Outlook for 2015

Year of tussle between bulls n bears

Top Picks: Capital First | Coal India | HIL | Indoco Remedies | Lumax Auto Technologies | Mangalam Cement | Mastek | Meghmani Organics | Pennar Industries | Reliance Industries

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IndiaNivesh Securities Private Limited

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

Daljeet S. Kohli, Head of Research
Tel: +91 22 66188826 | daljeet.kohli@indianivesh.in

OUTLOOK FOR 2015
Year of tussle between bulls n bears

Dear Investors,

Wish You All A Very Happy & Prosperous New Year.

Writing outlook for upcoming year at a time when our markets have moved 30% in just 1 calendar year is surely a daunting task. Predicting markets behavior for 2015 is fraught with even higher risk as the entire rally in the past has been on the basis of hope/expectations. On May 16, 2014 post the results of general elections we had mentioned in our note that now the Skeptics/Hope rally will play out strongly. The markets in last few months have played exactly that way. Since 16 May 2014 till date BSE Sensex has returned 15% & Nifty has returned 16%. In this intervening period we have seen 2 quarterly results. Unfortunately the earnings trajectory of Corporate India has not changed much since last year & there have been no signs of significant ground level changes.(We will talk about this in more detail in later part of this report). In our view currently the market is divided into 2 groups. There is 1 group that believes that corporate India is poised for a high growth in earnings as incumbent government is taking many steps & it is only a matter of time when these actions will yield results, so have patience. Incidentally most of the market is biased to this view (may be because many well known faces of markets (analysts/FIIs/ Investors) are part of this group). However there is another group of market participants who is losing patience & think that too many promises were made but delivery is far lacking. According to them steps taken till now are baby steps, not sufficient to drive animal spirits in the economy. Since the second group right now is in minority, as of now market is biased towards bullishness. However the data points are in favor of this minority. Hence there is a fair chance of the second group taking over the lead in market leading to tussle between "bulls n bears".

*The aforesaid arguments leads us to conclude that **2015 will be a year of tough battle between bulls n bears therefore it will be quite volatile. According to us making handsome returns in 2015 will be much tougher than they were in 2014**. We expect the calendar year 2015 to be mixed year for portfolios as there could be some stocks that will yield very high returns while there would be certain stocks which could result in huge negative returns thereby resulting in muted returns on overall portfolio. Thus the trick to portfolio performance will be stock selection. Later in the report we will give you a list of those stocks that have potential to generate superior returns in 2015.*

Key factors influencing markets in 2015

1. Corporate Earnings: Possibility of steep downgrades

Our market is running on hopes that there will be material change in corporate profits over next 2 years. Consensus earnings growth expectation for FY15, FY16 & FY17 are still very high. Just to give you numbers as per Bloomberg consensus estimates on EPS for Sensex for FY15E, FY16E & FY17E are 1530, 1813 & 2062 respectively implying YoY growth of around 18%. Now compare this with actual H1FY15 earnings of Sensex at Rs 703 - this means asking rate of 17.6% (H2FY15E vs. H1FY15) & 11.2% (H2FY15E vs. H2FY14). We are already closing 3 rd quarter & our expectation is that earnings in December quarter will also remain muted. Thus the actual data suggests that FY15E full year earnings will not be met & downgrades are inevitable. We have already seen minor cuts in estimates post Q2FY15 earnings season. However we expect aggressive cuts in next few months as the patience of most optimistic market participants starts to wane away. In our

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opinion the benefits of whatever baby steps that have been taken till now should start yielding some returns only in H2CY15.

2. Union Budget 2015: make or break event

Market is keenly waiting for Union Budget 2015 to be presented in Feb 2015. Many participants believe the budget could be a make or break event as this would be first full budget from current political dispensation. This budget is likely to clearly enunciate policy action on it's already pronounced development agenda. Skeptics will be looking for clues on announcements to be converted into actionable & financial commitments made to such agenda. Fiscal discipline, policies to stimulate growth in economy, steps to revive capex cycle, resolution of tax disputes with corporate, big ticket reforms like GST etc are key points under the scrutiny of all investors. Although in our view budget is not the only event where all the policies have to be enumerated, it is just one of many avenues for government to manifest its economic agenda, however this time it has achieved more significance since in last 7 months of present government's tenure lots of promises have been made, expectations raised but not followed by actual action. In our opinion long term investors are waiting on fringes hoping to get clarity on issues related to taxation (especially retrospective), GAAR, FDI in various sectors etc. Any disappointment from Budget can trigger steep correction in markets.

3. Politics: Arrogance all prevalent. Rule by ordinance

The whole of CY14 stock market performance has been primarily driven by politics or news flow on this count. Last year' when the first signs of change in political environment became visible after elections in Delhi and other states, our markets became excited. The euphoria continued post the election results & markets scaled new highs after many years of stagnant to poor performance. The single most factors that lead to such fantastic performance was sea change in confidence of businessman in the country & positive sentiment. Despite slow action by the government on reforms, market is still willing to give long handle & wait patiently for real action to kick start. Both foreign & domestic investors are maintaining faith on government & believe the current government with its clear majority in Lok Sabha has capability to remove bottlenecks in economic revival & kick start the much awaited capex cycle.

However reviewing the track record of government in past 7 months of existence, there is a clear under performance. The much awaited restart of stalled projects & removing administrative bottleneck has not yet happened to the desired extent.

The ruling party's inability to bring onboard the opposition parties in getting important legislations passed does not augur well for smooth running of government. Passing of various laws through Ordinance route or half hearted measures on allowing FDI in crucial areas like Railways, insurance or Defense will also not yield desired results. In our view no foreigner will write a cheque for partnership in India when the laws have been passed through back route/ do not have approval of a large base of law makers. Similarly no one will part with technology in defense etc for less than a majority stake.

In our opinion time is running out fast. Before investors lose patience, this government has to tighten its belt, take concrete giant steps .Till now it has failed to manage other political parties well. May be it need to bend backwards a little to get legislative action going in the larger interest of the country. Wash out of

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winter session of parliament has not gone down well with investors. Remedial action needs to be taken. Government should ensure smooth functioning of Budget session & try to pass as many bills as possible. In our view stock market behavior will be determined to a large extent by how the budget session steers away.

4. Action from RBI – long wait for rate cut

For last many months the RBI has been following single point agenda to rein in inflation. On back of various measures taken from time to time RBI has been successful in taming inflation to some extent. Both WPI & CPI are under control however a large part of this good news is on the back of base effect as well as falling international commodity prices. In order to taper down inflation expectations RBI has been following a tight monetary policy & maintaining elevated policy rates.

On the external balance situation luck has favored India with crude prices crashing by about 40% resulting in huge savings on import bill for the country. While CAD is now in comfortable zone, the export growth has remained subdued and imports of non oil items has remained high leading to stable balance of payments situation. Despite too much hype on politically strong stable government, we have not seen extra ordinary increase in FDI. FII investments have however remained high. Muted global growth, improvement in US economy resulted in Dollar gaining substantial strength. This has put pressure on all other currencies including Indian currency. Thus under the combined effect of improving inflation scenario at home but strong dollar, the RBI is restrained from taking any aggressive loose monetary policy.

We expect RBI to start cutting rates probably after the budget which shall give them more confidence on managing inflation expectations & stable currency environment.

Stock markets are awaiting a rate cut from RBI since a long time. Many participants believe sharp cut in interest rates is needed for providing impetus to growth in economy. Market is expecting 100-200 bps cut in policy rates in CY15. We also expect the rate cuts to start sometime in Feb –Mar 2015 but we estimate cuts will be more gradual instead of any sharp cut in single tranche. For entire CY15 we expect rate cuts in the range of 75-100 bps.

5. US FED action - Uncertainty from increasing rates

On the back of improving data points in US economy, USFED is likely to start increasing interest rates in US from near zero currently. FED officials & economists have been hinting at this many a time in the recent past. While per se increasing rates in US by a few basis points should not be a cause of worry as it implies economic growth coming back after many years in world's largest consumer economy but increasing rates at this time when many other parts of the world are still struggling for existence is surely a cause of concern.

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 such a 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 in May 2013 when FED Chairman made statements on withdrawal of quantitative easing India witnessed 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.).

An important point to note is that in 2013 fall, majority of outflow was from equity markets, not any significant amount of money was withdrawn from debt. 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 other brokerages are not estimating any large scale withdrawals from India (neither from Equities nor from Debt) as they believe that India is better prepared at present to face this challenge. 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.

Euro Zone disruptions

Greece is once again witnessing disturbances arising out of change in political establishment. The new party which is likely to take over the reins of country is against austerity measures mandated by world financial institutions. Greece is due for renewal of aid package from world bodies in a few days from now. We may witness increased uncertainty & disruption to global financial markets arising out of this. Other Euro Zone economies have also not come out of woods. While most of this news is already factored in the global stock markets, however any surprise can have negative impact on all markets including India.

Key themes to play in 2015 would be 1) Constructive policy intervention by government (Reforms), 2) Operating leverage (increase in capacity utilization) across various sectors, & 3) Domestic Consumption & exports

1. Reforms *: When the current government came into power there was lot of hope & expectation that it will restart reforms process especially in terms of fast decision making, speedy clearances, more transparency in allocation of natural resources, passage of many pending bills in the parliament, fiscal reforms like capping of subsidies, passage of GST/DTC bills etc. However till date we have only witnessed some catalytic reforms but no radical action has been taken. Despite a clear majority of ruling party in lower house of the parliament, the government has been unable to manage the opposition resulting in no major bill getting passed. To circumvent the established procedure the government has followed aggressive ordinance route. While Ordinance route may score political points for government, in our view this will not instill confidence amongst big investors therefore may not yield the desired result. We are still hopeful that government will find some way to get over this problem & will take some concrete steps on much awaited reforms. We would like to play this theme through sectors like oil & gas, power, coal, mining, telecom & financials (banks, insurance, NBFC).*

OUTLOOK FOR 2015 *(Contd…)*

2. Operating Leverage*. This is actually a continuation of previous year. We had expected that new government would be able to quickly resolve issues related to execution as compared to previous UPA, so that the demand in economy will revive leading to better utilization of existing capacities. While this has not happened till today, yet we believe due to business confidence improving substantially and overall macro economic conditions getting stabilized, growth may revive if hurdles to growth are removed. We would play this theme through cement, auto, construction/infra sectors.*

3. Domestic Consumption & Exports: *Whenever the sentiment is bullish & business confidence is high, domestic consumption picks up. When Corporate confidence in growth improves , wages go up leading to more disposable income at the hands of common people. With inflation expectations managed well & international commodity prices coming off sharply, all ingredients for strong revival in domestic consumption seem to be in place. Our services sector which provides employment to a large work force is largely dependent on US & other developed markets. Since those economies are on path of strong recovery, the future of this sector also seems to be good. We believe domestic demand for daily consumables, lifestyle products etc is likely to accelerate & remain strong for many years in India. We believe urban population will be better placed now as compared to their rural folks as they were impacted more severely by inflation in last several years. We will play this theme through home building products manufacturers, lifestyle products companies, consumer durables etc.*

Current government's flagship program on Make in India is likely to provide big fillip to our external sector. While export oriented sectors like IT, Pharma remain preferred sectors to invest, many more sectors like auto parts, home appliances, electronics manufacturers etc can become attractive.

In our note dated Dec 31, 2013 we had recommended 10 stocks to play in 2014. It gives me great pleasure that those stocks have delivered 29-124% returns taking into consideration our recommendation day price & target price given at that time. However returns are much higher if we consider the highest price these stocks have reached after our recommendation. I hope our esteemed investors would have benefitted from those recommendations.

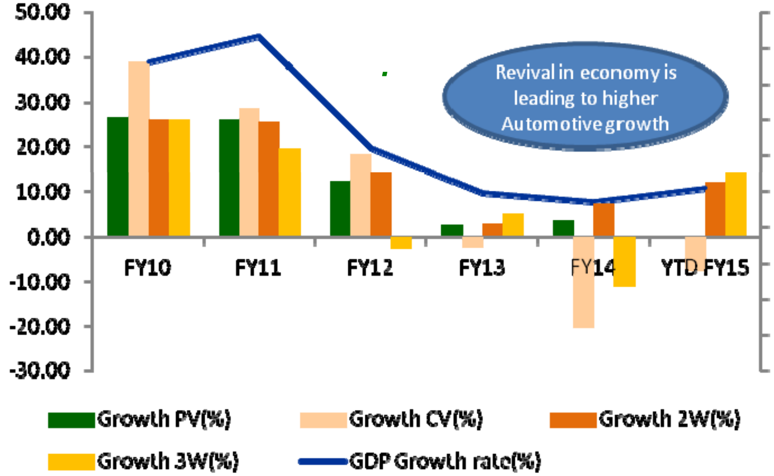
Continuing with our endeavor to provide timely advice to our investors with aim to achieve superior returns, we present yet another set of 10 stocks to invest for 2015. In our opinion these stocks have potential to yield high returns. Read on ensuing pages to know these winning ideas.

