# Top Picks Post Q4FY15 Results

Aurobindo Pharma
Bajaj Auto
Capital First

Coal India
Mangalam Cement
Mastek
Pennar Industries

Reliance Industries
State Bank of India
Tech Mahindra


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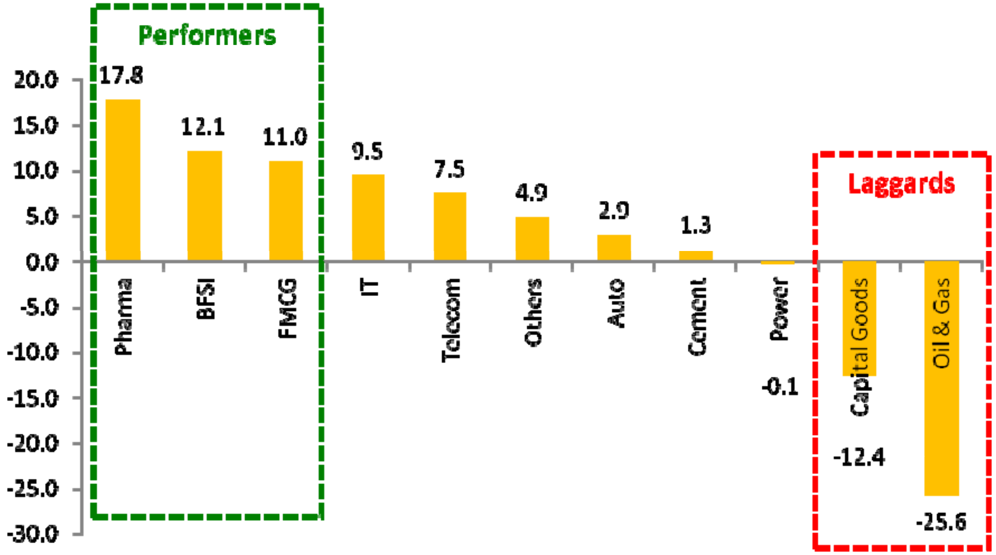
# Top Picks Post Q4FY15 Results

## Key Highlights:

- INSPL universe aggregate sales decreased by 3.5% YoY v/s our expectation of de-growth of 3.1 %. Oil & Gas along with Capital goods sectors were the biggest laggard which dragged aggregate numbers.
- Excluding oil & Gas & Financials the sales growth for the quarter gone by was 4.1 % YoY v/s our expectation of growth of 2.6%.
- Banking & financials maintained growth on top line at 12.1% v/s growth of 11.6% YoY in Q3FY15.
- For OIL & Gas this was a second consecutive quarter of severe decline in revenues due to fall in crude prices. The sector witnessed decline of 25.6% this quarter v/s 19% YoY decline in Q3FY15.

**Sales performance of sectors (% YoY)**




*Source: IndiaNivesh Research*

## contd...

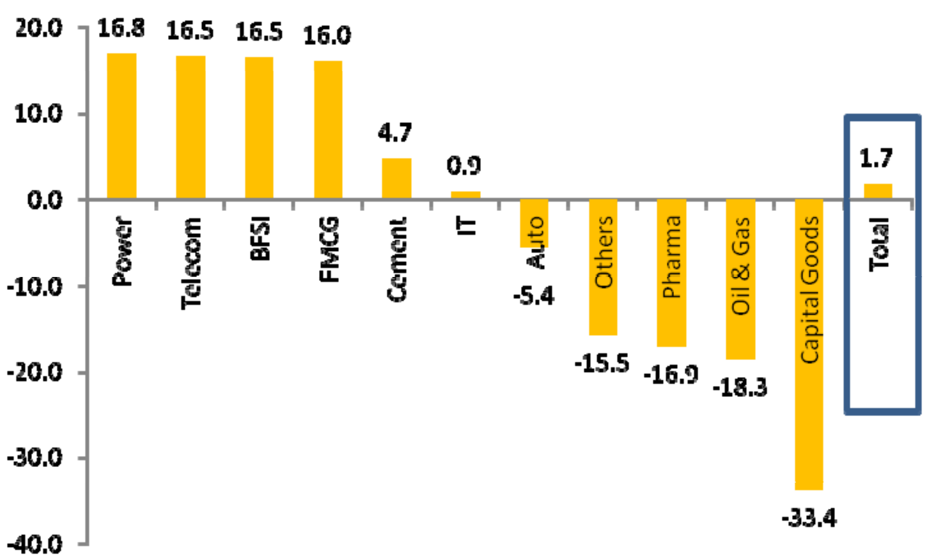
- In terms of EBITDA the companies somehow maintained margins despite sluggish to falling revenue. Against our expectation of growth of ~0.3% in EBITDA on aggregate basis for INSPL Universe, the reported EBITDA actually witnessed growth of 1.7% YoY. Hence there was a beat on our estimates in terms of EBITDA.
- On back of stable NIMs, higher treasury & other income banks/financials witnessed 16.5% YoY growth in pre provisioning profit. Last quarter too BFSI sector witnessed similar rate of growth.
- Falling top line & increased execution expenses resulted in steep decline in EBITDA of Capital goods sector witnessing 33.4% YOY de-growth. IT, Pharma & Others sectors were major negative surprises on EBITDA front.

