India Strategy

Buy back the family silver

11 Large Cap Conviction Ideas

When it's about money..

IIFL

IIFL
India Private Clients

Buy back the family silver

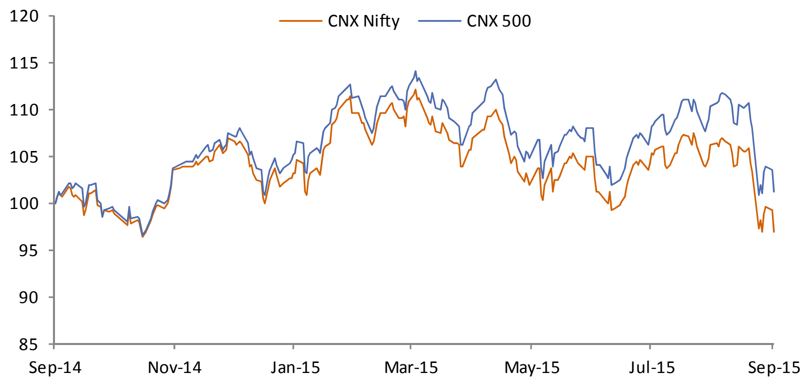
11 Large Cap Conviction Ideas

Nifty: 7,786
Sensex: 25,696

Price as on September 01, 2015

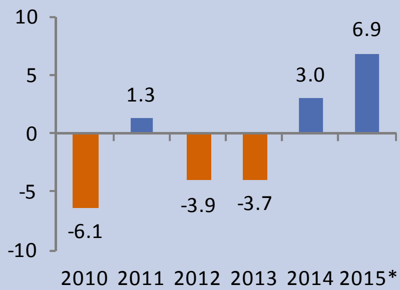
The dramatic fall in Indian equities recently, triggered by global sell-off, offers a significant buying opportunity for investors. The best part is that one needn't go hunting for small gems – many large ones (blue-chips) are trading at attractive long-term valuations. Large caps offer reasonably high business visibility and their relative attractiveness has improved with midcap valuations catching up in last few months. Volatility is expected to be high for the rest of 2015 on account of global factors like additional Chinese currency devaluation, US Fed rate hike and policy logjam and state elections in India. Large caps may provide a margin of safety vis-a-vis mid and small caps in such a scenario. A possible Repo cut by RBI, given lower than expected inflation and, low global commodity prices supporting corporate earnings are likely positive triggers for the market. We showcase 11 large cap stocks with a combined market capitalisation of Rs. 1,371,739cr or ~14.3% of total equity market cap as our high conviction buys.

Nifty has underperformed vis-à-vis CNX500

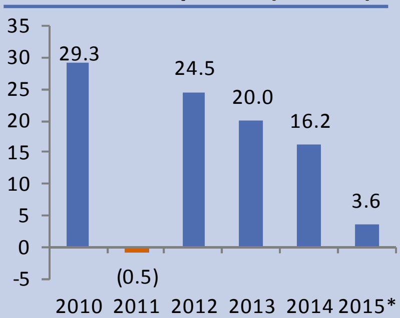


Source: Company, India Infoline Research

DII flows in equities (US$bn)



FII flows in equities (US$bn)



** YTD*

Top picks summary

Sr. No	Name	Sector	M-Cap (Rs cr)	CMP (Rs)	1 yr Target (Rs)	Upside (%)	P/E (x) FY16E	P/E (x) FY17E	P/ABV (x) FY16E	P/ABV (x) FY17E	RoE (%) FY16E	RoE (%) FY17E
1	Axis Bank	Financials	114,109	480	650	35.4	13.7	11.1	2.3	2.0	17.3	18.3
2	ICICI Bank	Financials	158,665	272	380	39.7	12.2	10.1	1.9	1.7	15.2	16.5
3	IndusInd Bank	Financials	49,176	830	1,111	33.9	21.3	16.2	2.8	2.5	16.3	16.0
4	SBI	Financials	181,211	239	328	37.2	10.7	8.9	1.6	1.4	12.3	13.3

Sr. No	Name	Sector	M-Cap (Rs cr)	CMP (Rs)	Target (Rs)	Upside (%)	P/E (x) FY16E	P/E (x) FY17E	EV/EBIDTA (x) FY16E	EV/EBIDTA (x) FY17E	RoE (%) FY16E	RoE (%) FY17E
1	Aurobindo Pharma	Pharmaceuticals	43,021	737	960	30.3	22.5	18.5	14.4	11.9	31.7	28.9
2	Britannia Industries	Packaged Foods	35,053	2,922	3,956	35.4	40.9	32.7	26.9	21.2	57.5	52.0
3	Coal India	Metals & Mining	224,484	355	454	27.9	12.9	10.5	8.8	6.8	40.4	43.3
4	Larsen & Toubro	Infrastructure	145,030	1,558	2,161	38.7	24.5	18.8	16.9	14.2	8.8	10.1
5	Motherson Sumi	Auto Ancillary	38,372	290	400	37.9	27.2	18.5	9.7	7.0	37.7	43.3
6	Reliance Industries	Oil & Gas	271,956	840	1,150	36.9	11.5	7.9	10.5	6.9	10.5	13.6
7	Tata Motors	Automobiles	110,662	330	480	45.5	8.7	5.6	3.8	2.8	19.8	25.1

Source: Company, India Infoline Research

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September 02, 2015

Theme Report

Change in ☐ Estimates ☐ Rating ☐ Target

Aurobindo Pharma

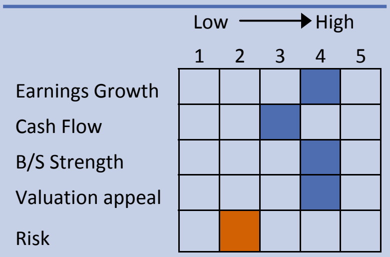
Rating: BUY

Target:	Rs960
CMP:	Rs737
Upside:	30.3%

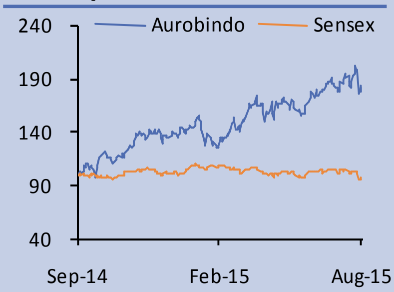
Sector:	**Pharmaceuticals**
Sector view:	**Positive**
Sensex:	25,696
52 Week h/l (Rs):	833 / 383
Market cap (Rscr) :	43,021
6m Avg vol ('000Nos):	1,682
Bloomberg code:	ARBP IN
BSE code:	524804
NSE code:	AUROPHARMA
FV (Re):	1