*……..**Happy Investing & Once again Wish You All A Very Happy & Prosperous 2015.***

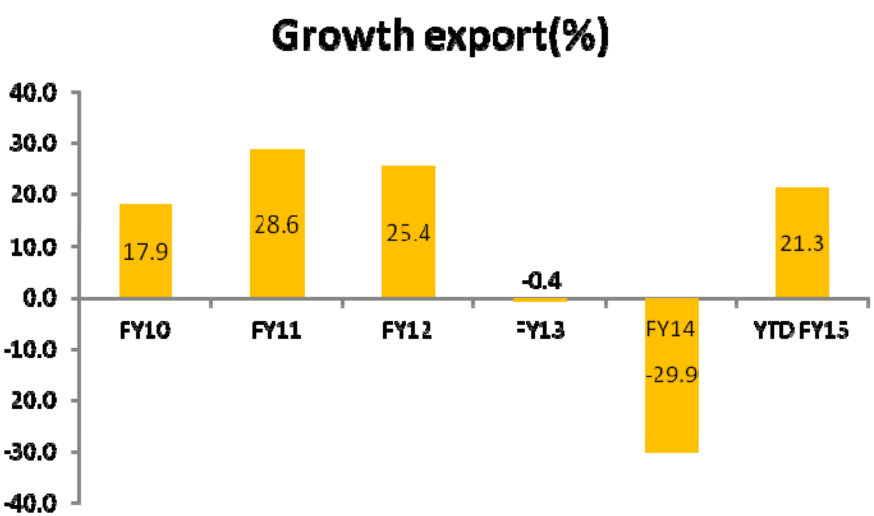
Daljeet S. Kohli

Head of Research

AUTO SECTOR



Source: SIAM; IndiaNivesh Research, * 8 months data -April to November

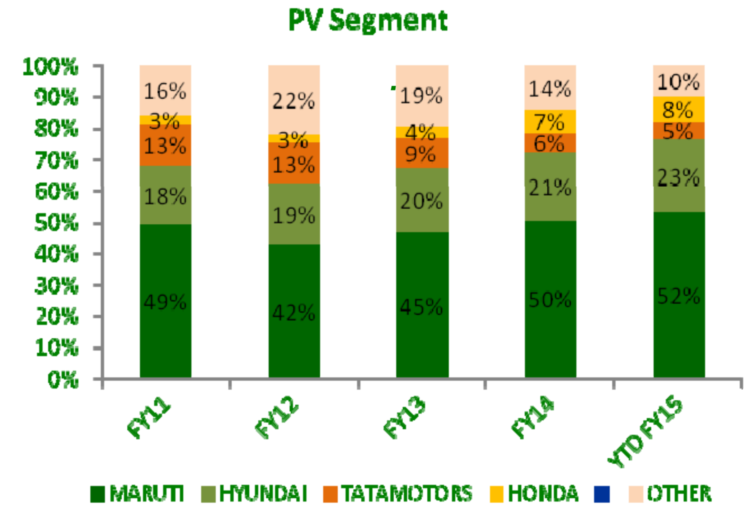


Source: SIAM; IndiaNivesh Research

Expected improvement in economic activity a key catalyst for demand recovery

- We expect revival of growth across all segments. Lower fuel prices, lower interest rate and improving GDP should aid the recovery. We believe good governance and faster reform would lead to higher employment/ disposable income that will improve consumer sentiment.
- Overall, we expect CVs to record the highest recovery on the back of low base and the highest correlation to the macro improvement. We expect CV volumes to increase above 20% YoY in FY16. In PVs, we expect an improvement in consumer sentiment to aid 15% YoY growth in FY16 and FY17. Similarly, for 2Ws, we expect 12% YoY growth in FY16 and FY17. Within 2Ws, we expect scooters to outpace motorcycles. Some portion of above growth would be captured in CY15. Thus we believe CY15 would be a better year for automotive industry.
- With likely moderation in discount levels, operating leverage benefits from higher volumes and the management's cost reduction efforts, we expect EBITDA margins to improve across the sector.
- We believe this positive outlook is more or less captured in consensus. the recent rally in the auto sector has led to most companies trading at above or near their fair valuations, based on one-year forward multiples. Considering these, we keep neutral stance on the sector.
- **Top Picks: Bajaj Auto, Exide and Lumax Auto.**

AUTO SECTOR *(contd…)*



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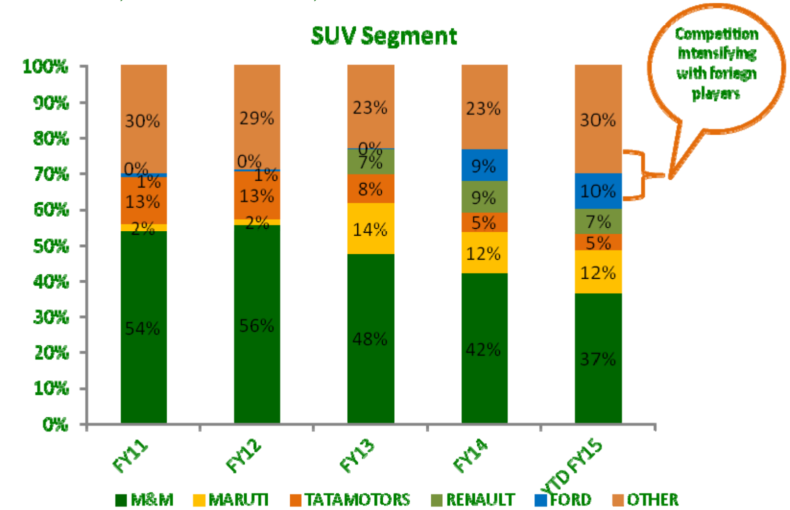
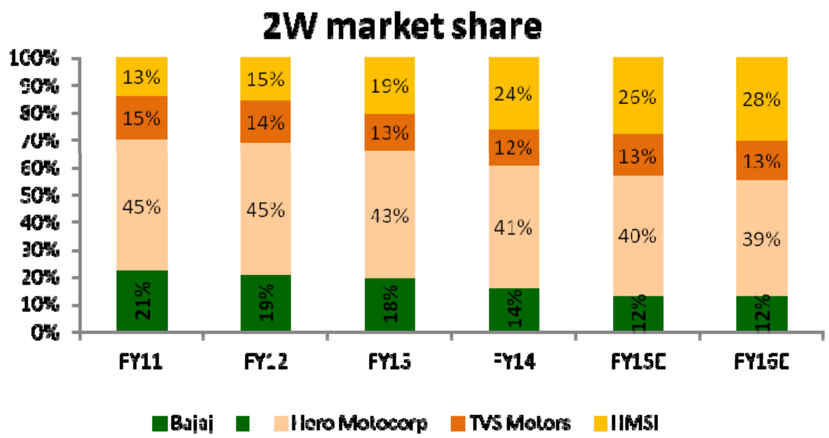
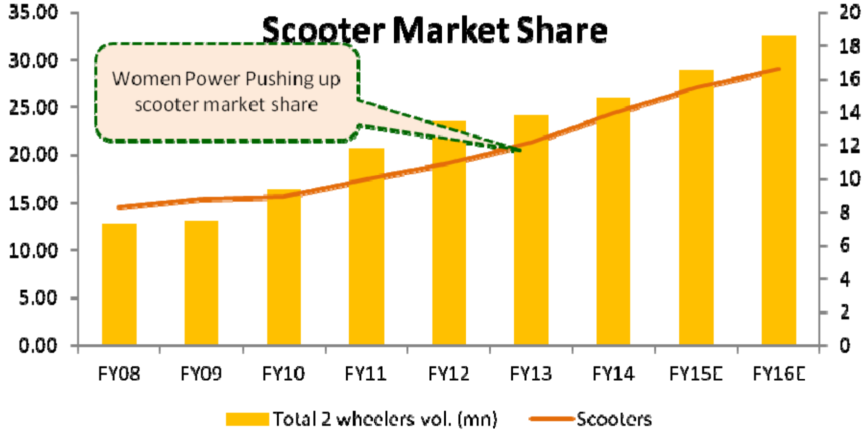


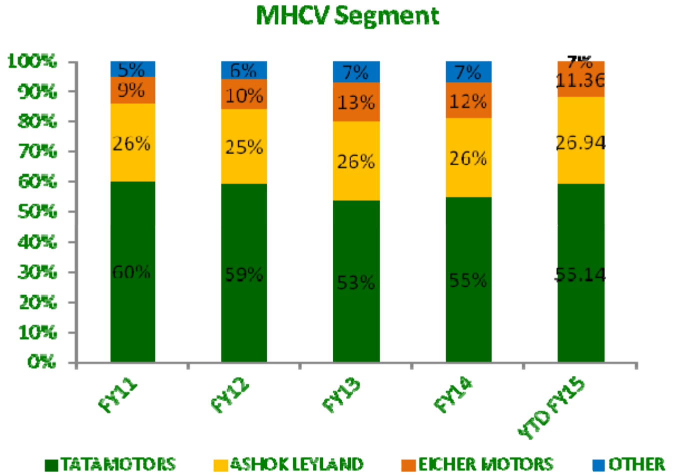
Source:SIAM; IndiaNivesh Research

- We expect domestic passenger vehicle (PV) demand to bounce back in FY16 and deliver 15% CAGR over FY15-17 on the back of improving consumer sentiment (due to economic revival) and moderating fuel costs and interest rates..
- One feature of the demand slowdown over the last 2-3 years has been the sharp decline in the proportion of entry segment car sales from 30% in FY11 to 24% in FY14. Despite first-time buyers returning in the last 6-8 months, the share of entry level cars has continued to slide (21% share in YTD FY15). We expect growth for premium and compacts cars to remain strong, driven by new launches.
- There are several launches lined up in the 2015. Some of the prominent ones are Maruti SX4 Crossover, Tata's Bolt, Hyundai's i20 crossover and Mahindra's compact SUVs. These would most likely impact Maruti's volumes and market share for FY16.
- Small SUV growth is outpacing standard-size SUV and continue to perform well.
- PV demand has shifted back in favour of petrol models in the last 1.5-2 years. With continuing reduction in the petrol-diesel price parity, we believe that this mix could continue to shift in favour of petrol variants.





Source: SIAM; IndiaNivesh Research,



Source:SIAM; IndiaNivesh Research

- As witnessed in the past few years, scooter growth should continue to outpace that of motorcycles , driven by higher demand from working women, college students (female) and senior citizens.
- Rupee depreciation and entry into new geography is driving the growth in export, Bajaj auto is a major beneficiary from export market. With Bajaj having no presence in scooters and Hero deriving only around 11% of its volumes from scooters, we believe rising scooterisation would adversely impact the 2W market share of both these players.
- In the commercial vehicle segment LCV sales continued to show weakness while M&HCV sales showed some sign of recovery led by an increase in the replacement of old trucks (particularly by the large fleet operators) and to the low base effect.
- Fuel price is one of the most significant components of the cost of ownership for passenger vehicles and the biggest operating costs for commercial vehicle owners (fleet operators). On the back of a correction in global crude oil prices, the prices of both petrol and diesel have declined by about 13- 17% in the last five months. This augurs well for the sale of commercial vehicles and other vehicle categories.

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Recovery in demand of PV's and M&HCV's

Two wheelers

Category	Domestic Sales April-Nov '14		
IV Two wheelers	**2013-14**	**2014-15**	% Change
Scooter/ Scooterettee	2,309,677	2,960,783	**28.19**
Motor cycles (MCs)	6,999,904	7,460,800	**6.58**
Mopeds	465,075	510,846	**9.84**
Total	9,774,656	10,932,429	**11.84**

Every 5th person in India owns a 2 wheeler however, it is highly dominated by the men section, with growing interest for scooter in women section, scooter segment is the growth driver for 2 wheelers

Commercial Vehicles

Category	Domestic Sales April-Nov '14		
M&HCVs	**2013-14**	**2014-15**	**% Change**
Passenger Carriers (PCs)	26,589	21,745	**-18.22**
Goods Carriers (GCs)	104,685	116,483	**11.27**
Total M&HCVs	131,274	138,228	**5.30**
LCV-PCs	29,436	28,853	**-1.98**
LCV-GCs	263,266	226,081	**-14.12**
Total LCVs	292,702	254,934	**-12.90**
Total	423,976	393,162	**-7.27**

M&HCV sales showed sign of recovery led by an increase in the replacement of old trucks (particularly by the large fleet operators) and to the low base effect

LCV sales impacted by financiang issues.

Passanger car sales growth would driven by improving consumer sentiment (due to economic revival) , moderating fuel costs and interest rates.

