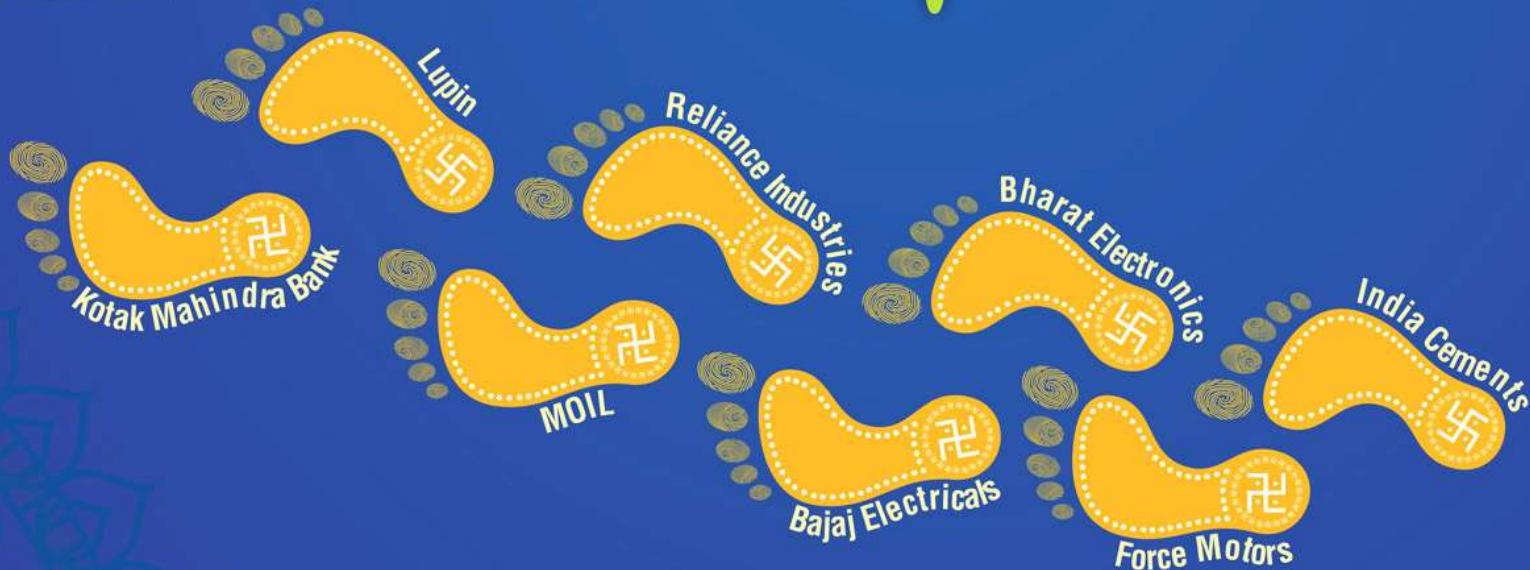




Enrich your
Portfolio with our

DIWALI picks



India - On the road to greatness

As we step into Samvat 2073, India is breaking out of its 'soft' ways, whether it is in geo-politics, economics or governance. This transformation will become increasingly visible in the next few years but we are happy to note that some changes have already taken root. Businesses will no longer live in cosy shelters created by policy, inheritance or lack of choice for consumers. Though we may have many miles to cover but we are certainly on the path where merit will be eventually acknowledged as a crucial component for success. Diligent and capable corporates in growth sectors are positioned for a multi-year breakout. Investors would do well to identify them early, across sectors and sizes.

Meanwhile, the world is in turmoil. From China to Europe and Brazil to the Middle East, every country is facing political, demographic and financial system issues while being under the climate of a macro slowdown. To deal with such a situation, central banks are printing large sums of money and distributing it to the public to stimulate economy, but the results are not encouraging. Instead, falling (and indeed negative) yields on bonds are creating unsustainable asset bubbles. Real and sustainable growth seems elusive almost everywhere, except perhaps in India today!