### EBITDA Margin of Sectors (%)

| Particulars | Q4FY15 | Q4FY14 | Bps yoy change |
|---|---|---|---|
| Power | 32.1 | 27.4 | 467 |
| BFSI | 78.7 | 75.8 | 293 |
| Telecom | 35.3 | 32.6 | 274 |
| Oil & Gas | 18.1 | 16.5 | 163 |
| FMCG | 17.5 | 16.8 | 75 |
| Cement | 18.7 | 18.1 | 62 |
| Auto | 12.8 | 14.0 | -113 |
| IT | 24.4 | 26.5 | -209 |
| Capital Goods | 10.5 | 13.8 | -333 |
| Others | 15.0 | 18.6 | -361 |
| Pharma | 18.3 | 25.9 | -761 |
| **Overall** | **26.0** | **24.7** | **134** |

*Source: IndiaNivesh Research*

### Sector-wise EBITDA Growth (YoY %)




*Source: IndiaNivesh Research*

## contd…

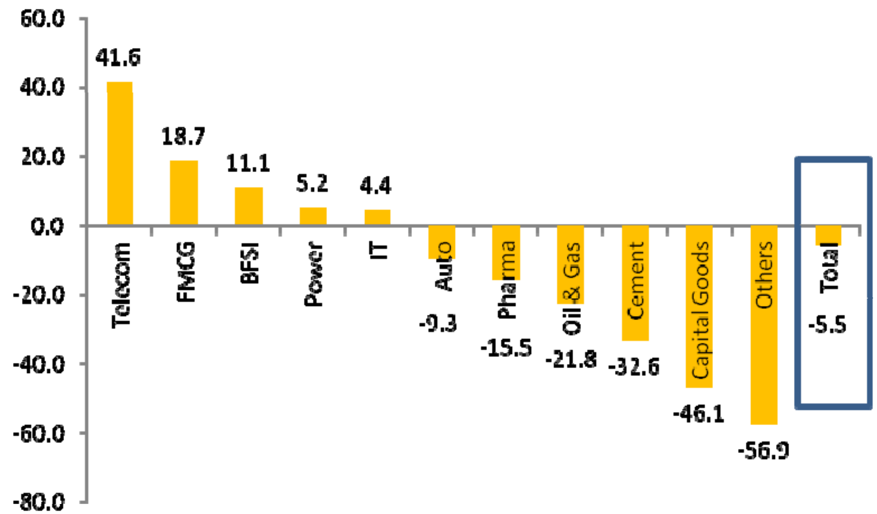
- On adjusted PAT level the disappointment was even more. Against our expectation of decline of 1.7% the actual fall was more severe at 5.5% de-growth YoY. Just want to highlight the fact that previous quarter too there was a decline of ~6% YoY.
- Banks took advantage of favorable yield regime & gained substantially in treasury income. However interest income reversals, increased fresh slippages & last quarter to take advantage of lower provisioning norms on restructured assets resulted in provisions expenses going up significantly high. The heightened provisions expenses resulted in lower adjusted net profit for the sector.

### Sector-wise PAT margin (%)

| Particulars | Q4FY15 | Q4FY14 | Bps yoy change |
|---|---|---|---|
| **Telecom** | **7.0** | **5.3** | **168** |
| **FMCG** | **13.0** | **12.2** | **85** |
| **Power** | **15.0** | **14.2** | **76** |
| Oil & Gas | 11.0 | 10.5 | 54 |
| BFSI | 30.2 | 30.5 | -28 |
| Auto | 6.5 | 7.3 | -87 |
| Information Techr | 19.8 | 20.8 | -96 |
| Capital Goods | 5.6 | 9.1 | -349 |
| **Others** | **3.0** | **7.2** | **-423** |
| **Cement** | **8.7** | **13.1** | **-438** |
| **Pharmaceuticals** | **13.5** | **18.7** | **-529** |
| **Overall** | **12.9** | **13.2** | -27 |

*Source: IndiaNivesh Research*

### Sector-wise PAT Growth (YoY %)




*Source: IndiaNivesh Research*

## contd…

### Overall Performance

- Pharma, Financials & FMCG were the top 3 performers amongst INSPL universe in terms of revenue growth while Oil/Gas & Capital Goods were worst performers.
- On EBITDA front Power, Telecom & Financials were 3 fastest growing sectors in that order, while the 2 laggards here were Oil/Gas & Capital goods. Telecom was a positive surprise while pharma & others were negative surprises.
- Similarly on adjusted PAT basis Telecom, FMCG & Financials were top 3 while the bottom 3 was Others, Cap Goods & Cement.