Prices as on September 01, 2015

Company rating grid



Share price trend



Share holding pattern

%	Dec-14	Mar-15	Jun-15
Promoters	54.1	54.0	53.9
Insti	36.2	35.8	35.7
Others	9.7	10.2	10.4

Owns a large oral solids and robust injectables business

Aurobindo possesses a strong US pipeline with 176 ANDAs pending and 28 tentative approvals. US operations include a large ~US$500mn oral solids business under Aurobindo USA which has 121 pending ANDAs including 17 in controlled substances. Its injectables business under AuroMedics posted stellar 84% growth yoy in FY15 to US$68mn and is poised for continued momentum in the current fiscal. Acquisition of Actavis' western European operations has significantly scaled up European business whose cost structure would be lowered through gradual ramp up of low cost API supply from India.

New initiatives in Peptides, Penems and Oncology key drivers

Company is developing Peptides which include four microsphere and liposomal injectables products and working towards filing these products in 2016-17. The addressable market for the four products is about US$3bn. It has filed first peptide DMF in Q4 FY15 though its injectables division has already filed certain Peptides as finished injectables products. Currently, there are four penems (used as neuromuscular blockers under anesthesia reversal) injectables products in US with addressable market size of US$450mn with Ertapenem being the largest; Aurobindo has already filed two products (Doropenem and Meropenem) and likely to initially launch the products in Brazil and Mexico. Within penems, Aurobindo has also forayed into nanospheres (US$3bn market) and expects first filing in 2017 with approvals in 2 years after filing. Apart from peptides and penems, company is working on 15 oncology products through both solid and injectables dosages and first exhibit batches for five hormone products whose dossiers are expected to be filed in FY16.

Forecast 22% EPS cagr over FY15-17E; BUY

We believe company is clearly building a differentiated product portfolio with large sub segments within the complex generics space as mentioned above as well as focus on vaccines (especially PCV which is a limited competition product with US$5bn branded market) and inhalers. We forecast 22% EPS cagr and margin ramp up of ~270bps over FY15-17E. BUY for a 9-12mth target of Rs960, based on 24x FY17E EPS.

Financial summary

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Revenues	8,100	12,121	14,419	16,248
yoy growth (%)	38.3	49.6	19.0	12.7
Operating profit	2,134	2,564	3,262	3,872
OPM (%)	26.3	21.2	22.6	23.8
Reported PAT	1,173	1,576	1,916	2,325
yoy growth (%)	299.1	34.4	21.6	21.4
EPS (Rs)	20.1	27.0	32.8	39.8
P/E (x)	73.4	54.6	22.5	18.5
P/BV (x)	11.5	8.3	6.2	4.7
EV/EBITDA (x)	21.8	18.3	14.4	11.9
Debt/Equity (x)	1.0	0.9	0.6	0.4
ROE (%)	36.8	34.9	31.7	28.9
ROCE (%)	24.5	24.1	26.0	26.9

Source: Company, India Infoline Research

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Change in ☐ Estimates ☐ Rating ☑ Target

Axis Bank

Rating: BUY
Target: Rs650
CMP: Rs480
Upside: 35.4%

Brisk momentum in retail assets; cyclical upturn to aid overall loan growth

Since FY12, Axis Bank has impressively executed its strategy of strengthening the retail franchise so as to diversify and de-risk its balance sheet. Substantial branch addition and intense cross-selling have resulted in retail share in advances reaching north of 40%. Thus, the profile of Axis Bank has converged towards HDFC Bank and IndusInd Bank. While retail growth momentum should continue, the recovery in economy would provide fillip to corporate and SME loan growth thus enabling the bank to grow sustainably ahead of the system. Within retail segment, the mix would shift towards better yielding products. With Tier-1 capital at 12%, Axis Bank is adequately capitalized to deliver 20%+ pa loan growth over the next couple of years.

NIM to come-off a bit; asset quality guidance comforting

After having sustained NIM at elevated 3.8-4% over the past two years, the bank could see it normalize towards 3.5% in the medium term. Key reasons would be quicker re-pricing of loans vis-à-vis deposits and likely moderation in C/D ratio. While the deposits mix shift has complemented the change in lending profile, it has made overall cost sticky with higher share of retail TDs. Though concerns around asset quality have been high, the bank has been able to contain the impact in the current credit cycle. We believe that calibration of exposure to the perceived stressed groups and strengthening of asset mix has underpinned a resilient performance. The guidance of lower stressed assets addition and stable credit cost in FY16 is comforting.

Operating metrics to remain stable; valuation correction an opportunity

We estimate Axis Bank to deliver healthy earnings CAGR of 18% over FY15-17 in spite of a marginal softening of NIMs. The RoA and RoE will remain stable at 1.7% and 17-18% respectively over the period. With the recent price correction, the valuation has corrected to 2.1x FY17 P/ABV, which is appealing. We are cognizant that for significant re-rating, the bank needs to deliver on its asset quality guidance.

Financial summary

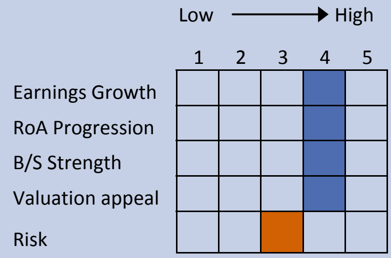
Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Total operating income	19,356	22,589	26,111	31,220
Yoy growth (%)	19.4	16.7	15.6	19.6
Operating profit (pre-provisions)	11,455	13,385	15,573	18,785
Net profit	6,217	7,358	8,305	10,238
yoy growth (%)	20.0	18.3	12.9	23.3
EPS (Rs)	26.5	31.0	35.0	43.1
Adj. BVPS (Rs)	158.3	182.9	210.2	244.9
P/E (x)	18.1	15.5	13.7	11.1
P/Adj.BV (x)	3.0	2.6	2.3	2.0
ROE (%)	17.4	17.8	17.3	18.3
ROA (%)	1.7	1.7	1.7	1.7