UV sales likely to bounce back due to decline ih diesel prices and the launch of new model

New state permits boosted volume

Passenger Vehicles (PVs)

Category	Domestic Sales April-Nov '14		
Segment	**2013-14**	**2014-15**	**% Change**
Passenger Cars	1,161,805	1,206,236	**3.82**
Utility Vehicles(UVs)	344,930	363,006	**5.24**
Vans	135,180	116,665	**-13.70**
Total	1,641,915	1,685,907	**2.68**

Three Wheelers

Category	Domestic Sales April-Nov'14		
III Three Wheelers	**2013-14**	**2014-15**	**% Change**
Passenger Carrier	269,429	311,151	**15.49**
Goods Carrier	60,089	65,175	**8.46**
Total	329,518	376,326	**14.20**

Source: SIAM; IndiaNivesh Research

The formation of a stable Central Government in May 2014 and the consequent market expectation of a revival in the macro economy have led to an improvement in the consumer/business sentiment. This has resulted in a demand recovery across vehicle categories. Whilst domestic passenger vehicles (PV) recorded 3% YoY growth for April-November 2014 (vs a decline of 6% YoY in FY14), domestic 2Ws grew by 12% YoY during this period (vs 8% YoY growth in FY14). Similarly, medium and heavy commercial vehicles (MHCV) goods (trucks) volumes have been on a recovery path since June 2014, with this category recording 11% YoY growth for April-November 2014 (vs a decline of 27% YoY in FY14). Thus we believe M&HCV and PV to record highest recovery on the back of lower base and revival in economy.

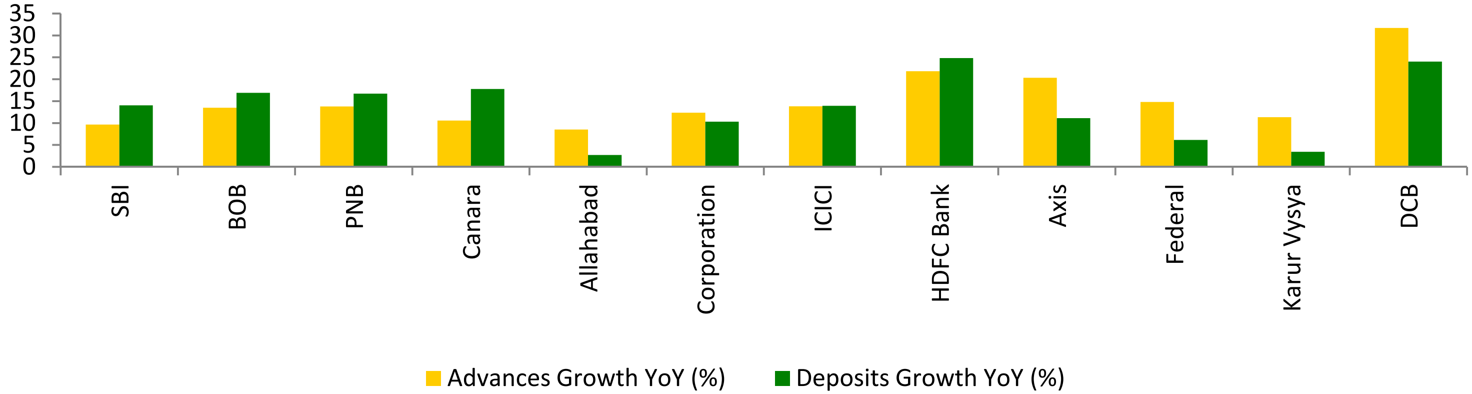
BANKING SECTOR

Easing asset quality pains…

During 2014, the Indian banking industry faced major concerns with regards to asset quality led by sharp increase in gross non-performing assets (NPAs) in sectors such as aviation, metals, infrastructure and power. However, in 2014, most of the banks under coverage have started focusing on comparatively safer segments of retail and small and medium enterprises (SMEs). After going through significant stress in the past three years, we expect Banks to show slow but steady improvement in asset quality leading to gradual improvement in earnings in 2015 and 2016.

Credit growth likely to be higher at 14-15% in CY15:

- As per the latest data from the RBI, (as on December 12, 2014), deposits growth (10.6% y-o-y) and credit growth (10.9% y-o-y) were much lower as compared to deposits and advances growth of 16.6% y-o-y and 14.6% y-o-y in same period last year, respectively. The lower advances growth was due to lack of fresh investments and tepid credit demand from the corporate. Lower credit growth was also on back of increasing incremental borrowings of Corporates from money market (like CP) where interest rates are lower. The lower deposits growth was due to high base effect of same period last year as the banks mobilized Foreign Currency Non-Resident (Banks) (FCNR B) deposits of USD ~34 bn under the Reserve Bank of India's (RBI) special swap window in Q3FY14.



Source: Company Filings; IndiaNivesh Research (as of Q2FY15)

- Key macro factors are already showing signs of improvement as compared to last year. Further expected rate cut in CY15 will lead to pick up in credit growth by the end of Q2CY15. Overall credit growth may revive marginally at 14-15% in CY15; private sector banks will continue to outpace PSBs in credit growth. We expect bank credit and deposits to grow at 14-15% and 13-14% in CY15, respectively.

Margins to improve slightly:

- The PSBs Net Interest Margins (NIMs) dropped during CY14 which has impacted their core profitability significantly. Given the large NPAs, the PSBs had to set aside half their core operating profits for credit provisions in H1CY14 as against just 20-25% around three years back. Going forward, the loan loss provisions are likely to come down, given the improvement in asset quality from Q2CY15 and the low fresh slippage rate. This is likely to help PSBs in improving their NIMs in CY15.

Asset quality pressures to ease:

- Indian banks will benefit from an expected cyclical uptrend in the domestic economy during CY15. As per our discussion with management of banks under coverage, Gross NPAs for most of them were at peak in 2014 and will start easing during 2015 as large part of the slippages are from cyclical sectors. We expect Private banks would continue to outperform PSBs on assets quality front in CY15, given the better risk management practices in place and their strategy of lowering their exposure towards troubled sectors.

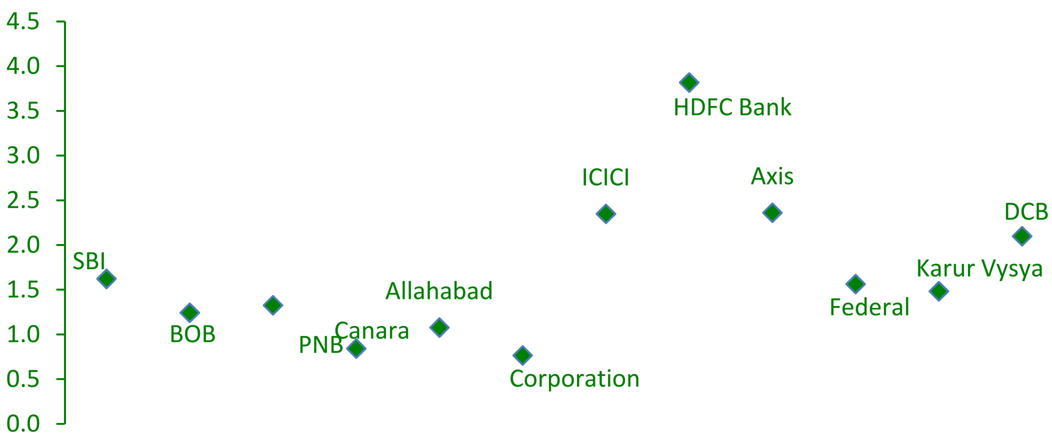
Return ratios to improve:

- RoE and RoA for PSBs dropped significantly in CY14. However, it is likely to improve from CY15 as going forward, PSBs credit provisioning could decline provided they are able to control fresh NPA generation rate as well as fresh flow of restructuring. In addition to this, continuous decline in G-sec yields and surge in equity market could offer a marginally higher treasury income to banks in CY15.

Outlook for CY15

The past couple of years have witnessed a slowdown in the face of high domestic inflation, depreciation of the rupee and slowdown in the economy. However, private sector banks have still performed better than PSBs in terms of growth, profitability, capital adequacy and asset quality. We expect CY15 to be a good year for the entire Indian Banking Industry. Although a series of challenges like deteriorating asset quality in PSBs, accompanying financial inclusion and Basel III implementation are all lingering issues but the sector is well cushioned with factors like a stable government with focus on increasing investment in infrastructure, innovation in technology and most importantly constructive regulatory policies. Overall, we expect Indian Banking Industry to consolidate in CY15 in the wake of future economic growth, changes in banking regulations and increase in competition from foreign banks.

FY16E P/ABV



Source: indiaNivesh Research

	P/ABV (x)		CMP (Rs.)		Target Price (Rs.)
	FY15E	FY16E	Latest	Recom	
SBI	1.8	1.6	308	**BUY**	323
BOB	1.4	1.2	1,068	**BUY**	1,118
PNB	1.5	1.3	220	SELL	165
Canara	0.9	0.8	443	HOLD	383
Allahabad	1.1	1.1	129	SELL	87
Corp Bank	0.9	0.8	333	NR	NR
ICICI	2.6	2.3	349	**BUY**	380
HDFC Bank	4.6	3.8	952	HOLD	910
Axis	2.7	2.4	494	HOLD	450
Federal	1.7	1.6	142	**BUY**	153
Karu Vysy	1.6	1.5	558	**BUY**	633.0
DCB	2.3	2.1	122	HOLD	UR

Source: Bloomberg, IndiaNivesh Research; NR: Not Rated; UR: Under Review

CMP as of Dec. 29, 2014

With significant increase in the stock price on back of expectation of rate cut, valuations of most of the stocks from our banking universe have reached their fair valuation. Hence we have hold rating on most of them baring SBI, BOB, Federal, ICICI and KVB where we have a BUY rating.

Key Challenges:

- **Introduction of Basel III norms:** Despite an improving economy, capital constraints will create major headwinds for profitability in CY15. Banks will have to bring in an additional capital of Rs 1.8-2.0 tn to meet Basel III norms. Out of this 45-50% may be issued in the form of Additional Tier I, 35-40% through Tier II and balance through common equity. Basel III norms have to be implemented in phased manner starting from April 2013 till March 2019. Clearly, sourcing equity capital of this size in the face of fiscal constraints poses significant challenges.

- **Increase in NPAs:** If there will not be any significant improvement in economy then NPAs and restructured loans of banks may go up and it will have impact on the profitability of the banks as they will be required to make higher provisions. Infrastructure exposure will remain a key risk especially for PSBs, given the elevated execution challenges leading to project delays.

- **Increase in Competition:** The universal banking license to new players in CY14 will be the game changer for the banking sector as it will allow non-financial / non-banking companies to establish banks which will increase competition in banking over the medium to long term scenario. Such competition in the industry may decrease the market share of the existing banks.

- **Managing Human Resources:** Banks will have to incur substantial employee costs as the attrition of the employees in banking industry may increase in CY15 with the entry of new banks.

FINANCIAL SERVICES

Loan / AUM growth likely to remain healthy:

- Loan / Asset Under Management (AUM) growth of Asset / Infra Financing NBFCs is likely to remain healthy at 15-20% for most of the NBFCs (Baring Bajaj Finance and Capital First at +20%) for FY15E and likely to pick up to high teen in FY16E. For housing finance companies like LIC Housing Finance, growth is likely to remain healthy at 18% for FY15E and 20% for FY16E.

Asset quality to remain stable, transition to start from FY16:

- Asset quality of our NBFC coverage is likely to remain stable in FY15E / FY16E for Capital First / Bajaj Finance and Housing Finance companies like LIC housing finance. However for asset / infra financing NBFCs like M&M Finance and L&T Finance, FY16E will be transition year wherein they will start recognizing NPAs and doing provisioning as per RBI's guidelines of 90 days NPA recognition and 0.4% standard asset provisioning by FY18.

Insurance / Credit rating business to show uptick:

- Max India is likely to continue its stable growth tragedy at consolidated revenue growth of 19% CAGR for FY14-16E led by healthy growth in Healthcare and both Life and General Insurance business.
- We are positive on the long term opportunities for the credit rating sector on the back of development in debt market during CY15 and CARE is our preferred pick among the listed credit rating agencies. CARE is the best placed for cyclical recovery in corporate capex and bank credit growth as its ~90% of total revenue comes from ratings only.