Post the Q4FY15 results rating & target price revisions are as follows:

| | Rating | Target |
|---|---|---|
| Upgrade | 9 | 24 |
| Downgrade | 6 | 26 |
| Neutral | 83 | 48 |

*Source: IndiaNivesh Research*

## *contd…*

## *Conclusion:*

Overall disappointment from previous quarter continued this quarter too. Usual suspects capital goods & Oil /Gas sectors continued their poor performance. In Q4FY15 results negative surprise came in from poor performance of the 2 most promising & outperforming sectors of the past, namely, IT & Pharma. Growth in top line in pharma has come only due to inorganic expansion (merger of Ranbaxy with Sun & Actavis Europe integration with Auro Pharma).

After 2 consecutive quarters of poor corporate results, market participants have started cutting down on expectation of very high growth in next 2 years. However the estimates for FY16 & FY17 are building in a growth of around 20%. We believe this expectation is too high & needs to be paired down. Our conviction of further downgrades also comes from the fact that 2 months of FY16 are already over. Going by commentary from managements in various post result concalls, we did not find any mention of major uptick or revival in their fortunes. **This implies that Q1FY16 will also be bad quarter in terms of corporate performance. It also means asking rate for remaining 3 quarters of FY16 to meet street expectations will go up significantly.**

We believe corporate earnings will catch up only if some impetus is provided to macro level growth leading to revival in revenue growth. Perhaps it can come from government spending as private capital is still not coming. Progression of monsoon in India & Global uncertainty from Euro region, confused macro-economic policy indications from USFED are other risk factors for the markets. **While we remain invested in markets, we are cautious of stretched valuations despite steep fall of last few days.** We stick to stock specific approach. List of stocks, that we like post Q4FY15 results, follows in ensuing pages.

***Top Picks: Aurobindo Pharma, Bajaj Auto, Capital First, Coal India, Mangalam Cement, Mastek, Pennar Industries, Reliance Industries, State Bank of India & Tech Mahindra.***

# Aurobindo Pharma (ARBP)

**CMP Rs.1,327 |P/E (FY16E) 19.4x**
**P/E (FY17E) 16.6x | Target Rs.1,600**

## Investment Rationale

- ARBP has appreciated by 103% and 99% on absolute basis and relative basis, respectively, in past one year. This has been on the back of re-rating as well as earnings upside due to strong execution post resolution of USFDA related issues at some of its manufacturing facilities.
- We continue to remain positive on the stock with implied potential upside of ~20% from current levels. We believe that ARBP is in sweet position to maintain sustained increase in sales as well as profitability over next 2-3 years.
- ARBP has cumulative filing of 376 ANDAs at the end of Q4FY15. The cumulative ANDAs pending for approval stands at 183, which has good mix of complex molecules which would enable not only enhanced sales growth but also improve profitability for sustained period. The upside in earnings is subject to regulatory approval.
- ARBP has ~43 products filed in injectables space and 7 products in controlled substance space. ARBP's R&D effort towards peptides, microspheres as well as hormones would also deliver better growth over 3-5 year period.
- The faster turnaround of acquired Actavis operation in Europe would also help in further improvement in overall margins of the company. At the end of Q4FY15, ARBP has guided for Actavis operation to be PAT positive by the end of FY16.
- There has been pick-up in ARV sales since Q3FY15, resulting in 15% y-y growth for FY15. Management has guided for maintaining momentum based on strong order book for ARV business.

## Valuations

At CMP of Rs1,327, the stock is trading at 19.4x FY16E EPS of Rs68.5 and 16.6x FY17E EPS of Rs80. We maintain BUY rating with price target of Rs1,600, based on 20x FY17E earnings

| Rs mn | Sales | EBITDA | EBITDA % | PAT | EPS | ROE % | P/E | EV/EBITDA | P/BV | Div Yield % |
|---|---|---|---|---|---|---|---|---|---|---|
| FY14 | 80,385 | 21,328 | 26.5 | 14,334 | 47.2 | 36.6 | 28.1 | 19.7 | 10.3 | 0.5 |
| FY15 | 120,432 | 25,636 | 21.3 | 16,309 | 56.0 | 31.6 | 23.7 | 16.4 | 7.5 | 0.6 |
| FY16E | 141,527 | 31,476 | 22.2 | 19,946 | 68.5 | 29.2 | 19.4 | 13.0 | 5.6 | 0.8 |
| FY17E | 157,178 | 36,647 | 23.3 | 23,275 | 80.0 | 26.3 | 16.6 | 10.8 | 4.4 | 0.8 |