We are possibly the only large economy equipped with a vision and the necessary tools to improve sustainability in all aspects: demographics, consumption, infrastructure, human development, urbanisation, energy intensity, political evolution, governance and policy. Even with the backdrop of a volatile market, there is little doubt that foreign investors see India favourably. India will continue to attract foreign capital inflows, trading interest, political alignment and strategic friendship from diverse blocs of countries globally.

It is with this vision that we have handpicked investment ideas for you. Every one of these stocks is a good Indian blend of managerial capability, strategic intent and growth opportunities. This Diwali (the festival of lights), we have humbly put together investment ideas that you may be happy (and proud) to hold till the next one!

STOCK RECOMMENDATIONS	CMP	SEQUENTIAL TARGET PRICE
LOW RISK		
Kotak Mahindra Bank	780	854
Lupin	1,505	2,050
MOIL	296	333-354
Reliance Industries	1,064	1,225
MEDIUM RISK		
Bajaj Electricals	264	322-349
Bharat Electronics	1,266	1,525
Force Motors	4,390	4,952
India Cements	155	211-263

Bajaj Electricals

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Household Appliances	Rs.264	Buy at CMP and add on declines	Rs. 264-238	Rs.322-349	TILL NEXT DIWALI

HDFC Scrip Code	BAJELE
BSE Code	500031
NSE Code	BajajElec
Bloomberg	BJE
CMP as on 21 Oct 16	264
Equity Capital (Rs crs)	202
Face Value (Rs)	2
Equity Sh. Outstanding	10.1
Market Cap (Rs crs)	2680
Book Value (Rs)	75
Avg. 52 Week Volumes	388290
52 Week High	280
52 Week Low	155

Shareholding Pattern	
Promoters	63.5
Institutions	15.6
Non Institutions	20.9
Total	100

Kushal Rughani
kushal.rughani@hdfcsec.com

Bajaj Electricals is an Indian consumer electrical equipments manufacturing company based in Mumbai, Maharashtra. Its main segments include lighting, luminaries, appliances, fans, engineering and projects. Lighting includes lamps, tubes and luminaires while consumer durables include appliances and fans.

- Engineering and projects include transmission line towers, telecommunications towers, highmast, poles and special projects. The division has an order book of ~Rs. 2500 cr as on Sep 2016. Bajaj Electricals has a strong brand re-call across India. This is corroborated in its sales which are spread almost equally across all geographies unlike TTK Prestige (50-55% sales from south India), Hawkins (~60% sales from north India) and V-Guard (~65% sales from the southern region); these are strong regional players but struggle at the national level.
- After a lacklustre performance over FY12-15, Bajaj Electricals seems to be back on the growth path. Green shoots are visible across lighting, engineering and projects (E&P) segments, which is evident from the FY16 performance.
- We expect revenue CAGR of 12% over FY16-18E (growth likely to be driven across segments). A better mix and operating leverage will aid in steady EBITDA margin expansion (50bps over FY16-18E). We forecast 41% PAT CAGR over the same period and expect company to post ~Rs. 19 EPS for FY18E.
- A well-entrenched and expanding distribution network (2,200+ distributors, 4,000+ dealers, 5lakh+ retailers) should enable Bajaj to capitalise on demand revival and regain lost market share. Improving cash flows, core WCC, return ratios and reducing debt/equity strengthen our view that the stock deserves higher multiples. Based upon Rs 19 earnings on FY18E; we value the stock ~18x on FY18E earnings and arrive price target of Rs. 322 and Rs. 349 over the next 3-4 quarters.

Financial Summary (Standalone)

(Rs Cr)	FY15	FY16E	FY17E	FY18E
Net Revenues	4258	4612	5105	5790
EBITDA	89	257	297	351
APAT	-14	97	148	197
Diluted EPS (Rs)	-1.4	9.6	14.7	19.5
P/E (x)	-	27.4	18	13.5
EV / EBITDA (x)	33.4	11	8.8	7.5
RoE (%)	-	13.5	18.3	21.2

(Source: Company, HDFC sec)