	P/ABV (x)		CMP (Rs.)		Target Price
	FY15E	FY16E	Latest	Recom	(Rs.)
LIC Housing	2.6	2.2	419	BUY	485
Bajaj Finance	3.6	3.0	3,467	HOLD	2,855
L&T Finance*	1.6	1.5	67	**BUY**	80
Max India*	3.2	3.0	385	HOLD	367
CARE	12.6	10.2	1,418	**BUY**	1,551
CFL	2.5	2.1	356	**BUY**	400

*Source: Bloomberg, IndiaNivesh Research;*Consolidated; CMP as of Dec. 29, 2014*

CAP. GOODS SECTOR

Awaiting reforms

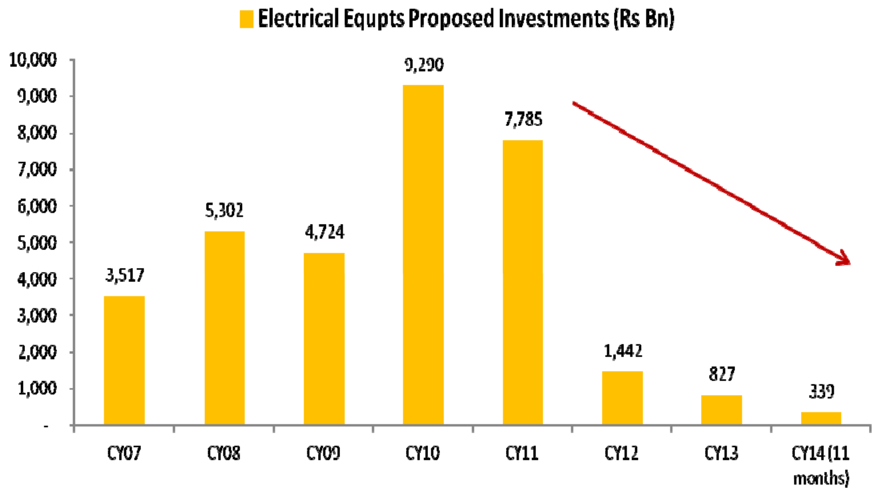
- During the last year, the lower corporate profitability and moderation in the growth of credit flow to industry shows muted performance of capital goods sector.
- Turning to subsectors of capital goods, we saw persistent negative growth in machinery and equipment (-4.7%) and transport segments (-9.6%). The above decline was due to deceleration in investment, import substitution in the machinery, slow pace of mega projects implementation and decline in the number of new projects. Consequently, it led to capacity utilization at low levels (~60%-65%). *Note: Only electrical machinery within the capital goods has registered a positive growth~ 15%.*
- Sales growth for most of the companies remained at only ~5-6%. EBITDA margins declined (~200 bps y-o-y) , mainly on account of constrained pricing power coupled with cost pressures. Also, higher interest rates not only impacted consumer borrowings, but also increased the cost of capital for companies, thus impacting new investments.
- Going ahead, apart from the new govt initiatives to uplift overall business sentiment and boost investment, several specific initiatives like "Make in India", implementation of various Industrial Corridor (DMIC) and policy reforms to promote FDI and e-Biz project, could lead to major change in future landscape of this sector.

Valuation

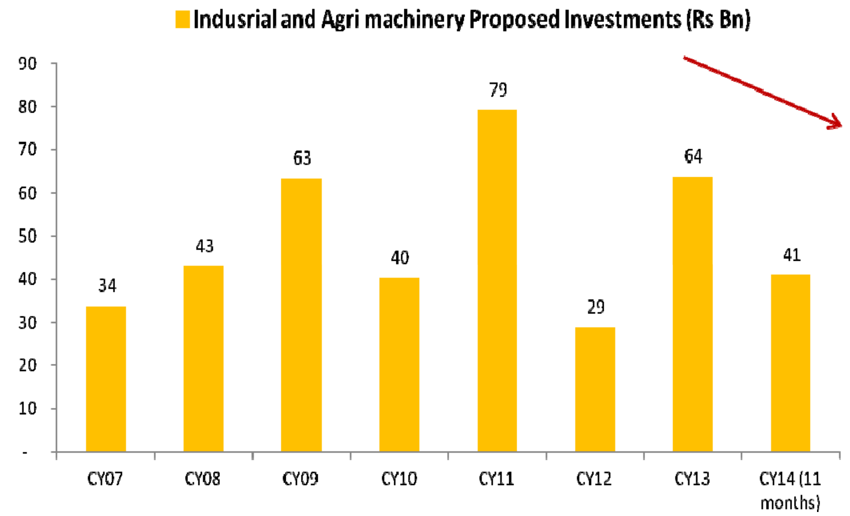
Company Name	P/E FY15E	P/E FY16E	CMP (Rs)	Target (Rs)	Reco	Up/Down (%)
Alstom T&D	64.4	31.3	473	444	Hold	-6.1%
BGR Energy	8.2	7.1	159	172	Hold	7.9%
BHEL*	25.9	21.4	259	NA	No rating	NA
Crompton Greaves*	28.3	18.1	187	NA	No rating	NA
Greaves Cotton*	23.3	18.0	144	NA	No rating	NA
Ingersoll Rand*	38.1	35.4	870	NA	No rating	NA
Kirloskar Oil Engine*	19.4	16.4	270	NA	No rating	NA
Voltas*	25.5	19.7	240	NA	No rating	NA

*Source: IndiaNivesh Research, *Bloomberg*

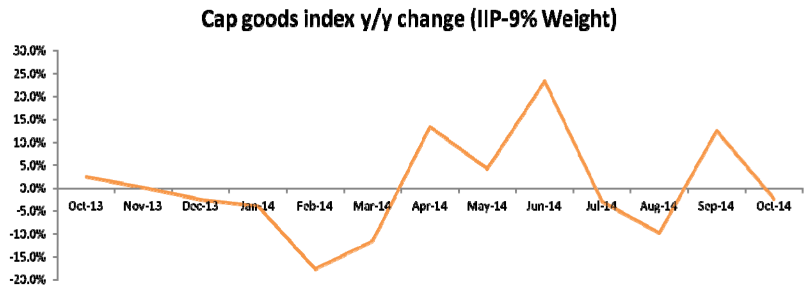
Yet to see investment revival



Source: DIPP, IndiaNivesh Research



Source: DIPP, IndiaNivesh Research



Source: MOSPI, IndiaNivesh Research

CEMENT SECTOR

'Cement'ing growth via infra reforms

- Financial performance of cement companies improved in FY14 due to (1) Increased capacity, (2) Higher utilisation rates leading to better volume growth and (3) higher realization
- New government is focusing on economic recovery through increased thrust on improving the infrastructure via expeditious clearances of the road projects, low-cost housing projects and removing the bottlenecks in power projects. However, in our opinion, this is the beginning and the impact of these recently announced reforms are yet to play out.
- With improvement in macro-economic environment, we expect cement industry to grow at 7.5%-8% over the next few years. Higher agricultural income, lower interest rate and expected welfare induced social spending by the government is likely to increase private consumption growth, thereby leading to increased cement demand.

Industry Demand supply outlook

As on 31 March (mn TPA)	FY 12	FY 13	FY 14	FY 15E	FY 16E
Installed Capacity	315	358	373	393	409
Installed capacity growth(%)	5%	14%	4%	5%	4%
Cement demand	224	236	243	264	288
Demand growth(%)	6.70%	5.50%	3%	8.80%	8.90%
Domestic consumption	222	234	241	262	286
growth in domestic consumption	6.80%	5.50%	3%	8.90%	9%
cement exports	2	2	2	2	2
Cement capacity utilization	71%	66%	65%	67%	70%

Source: CMA , MoSPI, Indianbusiness.nic.in, IndiaNivesh Research

CEMENT SECTOR *(Contd...)*

Region-wise demand supply scenario

31 March mn TPA	FY 12	FY 13	FY 14	FY 15E	FY 16E
North					
Capacity	68	70	74	78	82
Demand	43	46	47	51	56
demand growth(%)	11%	7%	2%	9%	10%
Utilisation %	63%	66%	64%	65%	68%
South					
Capacity	115	127	135	139	142
Demand	56	59	60	65	71
demand growth(%)	1%	5%	3%	7%	9%
Utilisation %	48%	46%	45%	47%	50%
East					
Capacity	41	47	53	56	61
Demand	39	41	42	47	52
demand growth(%)	2%	5%	3%	12%	9%
Utilisation %	95%	87%	79%	84%	85%
West					
Capacity	43	48	51	54	54
Demand	47	49	51	54	59
demand growth(%)	2%	4%	4%	6%	9%
Utilisation %	109%	102%	100%	100%	109%
central					
Capacity	36	42	47	50	56
Demand	37	39	40	45	50
demand growth(%)	8%	5%	3%	13%	11%
Utilisation %	103%	93%	85%	90%	89%

Source: CMA , MoSPI, Indianbusiness.nic.in, IndiaNivesh Research

- In the past, lower cement realization coupled with rise in input costs depressed the profitability - EBITDA margins contracted by ~300 bps reaching 15-17%. However, since last two quarters most of the companies have taken steps to control manufacturing costs especially power efficient techniques. Cost of production per ton has reduced from Rs 3700 per ton to ~3500 per ton during FY14.
- Most of the projects related with infra segments were delayed due to elections in the country and policy paralysis in the system. Post formation of the new government, we are witnessing increased activity on this count. The new government is committed to infuse an investment of US$ 1 trillion till 2017 in infrastructure. Based on the expected investment in the infrastructure sector, the overall cement demand in the country would be around 470 million tons (incremental ~100 MT).
- We expect that most of the development is likely to happen in Northern and Eastern regions of the country boosting the demand for cement in these areas; thereby positively impacting the growth of companies operating in these regions.
- Surge in replacement costs from US$120 to US$135 despite falling RoEs has created interest amongst the investors for cement stocks. With worst behind, we sense that RoEs have bottomed out for most of these companies and dips in the stock price should be looked upon as a buying opportunity.
- Any indicators on uptick in dispatch numbers could lead to re-rating for cement stocks
- **Top Pick: Mangalam Cement, Prism Cement, Ultratech Cement**

Valuation

Company Name	EV/EBITDA FY15E/CY14E	EV/EBITDA FY16E/CY15E	CMP (Rs)	Target (Rs)	Reco	Up/Down (%)
Mangalam Cement	9.0	4.8	310	426	Buy	37.6%
Prism Cement	12.8	6.7	81	103	Buy	27.4%
Ultratech Cement*	15.4	11.8	2,640	NA	No rating	NA
ACC*	15.0	11.5	1,397	NA	No rating	NA
Ambuja*	24.5	20.0	230	NA	No rating	NA

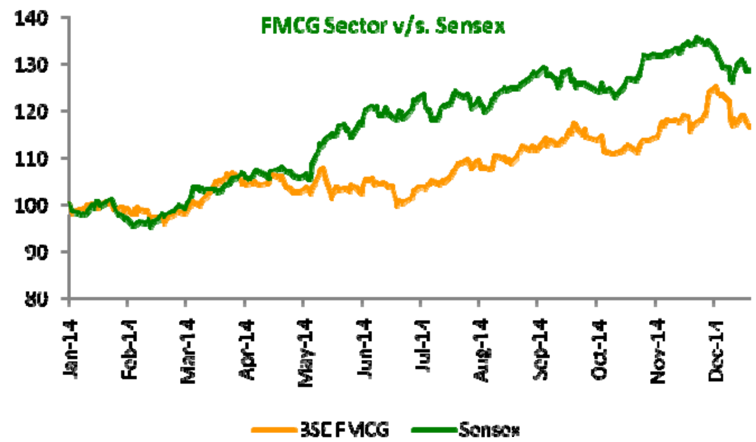
*Source: IndiaNivesh Research, *Bloomberg*

CONSUMPTION SECTOR

Riding with the tide…

- **2014 – A quick glance:** Impact of moderation in macro-economic scenario was clearly visible in the performance of consumption sector. Industrial production of consumer goods peaked in Jan 2014 while consumer durable goods have been falling since Oct 2012. Most of the companies have been reporting single digit volume growth. Margins were in pressure due to steep increase in raw material price like Copra, crude oil, palm oil etc. Cost control measures to maintain margins have likely lead to better managed companies.

- **2015 – Outlook:** We remain positive on the sector due to increasing buoyancy on improving macro-economic environment. Increasing penetration levels, rising aspirations and improving standard of living are likely to drive the growth of consumer companies. With stronger economic outlook, we expect the consumption sector to return to double digit growth. While staple companies are likely to maintain their growth rate, discretionary product companies are likely to show improving performance. Beginning of interest rate cuts is likely to boost demand for consumer durables and other discretionary products.



Source: Capitaline, IndiaNivesh Research

Key Raw Material Price Trend

Commodity	Measure	Price	3m (%)	6m (%)	1yr (%)
Copra	Rs/Quintal	8765.0	-13.2	-14.9	19.3
Wheat	Rs/Quintal	1670.0	4.4	10.3	0.5
Titanium Dioxide	Rs/Kg	227.0	-4.6	-9.2	-11.0
Palm Oil (USD)	USD/ton	660.0	-7.0	-19.0	-18.0
Palm Oil (INR)	Rs/10kg	461.6	-2.5	-13.7	-14.3
Crude Oil	$/barrel	59.9	-38.3	-47.1	-46.6
Sugar	Rs/Quintal	2577.0	-10.5	-15.4	-6.7
Gold (USD)	$/troy ounce	1193.4	-1.8	-9.3	-1.6
Gold (INR)	Rs/10 gms	26915.0	0.2	-4.2	-8.2
Re / $	-	63.7	-3.4	-5.5	-2.8

Source: Bloomberg, IndiaNivesh Research

CONSUMPTION SECTOR *(Contd…)*

Key Drivers:

- **Strong demand:** Improving consumer sentiment is likely to enable better volume growth in 2015. With expected stable environment, demand for discretionary products like watches, tourism, home improvement products, jewellery, clothing, etc are likely to improve.
- **Benign raw material prices:** Most of the companies are likely to benefit from reducing raw material prices including copra, palm oil, sugar, etc. Crude oil prices have also declined benefitting all companies due to reduced packaging cost. The benefit of lower prices is yet to accrue to most companies due to earlier inventory. We expect the reduced prices to start benefiting the companies from March 2015 quarter.
- **Brand extension and Premiumisation:** Companies are likely to continue their strategy to introduce premium products under existing brands and enter new niche and convenience categories which command higher margins than basic products.
- **Stable currency:** Stable and range bound currency is likely to enable better integration with international operations. In CY14, almost all the companies had reported double digit constant currency growth; however in INR terms the numbers were muted.