*Source: Company Filings, IndiaNivesh Research*

# Bajaj Auto Ltd.

**CMP Rs 2199 | Target Rs. 2820**
**P/E (FY16E) 17.2x | P/E (FY17E) 15.6x**

## Investment Rationale

- Company has been able to maintain its high margins and return ratios (ROE close to 30%) in relatively tough economic conditions
- Domestic volumes from entry level segment are improving on the back of new launches like Platina and CT100. The company has clocked in sales of 90,000 units in May (up from 45000 units sold in March) and is close to achieving target of 1,00,000 units/month
- We expect strong Q1 numbers based on the strong growth in 3 Wheeler and exports
- Two sources of tailwind for the company:-
    - Softening of Raw material prices - Copper, Aluminum and Steel prices have come down which will add to the margins
    - Exports picking up in Nigeria, Egypt & Latin America along with depreciating Rupee will make exports more competitive (Company has given a guidance of 11%+ growth in exports in FY16)

## Valuations

We expect domestic volumes to improve on the back of new launches like Pulsar RS200,new CT100 and Platina. Further exports growth is also back on track. We expect revenue to grow at a CAGR of 10.4% from FY15 - FY17E on the back of 9.4% CAGR growth in volume. EBITDA margins expected to be in the range of 20% and EPS is expected to grow at a CAGR of 20% from FY15 - FY17E. At CMP of Rs 2199 the stock is trading at PE multiple of 15.6x FY17E EPS. We maintain BUY rating on the stock with target price of Rs. 2820 (20x FY17E EPS).

| Rs mn | Net sales | EBITDA | Adj. PAT | EPS(Rs.) | EBITDA Margin (%) | ROE (%) | P/E(x) | EV/EBITDA(x) |
|---|---|---|---|---|---|---|---|---|
| FY15 | 216120 | 41165 | 28137 | 97 | 19.0 | 28 | 22.7 | 16.05 |
| FY16E | 233897 | 47818 | 36950 | 128 | 20.4 | 32 | 17.2 | 13.72 |
| FY17E | 263651 | 53315 | 40804 | 141 | 20.2 | 30 | 15.6 | 12.23 |

*Source: Company Filings; IndiaNivesh Research* *Note: CMP as of 05/06/2015*

# Capital First Limited (CFL)

**CMP Rs 381/- |P/ABV (FY16E) 2.1x|P/ABV (FY17E) 1.9x**
**Target Rs 465/-**

## Investment Rationale

- **Growth story to continue strongly:** Asset under Management (AuM) of CFL has grown at a CAGR of 44% over FY11-15 which is one of the best in the industry. As a strategy to focus on retail segment (which includes Consumer Durable Loans, Two wheeler Loans, Loan against Property, Mortgage Loans and Small Business Loans), AUM of CFL has gradually moved towards retail loan book from 10% in FY10 to 84% in FY15. As a result wholesale loan book (which includes loans given to real estate developers) has come down to 16% from 90% over the same period. We believe CFL is well poised to grow at 28% CAGR in FY15-17E mainly led by retail credit assets.

- **Change in borrowing mix to improve NIMs:** Net Interest Margin (Calc) of CFL has increased to 5.8% in FY15 from 4.5% in FY13. We expect the company will be able to improve its margins further from current level of 5.8% in FY15 to 6.0% in FY16 with change in borrowing mix and company's increasing presence in high yielding segments (i.e. two wheeler and consumer durable loans).

- **Well maintained asset quality:** CFL was successful in maintaining its asset quality with one of the lowest levels of Gross and Net NPAs in the industry at 0.69% and 0.17% respectively as of Q4FY15. This is based on the fact that asset mix has shifted towards comparatively safer segments like LAP, Mortgage, two wheelers and Consumer Durables v/s riskier segments of developer loans. We don't expect any significant deterioration in asset quality and expect Gross NPA / Net NPA to remain at 0.8% / 0.3% by FY17E.

- **Strong capital adequacy ratio:** Capital adequacy of CFL remains strong and ahead of regulatory requirement at 23.5% with tier I capital of 18.8%. Recent capital infusion of Rs 3.0 bn through QIP has boosted the company's Capital adequacy ratio making it one of the best amongst peers. Overall liquidity position is comfortable and quite high to sustain medium term growth. Hence, the risk of dilution is minimal in coming period.

- **Return ratios to improve further:** Return ratios of CFL was lower because of the fact that company changed its accounting policy of amortizing processing fees over the tenure of the loan as against earlier policy of booking the said fees upfront from FY13. However, normalization of previous year amortizations from FY15 onwards along with improving efficiency in terms of lower cost to income (expense) ratio is likely to help strong bottom line CAGR growth of 34% over FY15-17E. With consistency in credit growth, improvement in margins and optimization of cost, we expect RoE / RoA (calc) to improve to 12% / 1.4% by FY17E from 8% / 1.1% in FY15.