Source: Company, India Infoline Research

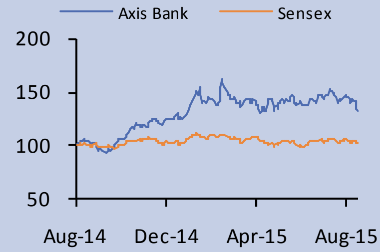
Sector:	**Financials**
Sector view:	**Positive**
Sensex:	25,696
52 Week h/l (Rs):	655/370
Market cap (Rscr) :	114,109
6m Avg vol ('000Nos):	6,192
Bloomberg code:	AXSB IB
BSE code:	532215
NSE code:	AXISBANK
FV (Rs):	2

Prices as on September 1, 2015

Company rating grid



Share price trend



Share holding pattern

(%)	Dec-14	Mar-15	Jun-15
Promoter	28.2	27.9	27.2
Insti	60.0	59.4	59.8
Others	11.8	12.7	13.0

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Change in ☐ Estimates ☐ Rating ☐ Target

Britannia Industries Ltd

IIFL INDIA PRIVATE CLIENTS

Rating:	BUY
Target:	Rs3,956
CMP:	Rs2,922
Upside:	35.4%

Multiple levers in core biscuit segment to drive future growth

BRIT has immense room for growth in the core biscuit segment on the back of: **A)** Aggressive roll out of super premium biscuits to gain lost market share. **B)** BRIT continues to focus on expanding its distribution network and has added 80,000 outlets in Q1FY16 and 7,300 rural distributions. **C)** Total Numeric Distribution stands at ~3.5mn outlets, which is 2/3rd of its nearest competitor's reach. **D)** Increasing its rural focus which forms just 2/3rd of the total urban market share for the company, hence providing immense growth potential. **E)** Targeting the Hindi belt region MP, UP, Gujarat and Rajasthan, where its market share is 1/5th of total national share. **F)** Scope to strengthen its value segment which forms ~45% of the biscuit market, of which BRIT has 7%-8% market share, giving enough scope for the company to grow.

Cost efficiency, benign commodity costs and better product mix continues to support EBITDA margin expansion

BRIT's continuous focus on cost rationalization along with benign commodity cycle and improving product mix led by innovations and renovations has been the key driver for margin expansion by 533bps over FY12-FY15 to 11% and its best ever margin of 14.3% in Q1FY16. Cost rationalizations like a) reduced truck loads (34%) and trade returns (31%) over the last three years, b) manufacturing efficiencies through TQM & Kaizen, c) moving towards zero wastage, d) energy efficient ovens and energy optimization, and d) increased in-house manufacturing to reduce conversion costs. In addition, the increase in significant contribution from product mix improvement with the launches in the past few years aimed at the premium end of the category have also upped the gross margin to 42.6% in Q1FY16 as against 38.8% in Q1FY15. Apart from cost rationalization, the key trigger for margin expansion from hereon will be premiumization, increased focus in international business and aggressive roll-out in higher margin business like cakes, rusks, dairy & snacks.

Aspires to become a Total Foods Company

BRIT aspires to become a "Total Foods Company" by filling up gaps in **A) Product portfolio –** as BRIT is increasing its focus in high margin business like value added dairy, cakes & rusks and macro snacking. **B) Geographic presence –** the international business has reported double digit growth in recent quarters. BRIT is scouting new geographies for future growth.

Valuation & Recommendation

AT CMP, BRIT is trading at 27.3x/17.4x FY18E PE & EV/EBITDA basis. Despite expensive valuation, we recommend BUY rating with a TP of Rs3,956 (based on 37x PE and 23.7x EV/EBITDA FY18E) because of strong growth visibility.

Financial summary

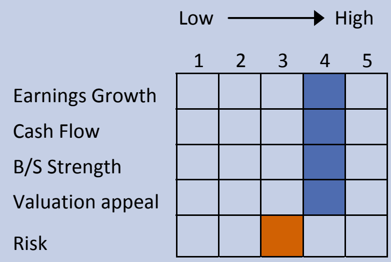
Y/E Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenues	7,858	9,100	10,657	12,480
EBITDA	864	1,292	1,599	1,897
EBITDA (%)	11.0	14.2	15.0	15.2
PAT	689	858	1,072	1,283
EPS (Rs)	57.4	71.5	89.3	106.9
ROE (%)	67.7	57.5	52.0	46.3
ROCE (%)	69.4	76.9	71.0	64.3
PE (x)	50.9	40.9	32.7	27.3
EV/EBITDA (x)	40.5	26.9	21.2	17.4

Source: Company, India Infoline Research

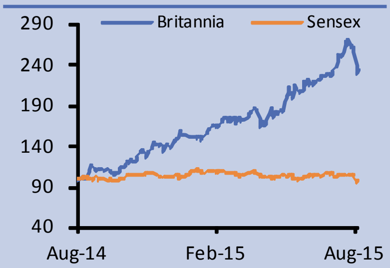
Sector:	**Packaged Foods**
Sector view:	**Positive**
Sensex:	25,696
52 Week h/l (Rs):	3,435/1,237
Market cap (Rscr) :	35,053
6m Avg vol ('000Nos):	1,049
Bloomberg code:	BRIT IN
BSE code:	500825
NSE code:	BRITANNIA
FV (Rs):	2

Prices as on September 01, 2015

Company rating grid



Share price trend



Share holding pattern

(%)	Dec-14	Mar-15	Jun-15
Promoter	50.75	50.75	50.74
Insti	19.46	19.10	20.02
Others	29.79	30.15	29.24

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Change in ☑ Estimates ☐ Rating ☐ Target

Coal India Ltd

IIFL India Private Clients

Rating:	BUY
Target:	Rs454
CMP:	Rs355
Upside:	27.9%

Volume growth accelerates to 10.5% yoy in 4M FY16

Coal India managed to increase its volumes by 7.1% yoy in FY15 after reporting flat growth of 1.8% CAGR over FY10-14. In line with the Government's plan of doubling production to 1bn tons by FY20, the company has started on a strong footing in FY16. Production growth in 4M FY16 stood at 10.5% yoy led by an improvement in rake availability and higher production from existing mines. Relaxation in environmental regulations, government's focus and completion of long-delayed connectivity projects would lead to a strong volume push going forward. As a result, we estimate Coal India to report production CAGR of 8.2% over FY15-18.

Share of non-power sales to increase blended realisations

Coal India's FSA realisations in FY15 have been lower than our expectations due to increase in share of FSA sales to power (78.7% in FY15 vs 75.3% in FY14) and marginal inferior product mix. We believe going forward, with an increase in production and subdued demand from power producers, share of sales to non-power sector would rise. An increase in share of non-power sales volume would lead to higher realisations for the company as sales to non-power consumer is done at 30-35% premium to FSA rates. Average realisations would be further boosted with the auctioning of linkage coal to non-power players. The impact of above on blended realisations would be marginally offset by lower e-auction prices.