Income Statement

Year ending March (Rs Cr)	FY15	FY16	FY17E	FY18E
Net Revenues	4258	4612	5105	5790
Growth (%)	5.7	8.3	10.7	13.4
EBITDA	89	257	297	351
EBITDA Margin (%)	2.1	5.6	5.8	6.1
Depreciation	29	26	29	34
Other Income (Including EO Items)	24	25	32	39
Interest	105	101	77	61
PBT	-21	154	223	296
Tax (Incl Deferred)	-7	57	76	101
Reported PAT	-14	97	147	195
APAT Growth (%)	-	-	51.4	32.9
Adjusted EPS (Rs)	-	9.6	14.7	19.5

Cash Flow Statement

Year ending March (Rs Cr)	FY15	FY16	FY17E	FY18E
Reported PBT	-21	154	223	296
Non-operating & EO Items	16	16	21	26
Interest Expenses	105	101	77	61
Depreciation	29	26	29	34
Working Capital Change	37	252	2	-114
Tax Paid	-7	57	76	101
OPERATING CASH FLOW (a)	67	461	234	151
Capex	60	28	42	90
Investments	11	2	7	-
Non-operating Income	16	16	21	26
INVESTING CASH FLOW (b)	-34	-78	-22	-50
Debt Issuance/(Repaid)	61	-213	-43	-29
Interest Expenses	-105	-101	-77	-61
Share Capital Issuance	-	-	-	-
Dividend	-18	-34	-50	-70
FINANCING CASH FLOW (c)	-59	-348	-153	-139
NET CASH FLOW (a+b+c)	-25	34	59	-39

(Source: Company, HDFC sec)

Balance Sheet

As at March (Rs Cr)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Equity Capital	20.2	20.2	20.2	20.2
Reserves	667	731	830	957
Total Shareholders' Funds	687	752	854	980
Total Debt	410	197	154	125
Net Deferred Taxes, LT Provisions, etc.	6.2	6	23	43.3
TOTAL SOURCES OF FUNDS	1103	954	1031	1147
APPLICATION OF FUNDS				
Net Block & CWIP	280	299	295	349
Investments, Goodwill and LT Advances	85	149	157	144
Total Non-current Assets	422	507	504	545
Inventories	475	507	541	602
Debtors	1675	1450	1567	1823
Other Current Assets	167	158	177	188
Cash & Equivalents	41	59	140	102
Creditors	1175	1145	1287	1459
Other Current Liabilities & Provsns	503	582	611	655
Net Current Assets	677	444	520	586
TOTAL APPLICATION OF FUNDS	1103	954	1031	1147

Key Ratios

Year ending March	FY15	FY16	FY17E	FY18E
PROFITABILITY (%)				
EBITDA Margin	2.1	5.6	5.8	6.1
APAT Margin	-	2.1	2.9	3.4
RoE	-	13.5	18.3	21.2
EFFICIENCY				
Fixed Asset Turnover (x)	3.9	4.8	5	5
Net D/E (x)	0.5	0.1	-	-
PER SHARE DATA (Rs)				
EPS	-	9.6	14.7	19.5
CEPS	1.5	12.2	17.8	22.9
Dividend	1.5	2.8	4.1	5.7
VALUATION				
P/E (x)	-	27	18	13.5
EV/EBITDA (x)	33	10.7	8.8	7.5
Dividend Yield (%)	0.6	1.1	1.6	2.2

(Source: Company, HDFC sec)

Bharat Electronics

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Defence	Rs.1266	Buy at CMP and add on declines	Rs. 1266-1140	Rs.1525	TILL NEXT DIWALI

HDFC Scrip Code	BHAELE
BSE Code	500049
NSE Code	BEL
Bloomberg	BHE
CMP as on 21 Oct 16	1266
Equity Capital (Rs crs)	240
Face Value (Rs)	10
Equity Sh. Outstanding	24
Market Cap (Rs crs)	30,667
Book Value (Rs)	374.4
Avg. 52 Week Volumes	62580
52 Week High	1417
52 Week Low	1001

Bharat Electronics which is based out of Bangalore, was established to meet the specialised electronic needs of the Indian defence services. Over the years, the company has emerged as a market leader in the Indian defence electronics segment. The Government of India currently holds 75% stake.

Currently, the defence sector is in the limelight due to the government's strong focus on making defence procurements central to the "Make in India" campaign. The company has ~35% percent market share of India's defence electronics segment and is likely to be one of the biggest beneficiary of the offset clause.