## Valuations

The company has shown overall stellar performance during FY15. The robust profit growth in FY15 was due to number of steps taken by the company which were (1) Robust 28% y-o-y growth in retail loan portfolio in FY15, (2) NIM (calc) improved to 5.8% in FY15 from 4.7% in FY14 and (3) Cost control initiatives which helped to reduce cost income ratio significantly to 58.7% in FY15 from 70.3% in FY14. Due to the company's prudent management practices, focused lending approach, quicker turnaround time and healthy adequacy position, we believe the current growth momentum can continue over FY15-17E. At CMP of Rs 381/-, CFL is trading at P/ABV of 2.1x and 1.9x for FY16E and FY17E respectively. We continue to maintain 'BUY' rating with long term positive view on the stock and price target of Rs 465/- (2.3x P/ABV for FY17E).

## Financials

| Rs mn | NII | PAT | EPS (Rs) | ROA (%) | ROE (%) | BV (Rs) | ABV (Rs) | P/E | P/BV | P/ABV |
|---|---|---|---|---|---|---|---|---|---|---|
| FY12 | 3,063 | 922 | 14 | 2.0 | 11.9 | 126 | 126 | 9.9 | 1.1 | 1.1 |
| FY13 | 3,084 | 698 | 10 | 1.1 | 8.0 | 134 | 134 | 16.5 | 1.2 | 1.2 |
| FY14 | 4,038 | 370 | 5 | 0.4 | 3.6 | 138 | 138 | 34.1 | 1.1 | 1.1 |
| FY15 | 6,277 | 1,120 | 12 | 1.1 | 8.4 | 169 | 167 | 31.0 | 2.3 | 2.3 |
| FY16E | 8,232 | 1,681 | 18 | 1.4 | 10.4 | 185 | 181 | 20.6 | 2.1 | 2.1 |
| FY17E | 9,749 | 2,003 | 22 | 1.4 | 11.5 | 204 | 198 | 17.3 | 1.9 | 1.9 |

*Source: Company, IndiaNivesh Research; Standalone, CMP as on 05/06/2015*

# Coal India Ltd. (CIL)

## Investment Rationale

**CMP Rs 406 | Target Rs. 467**
**P/E (FY16E) 14.9x | P/E (FY17E) 13.4x**

- After a couple of years of stagnant production levels in the past, CIL finally delivered strong performance in FY15. Production grew by ~6.9% in FY15 on the back of a concerted push by the government. The government has set a gross output target of one billion tonnes of coal by 2019-20, which is around double the current production. In near term the company has guided 12% off take volume growth to 550 MT and 11% production volume growth to 550 MT in FY16. However, we forecast FY16 production at 529 MT (+7% YoY); off-take 523 MT (+7%).
- Coal Ministry has allowed CIL to revert to the old system, removing the cap on e-auction volumes with effect from April 2015. This means Coal India will now be able to increase its e-auction volumes to 10% of total sales (vs 7% of earlier cap) and may go up to 12% as used to be in good times. This will boost CIL's profitability as auctioned coal fetches 35-45% more than notified price.
- The company has a strong balance sheet, with cash & cash equivalent at Rs ~592bn (Rs. 94/share) at end of FY15. In previous 2 years the company has given dividend @100%. We believe the dividend payout will remain healthy, and would be ~50% in coming years.
- CIL is one of the lowest cost coal producers globally ($22/t compared with the global thermal coal average of $35/t). 90% of CIL's mines are open cast, which have stable ground conditions, relatively simple geological structures and a low stripping ratio.

## Valuations

We believe that company is likely to show strong performance in medium to long term (expect CAGR production growth of 7% in next five years) due to strong domestic coal demand and monopoly in coal production in India. At CMP of Rs 406, stock is trading at 13.4X of its FY17E EPS We maintain buy rating on the stock with DCF based target price of Rs 467.

| Y E March | Net sales(Rs. mn) | EBITDA(Rs. mn) | j. PAT(Rs. mn) | EPS(Rs.) | EBITDA margin(%) | PE(x) | MC/sales(x) |
|---|---|---|---|---|---|---|---|
| FY15 | 741,201 | 173,354 | 137,266 | 21.7 | 21.1 | 18.7 | 3.5 |
| FY16E | 800,644 | 189,493 | 171,842 | 27.2 | 23.7 | 14.9 | 3.2 |
| FY17E | 899,775 | 217,302 | 191,787 | 30 | 24.2 | 13.4 | 2.9 |