Recent correction provides good entry point

Coal India is expected to report an increase in its margins led by higher production, reducing man power headcount, increased outsourcing and lower oil prices. Coal India has managed to reduce its headcount by increasing the share of outsourcing and introducing new technologies. Further reduction in headcount would reduce the impact of higher wages. Strong volume growth and higher share non-power sales would lead to 14.7% yoy increase in EBIDTA/ton in FY16 and 20% in FY17. We expect the company to witness earnings CAGR of 24.3% over the period FY15-18. Post the correction the stock is trading at 6.7x FY17 EV/EBIDTA, lower than its peers. We recommend a BUY on the stock with a price target of Rs. 454. Downside from current levels would be supported by strong dividend yield (5.8% FY15).

Financial summary

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenues	72,015	80,218	90,221	102,607
yoy growth (%)	4.7	11.4	12.5	13.7
Operating profit	15,230	19,606	25,060	31,990
OPM (%)	21.1	24.4	27.8	31.2
Reported PAT	13,722	17,423	21,394	26,401
yoy growth (%)	(9.2)	27.0	22.8	23.4
EPS (Rs)	21.7	27.6	33.9	41.8
P/E (x)	16.3	12.9	10.5	8.5
EV/EBITDA (x)	11.3	8.7	6.7	5.1
Cash Per Share (Rs)	84.1	84.2	88.9	96.4
RoE (%)	33.2	40.4	43.3	46.3
RoCE (%)	51.7	59.9	64.6	69.0

Source: Company, India Infoline Research

Sector:	**Metals & Mining**
Sector view:	**Neutral**
Sensex:	25,696
52 Week h/l (Rs):	447 / 332
Market cap (Rscr) :	224,484
6m Avg vol ('000Nos):	4,431
Bloomberg code:	COAL IB
BSE code:	533278
NSE code:	COALINDIA
FV (Rs):	10

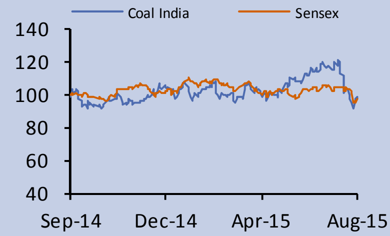
Price as on September 01, 2015

Company rating grid

Low → High

	1	2	3	4	5
Earnings Growth			■		
Cash Flow					■
B/S Strength					■
Valuation appeal			■		
Risk		■			

Share price trend



Share holding pattern

%	Dec-14	Mar-15	Jun-15
Promoters	89.7	79.7	79.7
Insti	8.7	17.8	17.8
Others	1.7	2.5	2.6

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Change in ☐ Estimates ☐ Rating ☑ Target

ICICI Bank

IIFL INDIA PRIVATE CLIENTS

Impressive execution on 4C strategy

Notwithstanding a challenging operating environment, ICICI Bank has delivered impressively on its 4C strategy entailing credit growth, CASA, cost and capital. Over the past four years, the bank has a) improved its credit profile by increasing share of retail credit in domestic advances to 57% b) increased CASA ratio materially to 45% c) extracted cost productivity manifested in efficient cost/income level of 37% and d) prudently utilized capital and maintained high capitalization levels.

Credit growth on strong footing; NIM to stabilize at higher levels

ICICI Bank's domestic loan growth continues to run significantly ahead of the system driven by robust growth in retail products. Here, the growth momentum is strong in home loans and the likely improvement in vehicle loans would only add to the pace. Revival of corporate investment cycle and SME loan growth will provide scope to accelerate the overall loan growth. In FY16, the bank expects to grow its domestic loan book by 18-20%. The current capital (Tier-1 ratio at 12.6%) should suffice for next three years of brisk balance sheet growth given that RoE is expected to improve. ICICI Bank is confident of sustaining blended NIM at 3.5% in the medium term driven by a) increasing share of domestic business b) rising contribution of retail advances within c) sustained improvement in deposits franchise and d) moderation in wholesale borrowing cost.

Asset quality headwinds to alleviate; valuation compelling

While the credit conditions remain challenging, the bank expects lower quantum of stress assets addition in FY16 as compared FY15. Credit cost for the year is expected at 90-95bps. The management guidance on asset quality outlook should assuage street's concerns, which had increased recently. Despite assuming elevated credit cost, we estimate ICICI Bank to deliver healthy earnings CAGR of 18% and sustain RoA at robust 1.8-1.9% over FY15-17. Acceleration in balance sheet growth should produce leverage-driven RoE improvement of 200-250bps over the period. On a stand-alone basis, the bank is trading at an attractive valuation of 1.3x FY17 P/ABV, which is at steep discount to peers. Further, improving performance of subsidiaries is enhancing consol valuation of the bank.

Financial summary

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Total operating income	26,903	31,216	35,582	42,438
Yoy growth (%)	21.1	16.0	14.0	19.3
Operating profit (pre-provisions)	16,595	19,720	22,362	26,573
Net profit	9,810	11,175	12,901	15,587
yoy growth (%)	17.8	13.9	15.4	20.8
EPS (Rs)	17.0	19.3	22.2	26.9
Adj. BVPS (Rs)	121.1	127.9	141.5	158.1
P/E (x)	16.0	14.1	12.2	10.1
P/Adj.BV (x)	2.2	2.1	1.9	1.7
ROE (%)	14.0	14.5	15.2	16.5
ROA (%)	1.7	1.8	1.8	1.9

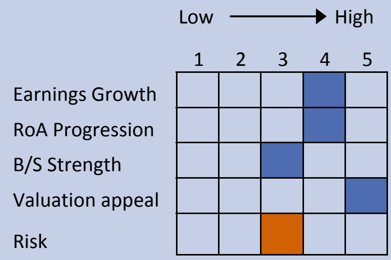
Source: Company, India Infoline Research