Key Challenges:

- **Increasing competition:** Competition is increasing amongst existing players as they enter into new categories and new players have also been entering the Indian markets. Hence advertising spend (which enabled the companies to maintain margins) needs to be monitored as it may not be possible for companies to lower beyond certain levels.
- **Reversal in decline in raw material price:** In the event of raw material prices begin increasing again, the margin improvement to the sector would be for a limited period. Also, at lower level of raw material prices, unorganized competition starts increasing, restricting the extent of benefit.
- **Reduction in government rural spend:** Government reduced its spend on rural employment schemes in last budget and we could observe moderation in rural sales of consumer companies. Further reduction in rural spend may impact the sales growth of the companies.

Top Picks: HIL Ltd, KPR Mills and Liberty Shoes.

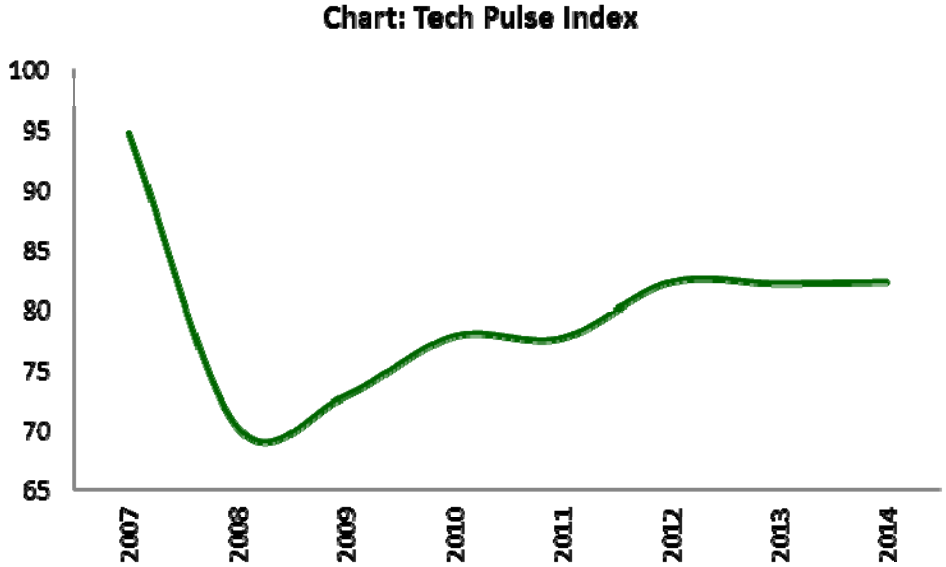
IT SECTOR

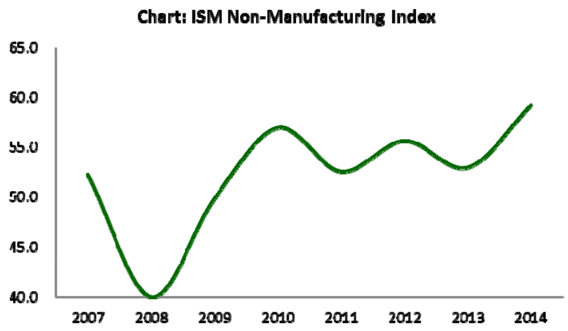
Stable Global Outlook – Key sector driver…

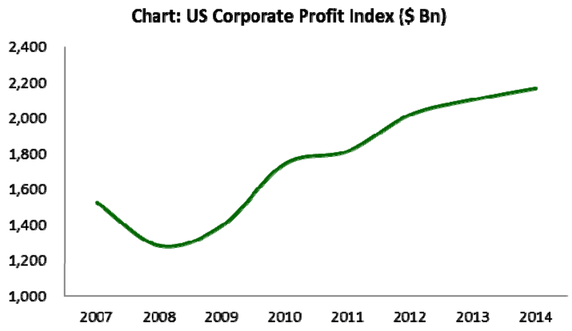
Continuous improvement in business confidence indicators *[ISM Non-Manufacturing Index, CEO Confidence Index, US Corporate Profit Index & Tech-Pulse Index]* could trigger greater information technology spending in 2015.

Corporate profits in the U.S. are near record levels with little debt on the balance sheets. These conditions, coupled with greater business optimism, could drive IT spending for ADM, IMS, Implementation and consulting work.

As a result, we forecast strong double-digit revenue growth for Indian IT vendors under our coverage universe. According to IDC, Global IT services is likely to grow by 3.6% CAGR over 2013-18.







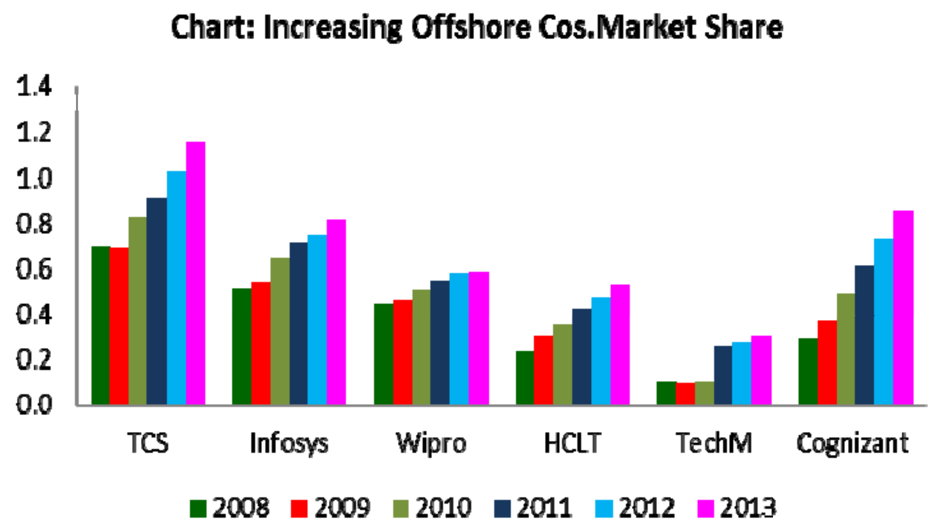
Source: Ovum; IndiaNivesh Research

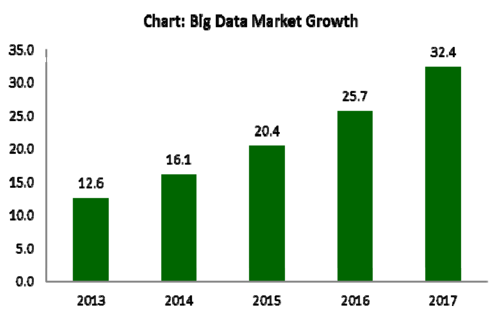
IT SECTOR *(Contd…)*

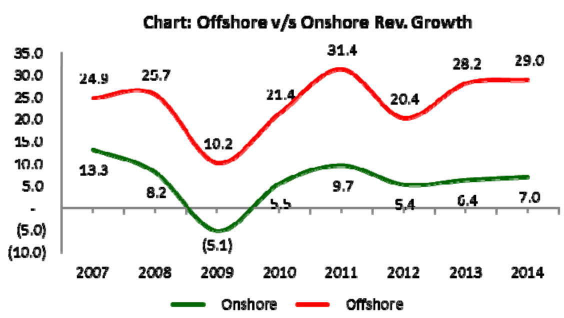
Higher adoption of digital services [Social, Mobility, Analytics & Cloud] by corporates will drive greater growth opportunities for Indian IT-Services companies in CY15. According to IDC, Big-Data market size would be $32.4 bn (v/s 12.6 bn in CY13) by CY17. The higher investments, JV and partnership in these areas are likely to drive Offshore Indian IT-Services vendors digital revenue growth.

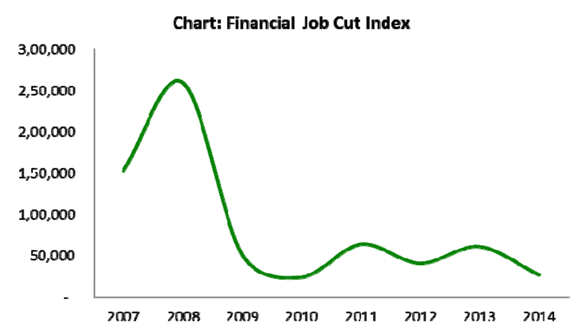
Additionally, inherent low cost advantage [FTE employee cost in India is ~15% of similar U.S. worker] and weak INR *(v/s global currencies)* remains positive and likely to be key catalysts for market share gain.

The muted show from BFSI vertical could pick-up with in-line industry average momentum over medium-term as Financial Job Cut Index is stabilizing at these levels.









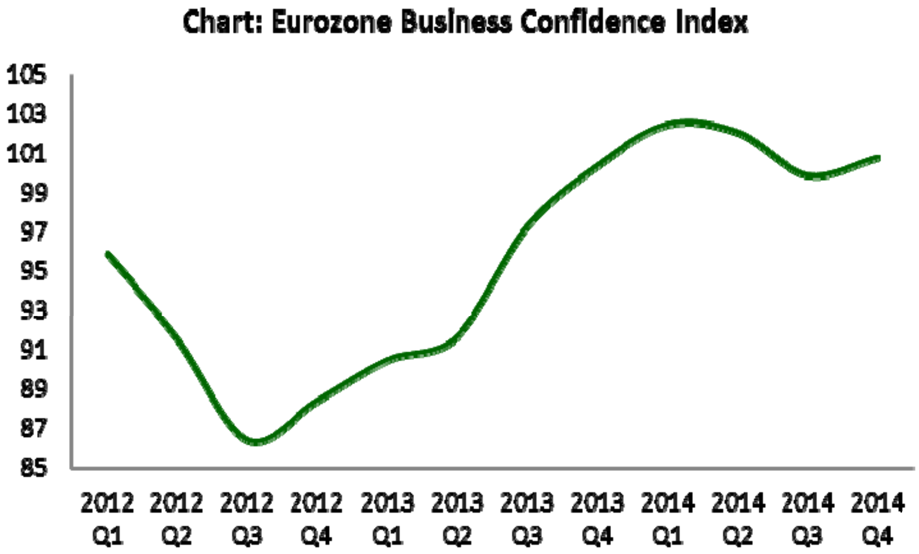
Source: Ovum; IndiaNivesh Research

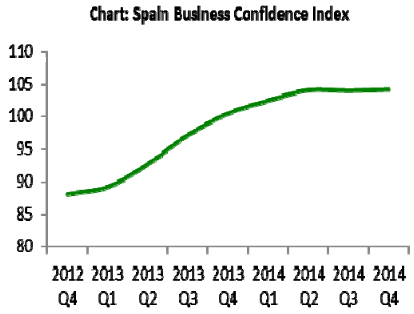
Eurozone appetite to outsource IT services work to low-cost destinations may continue to increase even in CY15 on back of huge under penetration.

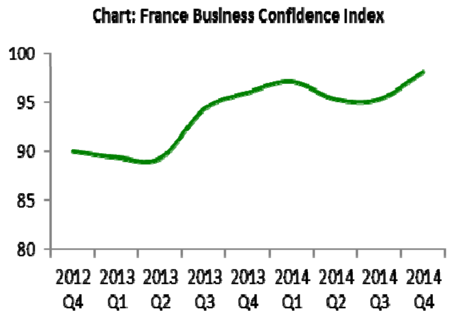
Excluding the U.K. & Germany, Major Eurozone region has been lagging behind North America in adopting outsourcing IT services work to low cost destinations like India and Philippines.

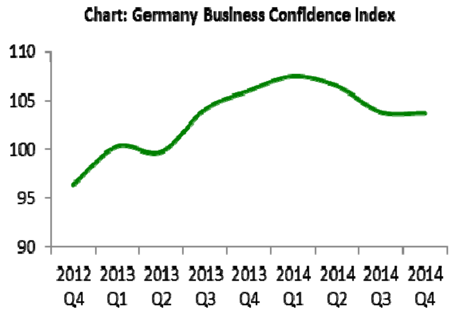
However, this reluctance is now reducing; hence could create huge growth opportunities for offshore Indian IT-Services providers going-ahead. Eurozone contributes ~33% of the global IT services spending and expected to grow 2.2% CAGR till CY18, according to IDC.