*Source: Company Filings; IndiaNivesh Research*   *Note: CMP as of 7/06/2015*

# Mangalam Cement

**CMP Rs.230 | EV/EBITDA (FY16E) 8.2x**
**EV/EBITDA (FY17E) 7.0x | Target Rs.376**

## Investment Rationale

**Strong FY15 Operating Performance:**

- On back of capacity addition of 1.25 mnt (total capacity-3.25 mnt), Mangalam cement has reported robust performance for FY15.
- Sales of the company has increased by 32.1% to Rs 9,084mn and EBITDA margin also expanded by 179 bps to 8.5%; led by various cost savings measures taken by the company.
- EBITDA per tn of the company also improved by 34% to Rs 343

**Large Operating Leverage and Infra sector potential:**

- Mangalam Cement has potential to improve its sales and margin from current levels without incurring further capex as current capacity utilization of the company stands at ~70%
- As New government has announced many ambitious plans like more road length construction every day, housing for all and smart cities etc; even a small pick-up in infra activity can boost the plant utilization levels of company. This will further improve EBITDA/tn ratio of the company from current levels.

**Stable debt level to improve net Profit:**

- Despite robust operating performance, company adj net profit declined by ~28% in FY15 due to high interest cost.
- However post the completion of capex plan in FY14, debt of the company has stabilized at Rs 3,447 mn in Q4FY15(down 3% y-o-y). This will improve the net profit of the company in FY16E and FY17E, led by strong operating performance and stable interest cost.

## Valuation

At CMP of Rs 230, Mangalam Cement is trading at FY16E and FY17E, EV/EBITDA multiple of, 8.2x and 7.0x, respectively. We maintain BUY rating on the stock with PT of Rs 376.

| Rs Mn | Net Sales | EBITDA | Net Profit | Equity Capital | EPS (Rs) | EV/EBITDA |
|---|---|---|---|---|---|---|
| FY14 | 6,875 | 460 | 296 | 267 | 11.1 | 13.7 |
| FY15 | 9,084 | 770 | 214 | 267 | 8.0 | 12.4 |
| FY16E | 10,990 | 1,173 | 501 | 267 | 18.8 | 8.2 |
| FY17E | 12,263 | 1,376 | 601 | 267 | 22.5 | 7.0 |

*Source: Company, IndiaNivesh Research*

# Mastek Ltd. (Mastek)

**CMP : Rs.460 | P/E (FY16E) 31.9x P/E (FY17E) 12.5x**
**Target Price: Rs.724**

- **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 0.6x (v/s 6.7x P&C platform of peer) of EV/Sales.
- **Elixir North America success remains an additional trigger:** Management expect Elixir North America (L&A platform) beta version to be implemented by the end of CY15. Once the implementation is through and tested, Foresters could be used as a referral model while pitching to other life & pension insurers in North America.

**Valuation:** At CMP of Rs.460, the stock is trading at P/E multiple of 32.1x FY16E and 12.7x FY17E earning estimate. We value Software & Services business at P/E multiple of 8.5x FY17E (TP Rs.175) and Insurance vertical at EV/Sales multiple of 1.7x FY17E (TP Rs.549). We have BUY rating with SoTP based TP of Rs.724.

| YE March (Rs. Mn) | Net Sales | PBDIT | Adj PAT | EPS (Rs) | EBITDA Margin (%) | ROE (%) | PE (x) | EV/EBITDA (x) |
|---|---|---|---|---|---|---|---|---|
| FY15A | 10,019 | 557 | 178 | 7.9 | 5.6 | 3.1 | 50.8x | 17.3x |
| FY16e | 13,259 | 1,079 | 256 | 12.5 | 8.1 | 4.6 | 31.9x | 8.9x |
| FY17e | 16,602 | 1,662 | 745 | 32.1 | 10.0 | 11.1 | 12.5x | 5.8x |

*Source: Company Filings; IndiaNivesh Research*

# Pennar Industries

**CMP Rs.45 |P/E (FY16E) 9.9x**
**P/E (FY17E) 7.1x | Target Rs.70**

## Investment Rationale

### Strong FY15 Performance:

- For the full year FY15, Pennar industries reported robust performance both on top-line and margin front.
- Top-line of the company increased by 12.7% to Rs 12,675 mn led by strong growth in systems/projects and PEBS segment. Margin expansion across all business segments led to EBITDA margin improvement from 8% (FY14) to 9.3% (FY15). Net profit of the company increased by 38.4% to Rs 359 mn in FY15.

### Large order Book to help in growth in FYY16E and FY17E:

- Out of six business segments of the company, three are order book based. Current Total order book of the company stands at Rs 5,260 mn.
- Systems and Projects segment has order book of Rs 1,560 mn (solar-Rs 600 mn and railways-960 mn) and PEBS segment has order book of Rs 3,700 mn (as per DRHP filing). This large order book will help Pennar to continue high growth in FY16E and FY17E as well.