Rating:	BUY
Target:	Rs380
CMP:	Rs272
Upside:	39.7%

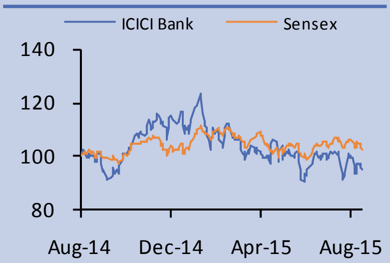
Sector:	**Financials**
Sector view:	**Positive**
Sensex:	25,696
52 Week h/l (Rs):	393/267
Market cap (Rscr) :	158,665
6m Avg vol ('000Nos):	14,241
Bloomberg code:	ICICIBC IN
BSE code:	532174
NSE code:	ICICIBANK
FV (Rs):	2

Prices as on September 1, 2015

Company rating grid



Share price trend



Share holding pattern

(%)	Dec-14	Mar-15	Jun-15
Promoter	-	-	-
Insti	63.3	62.8	62.7
Others	36.7	37.2	37.3

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Change in ☐ Estimates ☐ Rating ☐ Target

IndusInd Bank

Loan growth to accelerate; robust capital position

IndusInd Bank is well poised to propel its loan growth aided by a superior lending franchise, improving deposits profile, robust capital base and investment in network expansion. In the upcoming credit cycle, the bank is expected to gain market share at much faster pace. Growth in consumer financing portfolio has started to improve on the back of revival in vehicle financing products, which contributes a majority. The share of consumer financing in loan book is estimated to increase from current 42% to 49-50% by end FY17. Recently, IndusInd Bank raised Rs. 5,081cr through a QIP issue and preferential equity allotment to the promoters. This has strengthened Tier-1 capital to 16%+ thus providing headroom for comfortably pursuing 25-30% pa loan growth in the coming three years.

NIM to expand over the next couple of years

Bank has been witnessing robust traction in savings account driven by de-regulation of rate, robust network expansion and improving product penetration per customer. With brisk pace of branch addition to continue and rate differential of TDs set to decline, the CASA ratio is estimated to surpass 37% by end FY17. NIM outlook is robust underpinned by multiple factors a) utilization of equity proceeds b) increase in CASA contribution c) portfolio rebalancing towards better-yielding consumer financing products and d) structural resistance in blended yield due to fixed-rate nature of the consumer book. We estimate NIM to expand by ~20bps over FY15-17.

Valuation to re-rate on robust earnings growth delivery

IndusInd Bank's asset quality has held-up well during the ongoing credit cycle supported by well-diversified exposure, proactive risk management and robust credit appraisal. Not only are the gross NPLs low at 0.8%, even the restructured book is at marginal 63bps of advances. Management expects asset quality to remain sanguine in FY16 and therefore credit cost would likely be lower than budgeted 55-60bps. In a stable credit cost environment, a strong asset growth and NIM expansion would drive 30% pa earnings growth over FY15-17 for IndusInd Bank. Industry-best RoAs of 1.9-2% and robust profit growth calls for incremental valuation re-rating of the stock.

Financial summary

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Total operating income	4,764	5,824	7,451	9,589
Yoy growth (%)	32.5	22.3	27.9	28.7
Operating profit (pre-provisions)	2,578	3,098	4,003	5,175
Net profit	1,390	1,794	2,307	3,021
yoy growth (%)	31.0	29.0	28.6	31.0
EPS (Rs)	26.4	33.9	39.0	51.1
Adj. BVPS (Rs)	168.4	197.1	294.6	336.7
P/E (x)	31.4	24.5	21.3	16.2
P/Adj.BV (x)	4.9	4.2	2.8	2.5
ROE (%)	16.7	18.2	16.3	16.0
ROA (%)	1.7	1.8	1.9	2.0

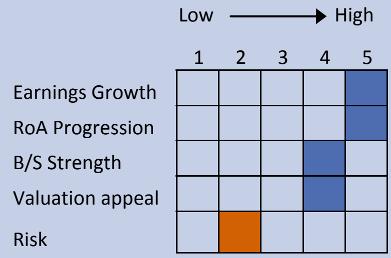
Source: Company, India Infoline Research

Rating:	**BUY**
Target:	**Rs1,111**
CMP:	**Rs830**
Upside:	**33.9%**

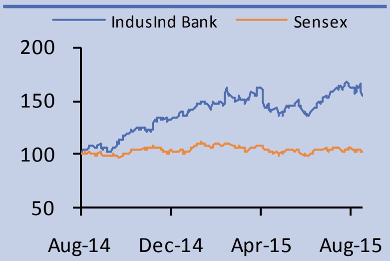
Sector:	**Financials**
Sector view:	**Positive**
Sensex:	25,696
52 Week h/l (Rs):	988/578
Market cap (Rscr) :	49,176
6m Avg vol ('000Nos):	1,110
Bloomberg code:	IIB IB
BSE code:	532187
NSE code:	INDUSINDBK
FV (Rs):	10

Prices as on September 1, 2015

Company rating grid



Share price trend



Share holding pattern

(%)	Dec-14	Mar-15	Jun-15
Promoter	15.1	15.1	15.0
Insti	49.6	48.7	48.0
Others	35.3	36.2	37.0

Research Analyst:
Rajiv Mehta
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Larsen & Toubro Ltd

Strong ordering pipeline

Larsen & Toubro (LT) registered 22% yoy growth in order inflows in FY15, higher than its guidance of 15-20%. Slower execution and strong order inflows increased its order book to its best ever of Rs. 232,649cr, up 28% yoy. Ordering momentum in the power and hydrocarbon segment picked up in Q1 FY16 and the company has guided for 15% order inflow growth on the prospect pipeline for balance FY16. The company indicated that ordering prospects for the rest of FY16 stood at Rs. 500,000cr, largely from Infrastructure (48%), Power (26%) and Hydrocarbon (9%) and other sectors (17%). We believe that order inflow would be lower than the company's guidance due to high base and slower ordering in the MENA region.

Execution to pickup from H2 FY16

Execution for the company has been subdued due to slower pickup and many large projects bagged in FY15 were in their initial planning phase. Revenue growth for the company would be quite strong over the next three years as we expect execution to pick up in the domestic market from H2 FY16. We see an expansion in margins from H2 FY16 as the share of domestic orders increases and execution rate picks up. The disappointment in earnings in the Oil & Gas business would be minimal going forward as the company has already made huge provisions. Management has guided for margin expansion of 100 bps in FY16 (ex services) which is primarily driven by breakeven in hydrocarbon business. However, we believe there are more positive triggers for the company to report margin expansion over the next two years.