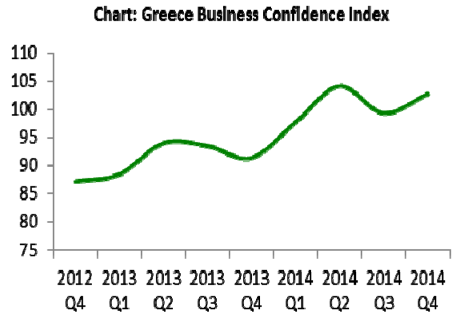
Top Picks: Mastek & Onmobile







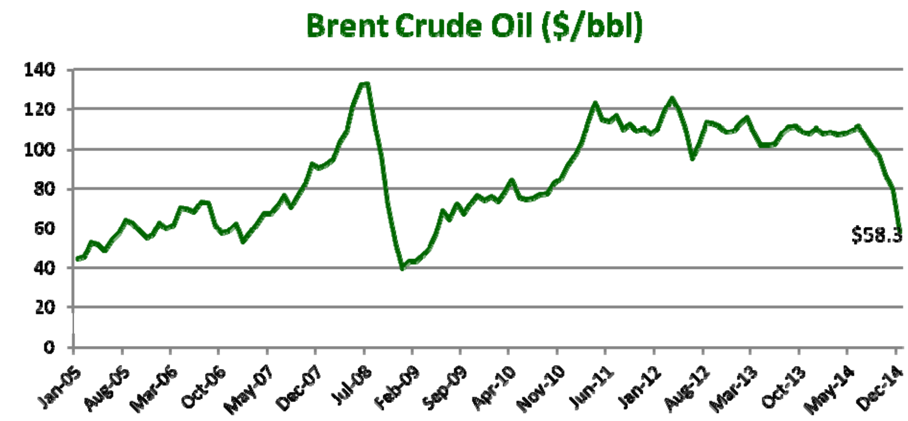




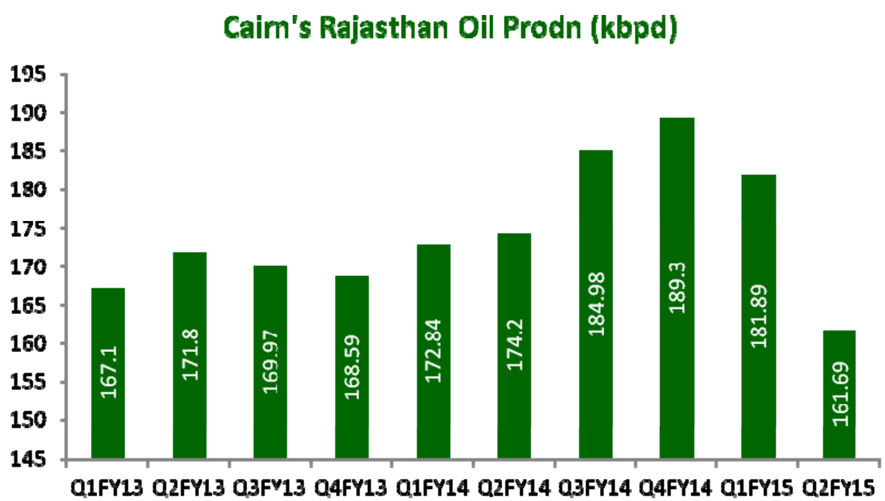
Source: Company Filings; IndiaNivesh Research

OIL & GAS SECTOR

Falling crude prices gives an opportunity to buy stocks for the medium to long term

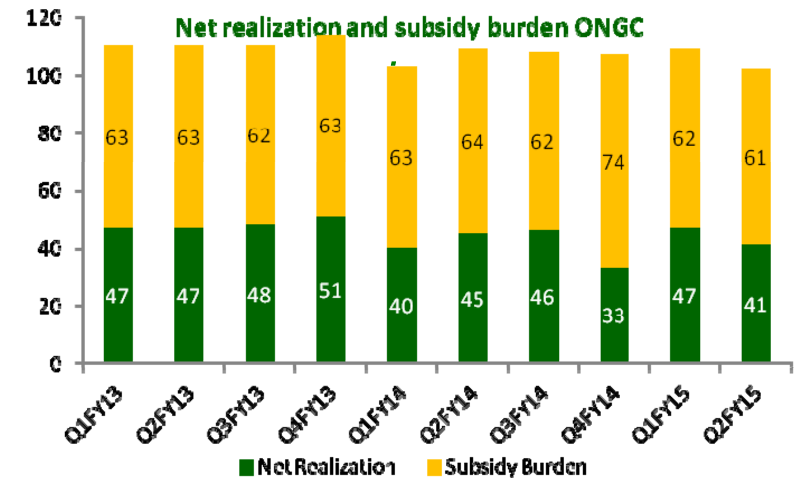


Source:: EIA

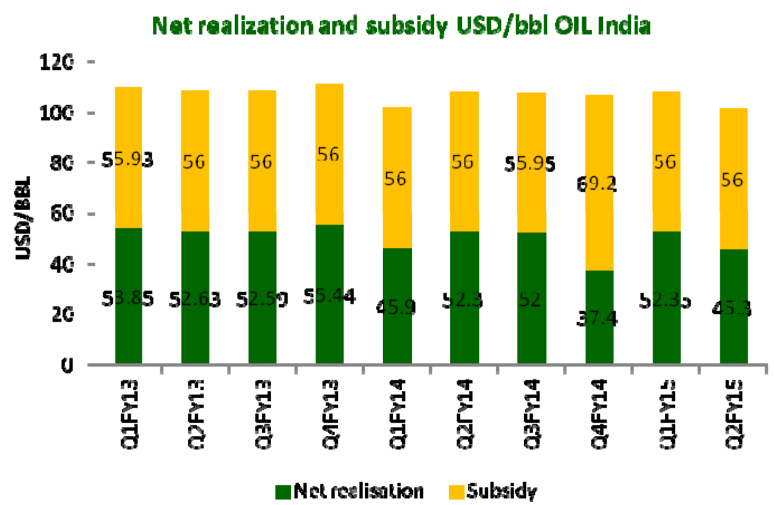


Source: Company IndiaNivesh Research

- Despite sharp fall in crude prices, we continue with our positive stance on the sector on the back of ongoing reforms like rationalization of subsidy, increase in natural gas prices and potential reserve accretion from large E&P acreage. Further fall in crude prices will lead to lower under-recovery in coming quarters. ONGC and Oil India is expected to outperform due to reduction in subsidy burden and volume growth from new fields. We believe GAIL would be able to overcome constrains of gas supply shortages and maintain growth due to dominant market position in gas transmission as well as diversified business model. We expect Cairn to deliver strong production growth from Rajasthan field, that will enable Cairn to generate strong free cash flows. We believe plans to invest Rs. 1.5t in the next 3 years in petcoke gasification, polyester expansion & off-gases crack, E&P activities, telecom and retail businesses are big trigger for RIL in medium term.
- We believe that, government's move to deregulate diesel prices and increase in natural gas prices are key positive for the sector and will boost the profitability of upstream companies.
- Crude oil prices have declined to around $60/bbl. The lower level of crude oil prices, if sustained would adversely impact profits of upstream companies like Cairn India, ONGC and OIL. However, the impact could be partly offset by lower under-recovery sharing burden for PSU upstream companies. Further, the recent trend of depreciation in INR/US$ level and inclusion of cess Payment would offset the negative impact of falling crude prices.



Source: Company Indianivesh Research,



Source: Company; IndiaNivesh Research

- MoPNG suggested that subsidy burden would be reduced for ONGC and cess payment of Rs100bn would be considered as part of contribution towards subsidy, which has the potential to boost net realization by USD12/bbl.
- Some uptick in production can come from ONGC as it would commence ramp-up production at some of its marginal fields.
- Cairn is likely to see the worst impact as it is a pure play, however, the stock is trading at 0.6x book value which is at a discount to its historical average of 1.2x book value. While the stock is likely to remain under pressure in the near-term, these levels can be used for buying for the medium to long term given the company's significant hydrocarbons reserves, potential of further additions to these reserves and production ramp up plans.
- Over the medium term upside to crude oil production is expected to come from Cairn India's blocks (primarily Rajasthan) which are expected to deliver a CAGR of 7-10% over the next three years till FY17 even though production is expected to remain flat during FY15.
- Falling crude prices would have mixed impact on RIL. Refining business accounts for about half of RIL's segment profits. The decline in benchmark Singapore GRM's(declined 19% QoQ to USD4.8/bbl in Q2FY15) indicates weakness in refining business in the near future.
- The lower crude prices, on the other hand, can mean that the RIL gets feedstock for petchem business at lower prices benefitting petchem margins.

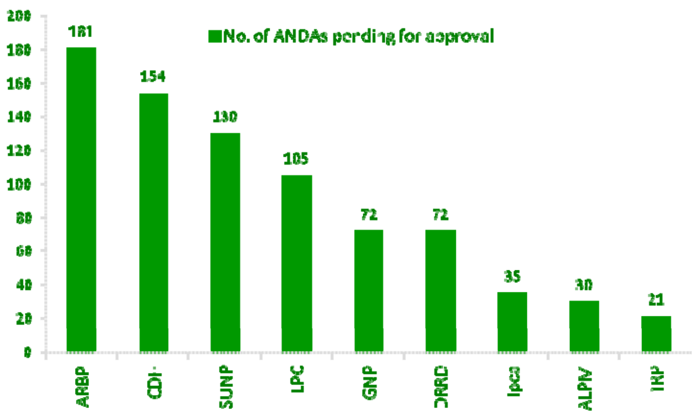
Preferred Pick: Reliance, ONGC, GAIL, Cairn India and OIL India

Structural drivers intact; execution remains the key

We expect 2015 to be eventful and promising year for Pharmaceutical sector as was 2014. In 2014, Pharmaceutical sector (BSE Healthcare index) appreciated by 46% compared to 30% in Sensex. Interestingly, BSE Healthcare Index appreciated by 132% on relative basis over past five years. We expect outperformance relative to Sensex to continue for 2015 as well. The outperformance would be backed by steady earnings growth as well as multiple expansion of the sector.

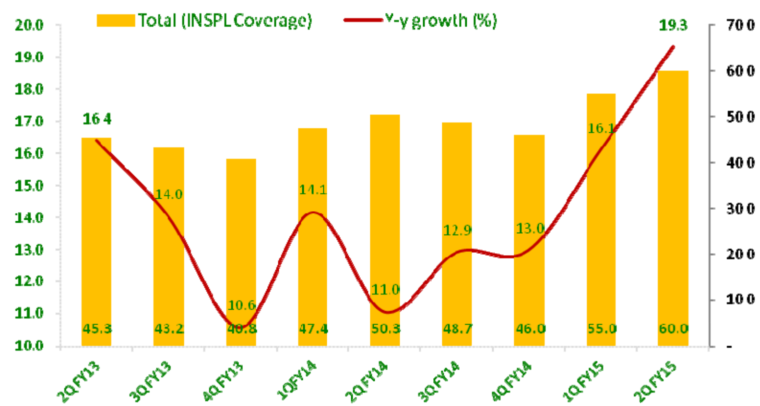
- Earnings growth would be led by superior execution in developed as well as emerging markets.
- The robust ANDA pipeline pending for approval gives us enough comfort for higher business from US market, which remains the key driver of earnings for most of the pharma companies under our coverage, subject to pace of ANDA approval by USFDA.
- In terms of domestic formulation market, we expect companies under our coverage to have better growth in 2015 compared to 2014, as they were adversely impacted by price cuts and trade related issues. The growth has already picked up since September 2014 and we expect this to accelerate further in 2015.
- Increase in pace of regulatory approval in Brazil, improving lifestyle in South Africa and increased genericisation in Japan is expected to result in increase in business opportunities in respective markets for pharma companies under our coverage.

ARBP has highest number of ANDAs pending for approval



Source: Company Filings; IndiaNivesh Research

DF growth to accelerate going forward



Source: Company Filings; IndiaNivesh Research

PHARMA SECTOR *(Contd…)*

- We expect R&D cost to inch up further as companies would be investing higher proportion of their profits in developing complex molecules which have relatively higher and sustainable profitability.
- The para IV filings, litigations and their outcome would also be the key things to watch as favorable outcome may give potential upside to earnings of pharma companies.
- We expect Pharmaceutical to remain sector of choice due to most visible and stable earnings. Also, the export oriented companies may have currency benefit as well. With increasing exposure to higher growth as well as profitability markets like US, Europe, Latin America, South Africa and Japan, we expect ROEs to further improve going forward.

Key concerns:

- Regulatory compliance of manufacturing facility as well as processes involved in manufacturing and testing of products remains one of the critical constraints for pharma companies.
- Slow pace of ANDA approvals may result in deferment of business from respective products.
- With more number of Indian players eyeing US market, there could be higher competition resulting in price erosion in some products, except for niche opportunities.
- There has been aggressive price control on some products in domestic formulation market. With government's effort to reduce overall healthcare cost for common man, we expect price cuts to remain as an overhang on domestic formulation business of pharma companies.
- Currency fluctuation also remains the key concern for Pharmaceutical companies.

