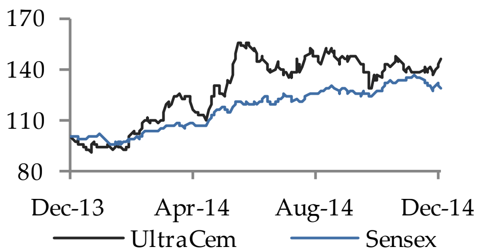
Shareholding Pattern (%)

Promoter	61.7
FII's	19.9
DII's	5.7
Others	12.7

Stock Performance (%)

	1M	3M	6M	12M
Absolute	7.7	1.7	3.2	51.7
Relative to Sensex	12.4	-1.5	-4.6	16.8

Performance



Source: Bloomberg

Company Background

Ultratech Cement Limited (Ultratech) is the largest manufacturer of cement in India with an installed capacity of over 62 million tons per annum (MTPA). It manufactures grey cement, ready mix concrete, white cement and other building products. It operates through 12 integrated plants, 1 clinkerisation plant, 16 grinding units, 6 bulk terminals and 100 RMC plants. It markets white cement under the brand 'Birla White' and has a capacity of 0.56MTPA besides 2 wallcare putty plants with a combined capacity of 0.8MTPA. Ultratech is the largest exporter of cement from India and its operations spread across Bahrain, Bangladesh, Sri Lanka and UAE. Ultratech is a part of the Aditya Birla Group and is a subsidiary of Grasim.

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	<5%

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Disclosures Appendix

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