Subsidiary performance to turnaround

On a consolidated basis, we believe lower losses in businesses like ship building, heavy engineering & Power coupled with higher contribution from real estate and IT could see an improvement in contribution from subsidiaries. Asset monetization steps (L&T Infotech listing, development asset sale) would reduce near term balance sheet stress. The government's focus on its 'Make in India' theme provides huge opportunity for L&T who has invested in capacities and capabilities in the defense sector. This would also help the company to register a turnaround in loss-making subsidiaries like Shipbuilding and Special Steels and would be a major growth driver. We value the company on a SOTP basis and arrive at a price target of Rs. 2,161.

Financial summary

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Revenues	85,128	92,005	106,725	129,138
yoy growth (%)	14.3	8.1	16.0	21.0
OPM (%)	12.6	12.3	13.3	13.6
Reported PAT	4,905	4,768	6,147	8,010
yoy growth (%)	(5.8)	(2.8)	28.9	30.3
EPS (Rs)	49.5	47.5	66.1	86.1
P/E (x)	31.5	32.8	23.6	18.1
EV/EBITDA (x)	20.8	20.3	16.5	13.9
D/E (x)	2.2	2.2	2.2	2.1
RoE (%)	12.8	11.2	14.2	16.4
RoCE (%)	9.5	7.4	8.8	10.1

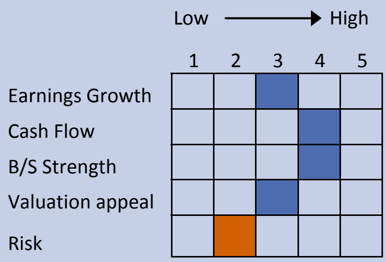
Source: Company, India Infoline Research

Rating:	BUY
Target:	Rs2,161
CMP:	Rs1,558
Upside:	38.7%

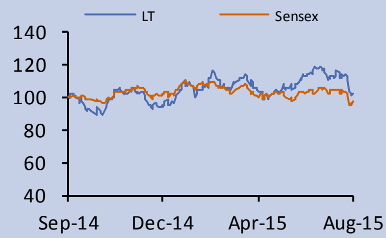
Sector:	**Infrastructure**
Sector view:	**Neutral**
Sensex:	25,696
52 Week h/l (Rs):	1,893 / 1,400
Market cap (Rscr) :	145,030
6m Avg vol ('000Nos):	1,983
Bloomberg code:	LT IB
BSE code:	500510
NSE code:	LT
FV (Rs):	2

Price as on September 01, 2015

Company rating grid



Share price trend



Share holding pattern

%	Dec-14	Mar-15	Jun-15
Insti	54.2	52.9	55.7
Others	45.8	47.1	44.3

Research Analyst:
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Change in ☐ Estimates ☐ Rating ☑ Target

Motherson Sumi

Strong revenue growth expected for SMR and SMP

SMR and SMP (77% of FY15 revenues) are expected to see strong traction through new customer acquisitions and incremental business from existing ones. SMR has established its leadership position in the rear-view mirror business and has seen a jump in OPM from 6.3% in FY13 to 9.8% in FY15. The company targets to reach mind teen level of OPM in the next few years. In our view, SMP has a larger scope to benefit from the global recovery as it is yet to entrench into the US markets. Also with larger orders likely to contribute from H2 FY16, margin expansion akin to SMR cannot be ruled out.

Domestic business on a strong footing

We expect the domestic passenger car demand and car exports from India to remain strong over the next few years. While domestic demand will be driven by 1) lower fuel prices, 2) cut in interest rates and 3) improved consumer sentiment, exports from India will continue to rise given the low cost high quality advantage. This should result in strong revenue growth for standalone operations of MSS. Furthermore, the company has cited on various occasions that it plans to increase in-sourcing for SMR and SMP from the standalone business. This should also benefit margins which have been adequately protected in the phase of weak revenue trends.

Aggressive new five year target

MSSL sets for itself five year targets for various financial parameters. On the previous three sets of targets, the company delivered on most grounds. Continuing with its track record, the company has set an aggressive target for 2020. The revenues targeted are US$18bn vis-à-vis US$5.5bn achieved in FY15. RoCE target of 40% is maintained, while the company has targeted diversification with no customer, no country and no component contributing more than 15% of the revenues.

Premium valuations sustainable

MSS is trading at premium valuations of 18.5x FY17E P/E. However, we believe these valuations are sustainable given the strong earnings CAGR expectation of 50%+. Over the longer term, we assign high probability of the company meeting its 2020 targets considering its strong track record and good visibility provided by the customers.

Financial summary (Consolidated)

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Revenues	30,721	35,032	41,474	51,560
yoy growth (%)	21.4	14.0	18.4	24.3
OPM (%)	9.4	9.2	9.9	10.5
Pre-exceptional PAT	953	1,038	1,413	2,075
Reported PAT	765	862	1,413	2,075
yoy growth (%)	72.1	12.7	63.8	46.9
EPS (Rs)	7.2	7.9	10.7	15.7
P/E (x)	40.3	37.0	27.2	18.5
Price/Book (x)	13.0	11.6	9.2	7.1
EV/EBITDA (x)	14.4	12.9	9.7	7.0
Debt/Equity (x)	1.3	1.5	1.0	0.7
RoE	36.3	33.1	37.7	43.3
RoCE	55.0	27.2	32.2	39.9

Source: Company, India Infoline Research

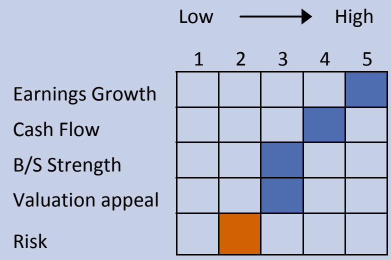
IIFL INDIA PRIVATE CLIENTS

Rating:	BUY
Target:	Rs400
CMP:	Rs290
Upside:	37.9%

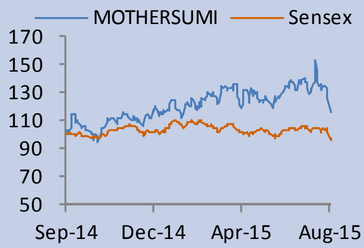
Sector:	Auto Ancillary
Sector view:	Positive
Sensex:	25,696
52 Week h/l (Rs):	396 / 235
Market cap (Rscr) :	38,372
6m Avg vol ('000Nos):	2,298
Bloomberg code:	MSS IS
BSE code:	517334
NSE code:	MOTHERSUMI
FV (Re):	1

Prices as on September 01, 2015

Company rating grid



Share price trend



Share holding pattern

(%)	Dec-14	Mar-15	Jun-15
Promoter	65.6	65.6	65.6
Insti	23.4	23.5	23.8
Others	11.0	10.9	10.6

Research Analyst:
Prayesh Jain
research@indiainfoline.com

Change in ☐ Estimates ☐ Rating ☑ Target

Reliance Industries

IIFL India Private Clients

Rating: BUY

Target:	Rs1,150
CMP:	Rs840
Upside:	36.9%

Investor focus needs to shift to core business

Over the past five years Reliance industries (RIL) has underperformed the broader markets by 55%. The prime reason for the same has been a weak E&P segment plagued by falling gas production and bureaucratic issues. This caused a shift in focus of investors from RIL's core business of refining and petrochemicals to the E&P segment. Furthermore, the earnings profile flattened out. Over the next three years, we believe, these core businesses will drive a strong 25% CAGR in standalone EBIDTA on the back of commencement of large projects - off gas cracker and petcoke gasification.