POWER SECTOR

Reforms on track

Year 2014 was a mixed bag for Power sector as earnings continued to remain volatile due to fuel supply risk, de-allocation of coal block by SC, higher leverage balance sheet and INR depreciation especially for private sector generation companies. However we believe that gradual turnaround will be witnessed in Power sector in next 6-12 months on the back of major steps taken by the GoI such as increase in coal output by Coal India, bid for coal mines, tariff hikes by state electricity boards (SEBs), and the prospects for re-negotiations with power producers on power purchase agreements (PPAs). However implementation of reforms would be a key challenge in the power sector growth

Key game changer

The Coal Mines (Special Provisions) Ordinance, 2014: Subsequent to the de-allocation of the coal blocks by the Supreme Court (SC) of India in September 2014, the Government of India (GoI) has notified "The Coal Mines (Special Provisions) Ordinance, 2014" on October 21, 2014 with the objective to provide guidelines for allocation of coal blocks as well as to ensure continuity in coal mining operations & production of coal from the affected blocks, The e-auction process for allocation of identified 74 coal blocks is expected to be completed within three to four months from the date of this ordinance.

Mines to be allocated for power sector will be auctioned through Reverse Auction where ceiling price will be decided as per the rates at which Coal India sells a particular grade of coal. We expect reverse bidding for the impending coal block auctions for power sector wherein CIL coal price will become the final transfer price for the power plants; in line with the Government's objective to control power prices and restrict SEB losses. Players would have to bid keeping in mind that their final pit head price of coal including the bid amount and the cost of operations should not exceed the Coal India price. **We believe, through this mechanism power generation could become a little more efficient (possibility of higher volumes, lower T&D losses and stable tariffs). However it will cap RoEs of the company.**

Ramp up in coal Production : Coal availability from Coal India Limited & its subsidiaries increased to 295 MMT YTD FY15, reflecting a growth of 7.5% on a YoY basis, however it continued to remain inadequate in relation to the growing demand from power sector.

POWER SECTOR *(contd…)*

Fall in international coal prices : While power sector remains exposed to volatility in both i.e. international steam coal price and INR-USD exchange rate with rising dependence on coal imports, softening of coal price levels by about ~20% in the last 12 month period and stability in INR-USD exchange rate during the last six months has eased cost pressures for the power sector and indeed aided import volumes to a some extent.

Fuel supply agreement: As per the new mechanism, Coal India will sign fuel supply agreement (FSA) for 78,000 mw capacities. Coal India will meet 80% of the coal requirement of these power plants. It has agreed to supply 65% of the requirement from domestic coal and the remaining 15% from imports. Imported coal will be supplied to generation companies on cost-plus basis.

Risk

Timelines for resolution of compensatory tariff issue for affected IPPs remains uncertain: While CERC issued a favorable order allowing tariff compensation to Coastal Gujarat Power Ltd and Adani Power Limited (both having imported coal based projects) in February 2014, the affected state utilities have appealed against the same to the Appellate Tribunal of Electricity (ATE). ATE meanwhile issued an interim order in July 2014 which was again appealed to in the SC and consequently the SC has put a stay on the order and also directed the ATE to expedite the issue for a final order. A final order from ATE is now awaited; however risk of further appeal against the same by the affected utilities does persist.

Top Pick: We prefer utilities with I) Assured regulated business model vs. Merchant and competitive business model, II) Fuel Linkages and lower dependency on imported coal, III) Strong Balance Sheet and IV) Low Valuation & Low-risk business models. Considering the above factors our TOP Picks are, Tata power, Power Grid, RPower ,Coal India and NTPC.

TELECOM SECTOR

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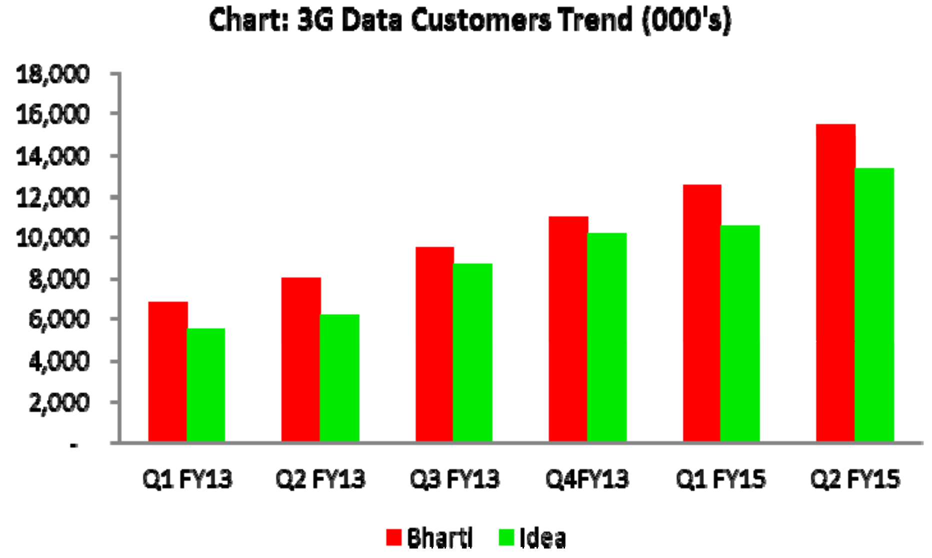
Rational approach remains the key trigger...

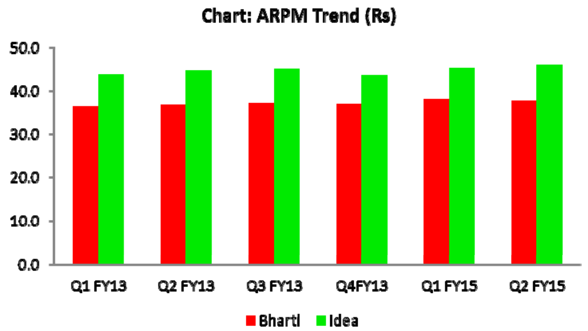
Curtailment of freebies, rational decision making across the industry level and softened regulatory stance, led to significant improvement towards EBITDA and FCF generation.

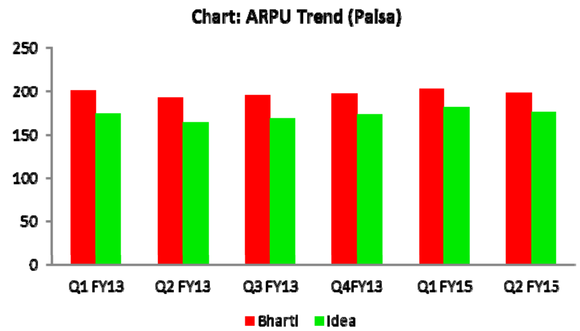
Further, growing data traffic on sequential basis enhances telcos revenue visibility. High growth in data revenue and increasing demand for 3G Data services is likely to drive India-Urban revenue growth going-ahead.

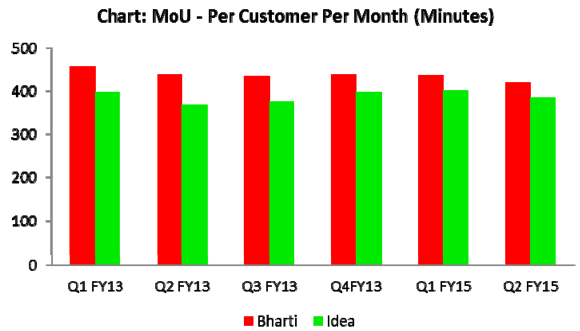
In Q2FY15, non-voice contribution to the over all revenue went up to 20.2%/21.1% (v/s 17.3% / 16.0% in Q1FY14) for both Bharti and Idea, respectively.

The telcos key operating metrics also improved during the same period.









Source: Company Filings; IndiaNivesh Research

Key Sector Drivers

- **Reduced Regulatory Risk:** The cheaper pan-India spectrum and introduction of a flexible payment during spectrum auction remains positive for the sector. Furthermore, potentially lower spectrum usage charges and allowing 3G spectrum sharing & trading could lead to cost-savings for telcos.
- **Industry Consolidation:** Relaxation in M&A norms will stimulate consolidation amongst weaker unprofitable telcos to strengthen market positions and make the business viable. We believe from existing 8-10 players per circle, rationalization could reduce to 6 players which in turn could lead to improvement on margin front.
- **Cash flow Improvement:** In our view, the sustenance of on-going rational approach across the industry would lead to stable profitability and higher cash flow generation. However, the impending Reliance-JIO launch remains the key risk. The increase in competitive intensity in industry may lead to destruction in shareholder value.
- **Strong revenue growth potential –** Low rural tele-density (v/s urban), illustrates huge potential to scale wireless voice services in rural India going ahead. The constant uptake in the data volumes to expand urban circle's revenue over medium-term. Increasing usage of data amongst youngsters remains positive for the sector.

- **Top Picks: Bharti Airtel & Idea Cellular**

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Capital First Ltd. (CFL)

CMP: Rs 356 | Reco: BUY | Target Price: Rs 400

- **AUM likely to grow by 30% in FY14-16E –** 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 (84% in Q2FY15). We believe CFL is well poised to grow at 30% CAGR over FY14-16E with more focus on retail segment.
- **No fret on asset quality –** CFL was successful in maintaining its asset quality with the lowest Gross and Net NPAs in the industry at 0.6% and 0.0%, respectively as of Q2FY15. This is based on the fact that asset mix has shifted towards comparatively safer segments like LAP, Mortgage, two wheelers and Consumer Durables as against 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 –** Net Interest Margin (Calc) of CFL has remained stable at 4.5-4.7% in last 2 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 to 5.4% in FY16E.

Valuation: We are convinced with CFL's strong business model and management's capability 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. At CMP of Rs 356/-, CFL is trading at P/ABV of 2.5x and 2.1x for FY15E and FY16E respectively. We maintain 'BUY' rating on the stock with target of Rs 400/- (P/ABV of 2.3x for FY16E).

Coal India (CIL)

CMP : Rs. 382 | Reco: BUY | Target Price: 467

- The company witnessed strong improvement on operational parameters, production grew by ~7.5% YTDFY15 on the back of a concerted push by the govt. to meet demand from the power sector. The company has guided 8.5% off take volume growth to 520 MT and 8% production volume growth to 507 MT in FY15. However, we forecast FY15 production at 502 MT (+7% YoY); off-take 512 MT (+7%).
- Though decline in E-Auction volume (we expect 7% of total production) would affect the profitability, higher production growth (at 7% CAGR from FY14 - FY17e) will offset the impact. Further, the company sells raw coal at a significant discount to global prices which provide enough space to hike prices of coal. Any price hike would be big positive for the company.
- CIL is one of the lowest cost coal producers globally (~$22/t compared with the global thermal coal average of $33/t). 90% of CIL's mines are open cast, which have stable ground conditions, relatively simple geological structures and a low stripping ratio.
- The company has a strong balance sheet, with cash of Rs ~527 bn(Rs. 84/share) at end of FY14.

Valuation:- We believe that company is likely to continue show strong performance in long term due to 1) strong domestic coal demand; 2) monopoly in coal production in India; 3) ASP (Average selling price) significantly lower than global prices—potential for price hikes 4) one of the lowest cost producers globally, and 5)strong balance sheet. At CMP of Rs 382, stock is trading at 14.4x of its FY16E EPS. We recommend to BUY coal India with upgraded target price of Rs. 467 (earlier target was Rs. 422).

HIL Ltd.

CMP : Rs.631 | Reco: BUY | Target Price: Rs 898

- HIL Ltd, formerly known as Hyderabad Industries Ltd, is the market leader in the fibre cement sheet products with market share of 23%. The company is diversifying and expanding in green building products which would reduce its dependence on fibre cement sheets and take advantage of expected growth in construction industry.
- With the increasing thrust of government on rural development and rural housing, rising income of rural India and reducing gap in between cement fibre sheets and alternative products, the fibre cement sheet industry is likely to grow at 5% CAGR over the next 2 years. HIL being the market leader is in a sweet spot to harness the improved demand opportunity. We expect fibre cement sheet revenue to grow at a CAGR of 22.7% driven by improving demand and low base in FY14.
- HIL Ltd is focusing on non- asbestos products and has expanded in green building products namely AAC blocks and panels which are likely to contribute 15.5% to total revenue in FY16E from 11.7% in FY14.
- Taking into consideration demand revival, better cost management and raw material pricing scenario, we expect the financial leverage to play its role going forward. Consequently, we expect PAT to grow 9.5x over FY14-FY16E to reach Rs 1019 mn in FY16E. In FY16E, ROCE and ROE is likely to reach 31.9% and 23.2% respectively.

Valuation: At CMP of Rs 631, the stock trades at PE of 8.4x and 4.6x its FY15E and FY16E earnings. We are positive on the company strategy of establishing itself as a one stop building solutions provider. We expect the company sales to grow at a CAGR of 26.4% over FY14-FY16E with 794 bps improvement in EBITDA margin. The expected ROE of 23.2% in FY16E provides additional comfort in improving financial performance. We value the stock at 6.6x its FY16E EPS of 136.2 arriving at target price of Rs 898 and maintain BUY rating.