### Listing of High growth business of PEBS:

- PEBS (66.85% subsidiary of Pennar) is one of the leading custom designed building systems solutions provider in the country. PEBS revenue has increased at a CAGR of 35.6% over FY11-14 period. We expect separate listing of PEBS (DRHP filed with SEBI) will help company to unlock the value of this high growth business.

## Valuation

- At CMP of Rs 45, Pennar Industries is trading at FY16E and FY17E, PE multiple of, 9.9x and 7.1x, we maintain BUY rating on the stock with revised target price of Rs.70 (11x FY17E EPS).

| Rs Mn | Net Sales | EBITDA | Adj. PAT | Equity Capital | EPS (Rs) | PE (x) |
|---|---|---|---|---|---|---|
| FY14 | 10,745 | 898 | 259 | 658 | 2.0 | 22.8x |
| FY15 | 12,675 | 1,175 | 359 | 658 | 2.7 | 16.5x |
| FY16E | 15,480 | 1,461 | 599 | 658 | 4.6 | 9.9x |
| FY17E | 19,376 | 1,839 | 839 | 658 | 6.4 | 7.1x |

*Consolidated Financials Source: Company, IndiaNivesh Research*

# Reliance Industries Ltd. (RIL)

**CMP Rs. 887 | Target Rs.1,111 (14x FY16E P/E)**
**P/E (FY16E) 11.4x | P/E (FY17E) 9.4x**

## Investment Rationale

- Singapore GRMs which fell to ~USD4.8 /bbl levels during Q2FY15 have recovered back in past few months boosted by gasoline (US refinery strikes) and naphtha cracks. In Q4FY15 RIL's GRM stood at USD10.1/bbl (v/s USD9.3/bbl in Q4FY14 and USD7.3/bbl in Q3FY15. We believe the recent margin uptick and rupee deprecation will help to support refining EBIT margin of RIL going forward.
- Further USD 4 bn Petcoke Gasification project is under rapid execution which expected to provide competitive energy costs. RIL's dependency on imported gas will decrease with completion of coke gasification and gross refining margin (GRM) will improve by $2-2.5 per barrel.
- Besides the coke gasification project, RIL has earmarked USD 4 billion for a petrochemicals project in Jamnagar that will include a cracker unit. This project is expected to be commissioned in H2FY16 and would nearly double the ethylene capacity to 3.3 million tonnes a year. Further ongoing Polyester expansion and new off-gases cracker will add further value in petchem profitability.
- RIL reported ROE of 11.3% in FY15, down 50 bps YoY. The key reason for decline in ROE was increase of Rs 750bn in CWIP under the ongoing capex programme that pulled down asset turnover sharply. We expect ROE to improve from FY17, when its large projects commence and gas volumes increase.

## Valuation

Though RIL's FY16e earnings growth is likely to be muted owing to start-up losses in the telecom business and weak shale gas economics owing to the sharp fall in US gas price, we expect the next earnings growth to come in RIL in FY17, when its large core projects get commissioned. At CMP Rs. 887 stock is trading at 11.4x FY16E EPS which is lower than its mean of 15x. We maintain BUY rating on the stock with target price of Rs. 1111 (based on 14x FY16e earnings).

| Y E March | Net sales(Rs. mn) | EBITDA(Rs. mn) | Adj. PAT(Rs. mn) | EPS(Rs.) | EBITDA margin(%) | PE(x) | EV/EBITDA |
|---|---|---|---|---|---|---|---|
| FY15 | 3,754,350 | 384,920 | 235,660 | 80 | 10.3 | 11.3 | 10.3 |
| FY16E | 3,287,000 | 4,305,420 | 250,734 | 79 | 131.0 | 11.4 | 9.2 |
| FY17E | 3,773,000 | 5,404,740 | 305,254 | 97 | 143.2 | 9.4 | 7.3 |

*Source: Company Filings; BL, IndiaNivesh Research*    *Note: CMP as of 7/06/2015*