New projects to drive earnings growth

The petcoke gasification project whereby RIL is investing US$4bn is slated to commence operations in FY17. This project will allow RIL to replace expensive RLNG with gas produced from petcoke leading to incremental US$2-2.5/bbl GRM. Off gas cracker will provide a consistent low cost supply of feedstock to the petrochemical plants where RIL is increasing its capacity. While the global environment has been moderately improving form GRMs and petrochemical spreads, RIL will outperform the benchmarks by a significant margin.

Long term prospects good for other businesses

The domestic E&P and shale gas business are seeing pains from the falling gas prices. However, we expect recovery in gas prices over the longer term as demand remains strong for the cleaner fuel. Volumes for the both the businesses would also be higher in the longer term. Retail business is expanding operations and going the digital way, which should bode well in a strong economic growth environment. The telecom operations which are to be launched in December 2015, should gain ground over the next few years given that the value for money offering. We expect this business to achieve breakeven at EBIDTA in three years considering its asset light model.

Valuations substantially below historical average

P/E valuations of 7.9x on FY17E standalone earnings is much below RIL's historical average and we believe a re-rating is due given strong earnings growth profile in the coming years. While telecom operation losses will restrict earnings growth at the consolidated level, but still the earnings CAGR would be significantly higher than the flattish profile in the past few years.

Financial summary (Standalone)

Y/e 31 Mar (Rs. cr)	FY14	FY15E	FY16E	FY17E
Revenues	390,117	329,076	294,272	310,895
yoy growth (%)	8.3	(15.6)	(10.6)	5.6
OPM (%)	7.9	9.6	11.3	15.3
Reported PAT	21,984	22,719	23,635	34,234
yoy growth (%)	4.7	3.3	4.0	44.8
EPS (Rs)	68.1	70.4	73.2	106.0
P/E (x)	12.3	11.9	11.5	7.9
Price/Book (x)	1.4	1.3	1.1	1.0
EV/EBITDA (x)	10.5	11.2	10.5	6.9
Debt/Equity (x)	0.4	0.4	0.4	0.4
RoE (%)	11.7	11.0	10.5	13.6
RoCE (%)	11.5	10.4	10.0	13.1

Source: Company, India Infoline Research

Sector:	**Oil & Gas**
Sector view:	**Positive**
Sensex:	25,696
52 Week h/l (Rs):	1068 / 796
Market cap (Rscr) :	271,956
6m Avg vol ('000Nos):	3,751
Bloomberg code:	RIL IS
BSE code:	500325
NSE code:	RELIANCE
FV (Rs):	10

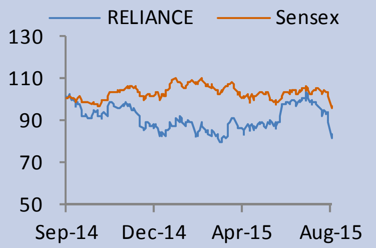
Prices as on September 01, 2015

Company rating grid

Low → High

	1	2	3	4	5
Earnings Growth				■	
Cash Flow				■	
B/S Strength				■	
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern

(%)	Dec-14	Mar-15	Jun-15
Promoter	45.2	45.2	45.2
Insti	30.9	31.4	31.7
Others	23.9	23.4	23.1

Research Analyst:
Prayesh Jain
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Change in ☐ Estimates ☐ Rating ☑ Target

State Bank of India

Loan growth to accelerate; capital position healthy

SBI's domestic loan growth is set to improve from current 5% yoy to 15-17% yoy in FY18 on the back of economic recovery and supported by a healthy capital position. While the near term focus of the bank would remain on retail and large corporate loans, gradual liberalization of growth approach in mid corporate and SME segments (as credit environment improves) and opening up of viable project financing opportunities would add momentum to credit growth. Bank's better Tier-1 ratio (to reach 10% post the announced infusion) and an expected improvement in internal capital generation would support a faster asset growth.

NIM to soften a bit but stabilize thereafter

Near term outlook for domestic NIMs remains soft in the wake of loan mix shift towards safer assets, impact of the announced Base Rate reductions and time lag involved in deposit rate reductions to manifest in overall cost of funding. In the longer term though, SBI has potential levers to defend NIM such as incremental growth also coming from better-priced segments, improvement in CASA ratio, recovery in LDR as the gap between loan-deposit growth narrows and cyclical tailwind from lower delinquencies and higher recoveries.

Asset quality headwinds to alleviate

SBI's asset quality seems to be stabilizing which can be inferred from lower intensity of slippages during H2 FY15 and Q1 FY16. Also, a large number of problematic accounts in Mid-corporate and SME segments have been already recognized and an economic recovery, even if gradual, will abate incremental stress here. Bank's large corporate and retail portfolios are in good shape and have behaved resiliently so far. A healthy PCR of 70% should also cushion credit cost in the future.

Standalone valuation attractive

SBI is well equipped to capitalize on the impending macro upcycle due to a strong loan profile, deposit franchise and capital position. Moderation in credit cost will drive a material improvement in RoA/RoE over the coming years. Thus even a modest 12-13% loan CAGR over FY15-17 should drive a strong 25-26% pa earnings growth. Stripping-off the valuation of associate banks and other financial services subsidiaries, SBI trades at an attractive 1.1x FY17 P/ABV.