Indoco Remedies (INDR)

CMP : Rs. 295| Reco: BUY| Target: Rs392

- We believe that INDR would be able to reap benefits in medium term from the filing it has been doing for ACT US as well as for its own as the INDR starts receiving approval for those products.
- INDR has recently received approval for two products with combined market size of ~US$170mn under Watson agreement, for which sales would begin shortly. There are only 4-5 competitors for the products, indicating healthy margins for INDR.
- The product pipeline is robust with total ANDA filing of 23 (17 for ACT and 6 for its own), and only two approved as of now. In addition, Watson has received tentative approval for one para IV product filed from INDR site.
- With increase in exposure to chronic therapeutic categories, expanding its presence in North and East and improved MR productivity, we expect INDR to deliver 13.5% CAGR over FY14-17E for domestic formulation segment.
- The profitability would further improve as INDR has started shifting from contract manufacturing business in UK to own licensing and distribution. There may be EBITDA margin expansion of UK business by 3-4% once the transformation completes.
- The stock has re-rated strongly in past one year from Fwd PE of 12x to 18x till date. The strong re-rating has been on the back of improved business outlook and higher return on equity. We expect further re-rating of the stock on the basis of stronger execution going forward. We recommend BUY with price target of Rs392, based on 20x FY17E EPS of Rs19.6.

Lumax Auto Technologies Ltd. (LATL)

CMP : Rs. 342 | Reco: BUY | Target Price: Rs.417

- Lumax Auto Technologies (LATL) has a wide product portfolio to cater to large number of customers in the automotive industry. LATL's product portfolio includes Head lamp, Tail lamp, Frame Chassis, Adjustor Motor, Handle bar, Mufflers, Gear shift lever, Parking breaks and other small parts.
- Lumax Auto-technology has diversified into Automotive LED lighting businesses, which we believe will be the new growth driver. LED lighting would have much higher realization than traditional lightings, this will lead to strong growth in top line.
- LATL's key customers include Bajaj Auto, Piaggio, Honda Motorcycles and Scooters, Maruti Suzuki, Toyota and Tata Motors.
- LATL produces manual automated gear shifter (AGS) for different clients, however the company has now started to produce automatic gear shifter business. There is an increasing demand for automatic gear based vehicles in India. In order to fully exploit this opportunity, LATL has entered into a joint venture (55:45) with Japan's Mannoh Industrial Co Ltd .
- The company has commenced supplying plastic moulded parts to Honda Motorcycle & Scooters India (HMSI) last year which helped it to post flat overall growth in FY14 despite weak automotive sales during the year.

Valuation : At CMP of Rs 342 the LATL is trading at 8.3x of its FY16E EPS of Rs 42. With comfortable D/E of 0.2x and robust ROCE of 17%+, we believe current valuations are attractive. We recommend BUY on LATL with target price of Rs. 417 (10xFY16e EPS).

Mangalam Cement Ltd. (MCL)

CMP : Rs. 311 | Reco: BUY | Target Price: Rs.426

- In May-2014, Mangalam Cement (MCL) added cement capacity of 1.25 mnt. Current total cement capacity of the company stands at 3.25 mnt per annum.
- MCL has shown a strong growth of ~60% in top-line and ~200% in EBITDA in Q2FY15, led by recent capacity addition and operational efficiency
- Company plans to achieve a top-line of Rs 13 bn in FY16E (vs. topline of Rs 6.9 bn in FY14A). Company also plans to improve EBITDA per tonne from current level of Rs ~390 per tonne to Rs ~700 per tonne, on account of plant modification which gives more plant-uptime and saving in power consumption.
- We expect MCL to report ~38% top-line CAGR during FY14-16E, on back of 1.25 mnt capacity addition. Considering better cost structure of the company vs. peers (captive limestone reserves and power plant) comforts us that MCL would benefit from economies of scale. Accordingly we estimate EBITDA per tonne of the company to improve to Rs 686 in FY16E.

Valuation : Owing to its smaller size,Valuing Mangalam cement at discount to large cement players, we give it EV/EBITDA multiple of 6.5x (FY16E) and arrive at a price target of Rs 426. Seeing the upside potential of ~37% from current levels of Rs 311, we maintain BUY rating on the stock.

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Mastek Ltd. (Mastek)

CMP : Rs.396 | Reco: BUY | Target Price: Rs.554

- **Underpenetrated Industry:** According to Garner Property & Casualty (P&C) insurance industry spends yearly ~$15 bn on ageing legacy systems & services. Out of this $6-7 bn could migrate to 3rd party Software & Services vendors like Majesco-US. Currently less than 10% of this opportunity has been penetrated, Majesco is well placed to gain from this Industry transition. Additionally, the recent M&A (COVR and Agile) is likely to bring huge cross-sell and up-scale opportunity.

- **Re-rating Potential**: Demerger [Services & Platform] and listing of Majesco-US on NYSE could lead to significant re-rating and improvement in performance going-ahead. The standalone Services business profitability and ROE is likely to improve, which would lead to P/E multiple expansion. On the other side listing on NYSE will bring re-rating to platform business. Currently platform business is valued at 0.8x (v/s 4.0x to 9.0x for Peers in P&C platform space) of Mcap to sales.

- **Easy Fundraising Opportunity:** Majesco-US NYSE listing will bring easy access to global funds. This would be key development for the company's platform business, which is in need of fund to expand in the newer geographies.

Valuation: At CMP of Rs.398, the stock is trading at P/E multiple of 17.2x FY15E and 11.9x FY16E. In our view, the corporate action is likely to enhance the overall valuation of the company. We value Software & Services business at P/E multiple of 8.5x (TP Rs.142) and Insurance vertical at M-cap/Sales multiple of 1.7x (TP Rs.412). On consolidated basis we arrive at target price of Rs.554/share. We maintain BUY rating on the stock.

Meghmani Organics Ltd. (MOL)

CMP : Rs.25 | Reco: BUY | Target Price: Rs.34

- **Agrochemicals, key revenue & margin driver:** Given the strong products portfolio and increased focus on domestic market, MOL's agrochemical business is ready for higher topline and bottom-line growth. We forecast agrochemical segment revenue CAGR of 22% over FY14-16E.

- **Capex cycle coming to an end:** All investments either in Agro Division or Pigments division are complete and all new facilities have been commissioned. We do not expect growth capex from here-on, except for debottlenecking in some cases. Further, the board's decision of not doing any growth capex for next two years strengthens our view.

- **High Free Cash Flow (FCF) Generation:** The improvement in utilization level, uptick in profit margin and stability in key raw material prices could lead to high free-cash-flow generation. We expect FCF CAGR of 106% over FY14A-16E as against -32% CAGR over FY11A-13A.

- **Debt burden to reduce going-forward:** Given the reduction in capital spending cycle, MOL is poised for high FCF generation, which would help in reducing long-term debt. The management intends to repay Rs.2,880 mn over next 3Yrs (2015E-17E).

- **Strong player in pigment industry:** On back of huge overseas client base, improving domestic and global demand and vertically integrated manufacturing facilities, pigment segment is poised for higher revenue and profitability. Additionally, stringent client requirements (i.e. Shade, Thickness, and Reaction) bring lot of sticky revenue base. We forecast pigment segment revenue CAGR of 8% over FY14-16E.

Valuations: At CMP of Rs.25, the stock is trading at EV/EBITDA multiple of 5.2x FY15E and 4.6x FY16E estimates. The current valuations are significantly below 7.5x global peer average. On back of available triggers, we have assigned 5.6x EV/EBITDA multiple (25% discount) to arrive at FY16E based price target of Rs.34/share. We maintain BUY rating on the stock.

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Pennar Industries Ltd.

CMP : Rs. 52 | Reco: BUY | Target Price: 81

- Pennar industries Ltd (Pennar) is the leading engineering player in India. Company manufactures Cold Rolled Steel Strips, Precision Tubes, Cold Rolled Formed Sections, Electro Static Precipitators, Railway Wagons & Coach components etc.
- Company 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. For H1FY15 consolidated EBITDA margin of the company has improved by 77 bps (vs. H1FY14) to 8.3%.
- As company caters to the large number of sectors like Automobile, Infrastructure, Railway etc., it is well placed to take the advantage of any economic uptick through its diversified business portfolio.
- Concept of pre-engineered building products is catching up fast in India, this could be major growth driver for PEBS (74% subsidiary of pennar). PEBS topline has grown by ~21% CAGR between FY12-14. A corporate action by the company on separate listing of PEBS on exchanges could be additional trigger for the stock.

Valuation:- At CMP of Rs 52, Pennar Industries is trading at P/E multiple of 13x FY15E and 8.4X FY16E, which is well below 14.3x-three year historical average. Average ROE for the past 3 year has been 12.9%, which is likely to move to 17% by FY16E on back of increased capacity utilization and margin expansion. We maintain BUY rating on the stock with TP of Rs 81 (13x FY16e EPS).

Reliance Industries Ltd. (RIL)

CMP : Rs. 880 | Reco: BUY | Target Price: Rs.1,111

- RIL is the largest private player in refining, petrochemical and E&P sectors in India. The company's US$4bn pet coke gasification project remains on schedule for implementation by FY16 end, which is likely to help in expansion in operating margin of refining business.
- Although RIL is not entitled to receive any benefit from the recent gas price hike as of now, however, 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.
- In the last full year's market rally, RIL has not participated at all. We expect the differential between overall market valuation & RIL to narrow down in 2015.

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 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. 880 stock is trading at 10.2x FY16E EPS which is lower than its mean of 15x. We maintain buy rating on the stock with target price of Rs. 1,111.

VALUATION TABLE

Company Name	Sales (Rs. Mn)		EBITDA (Rs.Mn)		PAT (Rs. Mn)		EPS (Rs.)		Adj P/E		RECO	CMP	TARGET
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E		Rs	Rs
Capital First	5,630	7,762	2,360	3,580	897	1,506	10.9	16.4	2.5	2.1	BUY	354	400
Coal India	816,664	890,685	257,930	276,097	157,319	167,730	24.9	26.5	15.3	14.4	BUY	382	467
HIL	10,984	13,840	1,074	1,748	563	1,019	75.4	136.5	8.4	4.7	BUY	636	898
Indoco Remedies	8,827	11,028	1,664	2,187	913	1,319	9.9	14.3	29.8	20.6	BUY	295	392
Lumax Auto Technolies	8,732	10,285	760	1,028	393	568	28.8	41.7	11.9	8.3	BUY	344	417
Mangalam Cement	11,015	13,112	1,305	2,229	463	1,152	17.3	43.2	17.9	7.2	BUY	310	426
Mastek	9,541	10,683	739	821	436	523	19.5	23.4	20.2	16.8	BUY	393	554
Meghmani orgainis	14,024	15,518	2,308	2,683	614	820	2.4	3.2	10.2	7.6	BUY	25	34
Pennar Industries	13,580	17,247	1,358	1,811	528	816	4.0	6.2	13.8	8.9	BUY	55	81
RIL	4,231,089	4,306,258	406,617	464,740	248,517	257,283	79.5	86.3	79.5	86.3	BUY	880	1,111

Note: CMP as of 30 Dec 2014; Net Sales = Net Interest Income, EBITDA = Pre provisioning profit and P/E = P/ABV for capital first
Source: Company Fillings; IndiaNivesh Research

PAST PERFORMANCE - 2014 PICKS

Company Name	CMP (Rs)	Current Rating	Current TP (Rs)	Reco Price (Rs)	High (Rs) (After Reco)	TP (Rs) (Old)	YTD return (%)	Remarks
Aditya Birla Nuvo Ltd.	1,678	Buy	2,729	1,229	1,913	1,506	55.66%	Diverstment and corporate restructuring to create shareholder value
Cadila Healthcare	1,573	Buy	1,636	787	1,760	913	123.63%	Though YTD return is phenominally high, we remain positive on the stock
Coal India	383	Buy	467	290	424	360	46.21%	Earlier TP of Rs.360 was achieved and same is now revised upward to Rs.467
Coromandel International	308	Hold	353	229	340	279	48.47%	Increasing revenue contribution from non-subsidy business could lead to re-rating
Dr. Reddy's Laboratories	3,179	Buy	3,581	2,526	3,662	2,877	44.97%	We suggest BUY on dips as long term drivers remain intact
IL&FS Transportation Networks	185	NA	NA	136	257	156	88.97%	Stock has given YTD return of 89% after our recommendation, currently we do not have rating
LIC Housing Finance	432	Buy	485	217	463	248	113.36%	We remain positive on LIC housing and revised target upwards to Rs 485
Oil India	567	Buy	680	484	669	672	38.22%	TP is revised upward to Rs.680
Reliance Industries	881	Buy	1,111	887	1,143	1,053	28.86%	Earlier TP of Rs.1053 was achieved and same is now revised upward to Rs.1,111
UPL	338	Buy	480	197	388	217	96.95%	Strong registrations globally and new product launches to foster revenue growth

CMP as on 30th Dec. 2014
Current Rating/TP as on 30th Dec. 2014
TP (Old) is target Price as on 31st Dec. 2013

RESEARCH TEAM

Daljeet S. Kohli
Head of Research
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

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

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

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

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

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

Jaisheel Garg
Research Analyst
Tel: +91 22 66188840
jaisheel.garg@indianivesh.in

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

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

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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