# State Bank of India (SBI)

**CMP Rs 255 |P/ABV (FY16E) 1.7x |P/ABV (FY17E) 1.6x**
**Target Rs 370**

## Investment Rationale

- **Biggest beneficiary of revival in economy:** SBI, being a largest bank in Indian banking sector, remains the biggest beneficiary of revival in economy by way of pick up in loan growth and improvement in asset quality. We believe bank can easily grow its loan book at 10.5% CAGR over FY15-17E with upward bias if corporate capex picks up significantly. With market leadership positioning in Home and Auto loan segment, growth in retail for SBI continues to remain higher.
- **NIMs to remain healthy:** NIMs (Calc) of SBI has been in the range of 3.2-3.4% in last 3 years which is one of the best amongst public sector banking space. Despite recent decline in base rate, we believe SBI is well positioned to maintain its margins at current levels of 3.2% both for FY16E and FY17E.
- **Asset quality to stabilize in H2FY16E:** Asset quality for SBI was impacted in FY14 which is inline with industry trend. However in FY15, bank was successful in improving its Gross and Net NPA by 70 and 45 bps yoy to 4.3% and 2.1% partly led by sale of assets to ARC. Fresh slippages were lower at Rs 294 bn in FY15 compared to Rs 415 bn in FY14. However fresh restructuring continues to remain higher at Rs 230 bn in FY15 (Rs 118.9 bn in Q4FY15) as compared to Rs 253 bn in FY14 (Rs 76.4 bn in Q4FY14). We expect asset quality for SBI to improve in H2FY16 led by improvement in macros.
- **Capital adequacy remains higher:** Capital adequacy of SBI remains healthy at 12% with tier I capital of 9.6% which is ahead of regulatory requirement. SBI is likely to raise capital of Rs 150 bn which will help in growing its loan book and improve capital adequacy further.

## Valuations

SBI remains our top pick in public sector banking space as it remains the biggest beneficiary of revival in economy. Although asset quality improvement in FY15 has largely come from asset sale to ARC, even after adjusting for the same, asset quality would have been stable; which is key positive. We recommend buy on SBI with SOTP based target price of Rs 370.

| (Rs mn) | NII | PAT | EPS (Rs) | ROA (%) | ROE (%) | BV (Rs) | ABV (Rs) | P/E (x) | P/BV (x) | P/ABV (x) |
|---|---|---|---|---|---|---|---|---|---|---|
| FY14 | 492,822 | 108,912 | 15 | 0.6 | 10.0 | 158 | 117 | 17.5 | 1.6 | 2.2 |
| FY15 | 550,153 | 131,016 | 18 | 0.7 | 10.6 | 172 | 135 | 14.5 | 1.5 | 1.9 |
| FY16E | 607,730 | 156,762 | 21 | 0.7 | 11.6 | 186 | 148 | 12.3 | 1.4 | 1.7 |
| FY17E | 665,545 | 184,103 | 24 | 0.8 | 12.4 | 206 | 163 | 10.5 | 1.2 | 1.6 |

*Source: IndiaNivesh Research*

# Tech Mahindra Ltd. (TechM)

**CMP : Rs.551 | P/E (FY16E) 17.1x P/E (FY17E) 13.6x**
**Target Price: Rs.749**

- **Strong Revenue Visibility:** TechM management sounded confident on future revenue outlook on back of four prong strategy. Management intent to continue its investment on following: (I) high SG&A spending in momentum verticals [Telecom, BFSI, Manuf. & Eng.], (II) launch of new platforms in BPO space, (III) higher investment in product & innovation, and (IV) focus on M&A in new age IT & newer geographies. On back of strong growth momentum and large deal wins, we maintain FY16E/FY17E $-revenue growth to 20.2%/20.1% Y/Y with INR/USD realization rate 62.6 in each year.

- **Health Deal Pipeline:** Given the large deal pipeline, TechM expect strong traction in key verticals like BFSI, healthcare, manufacturing and retail. The company's two-pronged strategy to expand enterprise business also looks promising (end-to-end offerings in leadership vertical like manufacturing and niche offerings-led in entry level verticals like BFSI). In Q4FY15, TechM won deals worth of US$165mn and indicated that while deal closures was slow but deal pipeline looks promising.

- **Strong Margin Outlook:** The current quarter dip in the EBITDA margin was largely due to the salary-hike and LCC integration. We expect pick-up in EBITDA margin from the current level on back of various operating levers and stable currency outlook to 19.8% in FY16E (v/s 18.4% in FY15E).

**Valuation:** At CMP of Rs.551, the stock is trading at 17.1x FY16E and 13.6x FY17E EPS estimate. Strong multi-year and multi-million dollar deal wins along with inorganic expansion increase medium-term revenue visibility. We expect smooth ramp-up of these recent large deal wins and also see quick integration benefits (cross-selling) of recent acquisitions. We have BUY rating with target price of Rs.749 on the stock.

| YE March (Rs. Mn) | Net Sales | PBDIT | Adj PAT | EPS (Rs) | EBITDA Margin (%) | ROE (%) | PE (x) | EV/EBITDA (x) |
|---|---|---|---|---|---|---|---|---|
| FY15A | 2,26,213 | 41,529 | 26,277 | 26.7 | 18.4 | 27.6 | 20.6x | 16.7x |
| FY16e | 2,73,032 | 54,051 | 31,729 | 32.3 | 19.8 | 31.5 | 17.1x | 13.5x |
| FY17e | 3,27,955 | 64,378 | 39,822 | 40.5 | 19.6 | 32.9 | 13.6x | 11.1x |

*Source: Company Filings; IndiaNivesh Research*

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