Financial summary

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Total operating income	67,835	77,591	83,693	94,393
Yoy growth (%)	12.4	14.4	7.9	12.8
Operating profit (pre-provisions)	32,109	38,913	41,148	46,316
Net profit	10,891	13,102	16,863	20,409
yoy growth (%)	(22.8)	20.3	28.7	21.0
EPS (Rs)	14.6	17.5	22.3	27.0
Adj. BVPS (Rs)	116.7	129.3	152.0	174.3
P/E (x)	16.4	13.6	10.7	8.9
P/Adj.BV (x)	2.0	1.8	1.6	1.4
ROE (%)	10.0	10.6	12.3	13.3
ROA (%)	0.6	0.7	0.8	0.8

Source: Company, India Infoline Research

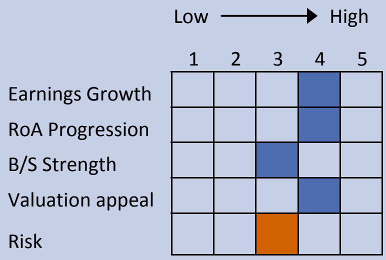
IIFL INDIA PRIVATE CLIENTS

Rating:	BUY
Target:	Rs328
CMP:	Rs239
Upside:	37.2%

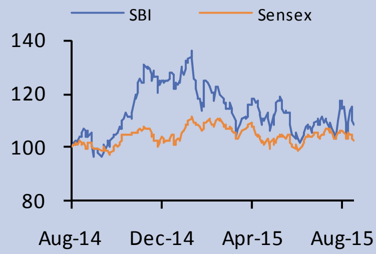
Sector:	Financials
Sector view:	Positive
Sensex:	25,696
52 Week h/l (Rs):	336/235
Market cap (Rscr) :	181,211
6m Avg vol ('000Nos):	16,720
Bloomberg code:	SBIN IB
BSE code:	500112
NSE code:	SBIN
FV (Re):	1

Prices as on September 1, 2015

Company rating grid



Share price trend



Share holding pattern

(%)	Dec-14	Mar-15	Jun-15
Promoter	58.6	58.6	59.2
Insti	31.0	30.4	29.9
Others	10.4	11.0	10.9

Research Analyst:
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Change in ☑ Estimates ☐ Rating ☑ Target

Tata Motors

China: JLR volumes to improve from hereon

The biggest concern for Tata Motors has been the slowdown in China as it impacts JLR (China contributed 26% of the volumes in FY15). The impact was visible in Q1 FY16, wherein China volumes declined by 33% yoy. The impact worsened with, initial weak response to China made Evoque, inadequate price cut post shifting of manufacturing to China and phasing out of Freelander. However, the company is taking steps to correct these by cutting the price further and through new model launches. We believe, the absolute volumes from China will only improve from the levels reported in Q1 FY16.

New launches to drive growth in rest of the world

During, Q1 FY16 ex-China wholesale volumes for JLR increased 20.1% yoy. New launches will only strengthen this momentum. JLR will launch the all new Jaguar XF and Range Rover Evoque in Q2 FY16, the 16 Model Year Jaguar XJ in Q3 FY16 and the Jaguar F-PACE and Evoque Convertible in Q4 FY16. The recent launch of Jaguar XE has received good response and with JLR being absent in this particular segment (Audi's A4 and BMW 3 series), the model has a large potential. We believe XE can drive volumes for Jaguar portfolio as Evoque did to Land Rover portfolio.

Domestic performance will see steady improvement

The M&HCV portfolio of Tata Motors has seen a strong growth driven by a robust replacement demand. This momentum is expected to sustain as fleet operators will raise capacity to serve the demand surge from increase in infrastructure investments and a recovery in industrial activity. The LCV portfolio is also expected to pick up from H2 FY16. The passenger car portfolio after a sharp fall during FY13 and FY14 saw a recovery in FY15 led by new launches. The company has plans to launch two new passenger vehicles every year until FY20, which will drive volumes for the segment.

Favorable risk-reward ratio at FY17E P/E of 5.6x

We are cutting our estimates further to factor in slowdown in China. However, fall of 30% in the past three months has more than factored in the weakness. During FY15-17, we expect an earnings CAGR of 18%. In this light, P/E of 5.6x on FY17 P/E offers a highly favourable risk-reward ratio. We maintain our BUY rating with a revised target price of Rs485.

Financial summary (Consolidated)

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Revenues	232,834	262,796	279,910	312,853
yoy growth (%)	23.3	12.9	6.5	11.8
OPM (%)	15.0	14.9	13.9	15.2
Pre-exceptional PAT	14,976	14,171	12,178	18,989
Reported PAT	13,991	13,986	12,178	18,989
yoy growth (%)	41.4	(0.0)	(12.9)	55.9
EPS (Rs)	46.5	44.0	37.8	59.0
P/E (x)	7.1	7.5	8.7	5.6
Price/Book (x)	1.6	1.9	1.6	1.3
EV/EBITDA (x)	3.9	3.8	3.8	2.8
Debt/Equity (x)	0.9	1.3	1.1	0.8
RoE (%)	29.0	23.3	19.8	25.1
RoCE (%)	22.4	21.0	18.2	21.5

Source: Company, India Infoline Research

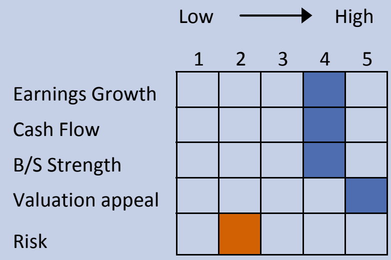
IIFL India Private Clients

Rating:	BUY
Target:	Rs480
CMP:	Rs330
Upside:	45.5%

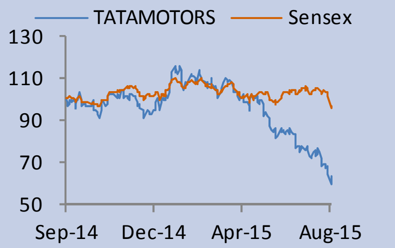
Sector:	**Automobiles**
Sector view:	**Positive**
Sensex:	25,696
52 Week h/l (Rs):	606 / 302
Market cap (Rscr) :	106,608
6m Avg vol ('000Nos):	6,730
Bloomberg code:	TTMT IS
BSE code:	500570
NSE code:	TATAMOTORS
FV (Rs):	2

Prices as on September 01, 2015

Company rating grid



Share price trend



Share holding pattern

(%)	Mar-15	May-15	Jun-15
Promoter	34.3	34.4	34.4
Insti	37.2	37.3	37.0
Others	28.5	28.3	28.7

Research Analyst:
Prayesh Jain
research@indiainfoline.com

'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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