The government notified increase in Foreign Direct Investment (FDI) limit to 49% through approval route in the defense sector, aimed to cut imports by indigenizing defence production.

Outlook and view

- BEL has a strong balance sheet with zero debt and cash balance of Rs. 7553 cr (~25% of market capitalization). It is also paying dividends consistently since 1990. Accelerated order inflow and steady performance makes it a preferred defense play.
- We expect the company's revenues to increase from Rs. 8082 cr in FY16 to Rs. 9655.2 cr in FY18 on the back of strong order inflows and execution of backlog orders over the next two years. With ~P/E 22 on FYE18 we recommend BEL buy at CMP & add on decline of Rs.1140 with the target of Rs. 1525.

Financial Summary (Consolidated)

(Rs Cr)	1QFY17	1QFY16	YoY%	FY14	FY15	FY16E	FY17E	FY18E
Net Revenues	871.4	1099.7	-20.8	6517.9	7092.6	7548.5	8175.1	9009.7
EBITDA	92.1	141.5	-34.9	1359.2	1681.4	2071.1	2263.8	2511.3
APAT	36.1	76.7	-52.9	951.0	1196.3	1394.2	1514.4	1673.4
Diluted EPS (Rs)				118.9	49.9	57.8	63.3	70.3
P/E (x)				10.6	25.3	21.8	19.9	17.9
EV / EBITDA (x)				16.7	13.5	11.0	10.0	9.0
RoE (%)				13.9	15.6	16.2	16.0	16.1

(Source: Company, HDFC sec)

Shareholding Pattern	
Promoters	75.0
Institutions	18.5
Non Institutions	6.5
Total	100

Nisha Sankhala

nishaben.shankhala@hdfcsec.com

Income Statement

Year ending March (Rs Cr)	FY15	FY16	FY17E	FY18E
Net Revenues	7599.4	8082.0	8767.2	9655.2
Growth (%)	9.3	6.4	8.5	10.1
EBITDA	1681.4	2071.1	2263.8	2511.3
EBITDA Margin (%)	23.7	23.2	9.3	10.9
Depreciation	166.2	199.6	228.5	261.2
Interest	2.7	6.2	8.1	9.9
PBT	1512.5	1865.4	2027.3	2240.2
Tax (Incl Deferred)	316.2	471.2	512.9	566.8
APAT	1196.3	1394.2	1514.4	1673.4
APAT Growth (%)	25.8	15.8	9.2	10.5
Adjusted EPS (Rs)	49.9	57.8	63.3	70.3

Cash Flow Statement

Year ending March (Rs Cr)	FY15	FY16	FY17E	FY18E
Reported PBT	1,513.3	1,857.7	2,027.3	2,240.2
Non-operating & EO Items	-589.6	-880.5	-592.2	-645.5
Interest Expenses	2.7	6.2	8.1	9.9
Depreciation	166.2	199.6	228.5	261.2
Working Capital Change	566.4	1,317.9	-886.9	-1,392.5
Tax Paid	-316.2	-471.2	-512.9	-566.8
OPERATING CASH FLOW (a)	1,342.6	2,029.6	271.8	-93.5
Capex	-210.5	-572.9	-400.0	-410.0
Investments	-42.4	-300.9	-400.5	-201.7
Non-operating Income	506.7	533.5	592.2	645.5
INVESTING CASH FLOW (b)	253.8	-340.4	-208.3	33.8
Debt Issuance/(Repaid)	70.9	81.3	77.2	59.2
Interest Expenses	-2.7	-6.2	-8.1	-9.9
Share Capital Issuance	2.3	158.7	0.0	0.0
Dividend	-233.6	-408.0	-528.0	-672.0
FINANCING CASH FLOW (c)	-163.0	-174.3	-458.8	-622.7
NET CASH FLOW (a+b+c)	1,433.4	1,515.0	-395.4	-682.4
Closing Cash & Equivalents	6,037.9	7,552.9	7,157.5	6,475.1

(Source: Company, HDFC sec)

Balance Sheet

As at March (Rs Cr)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Equity Capital	80.0	240.0	240.0	240.0
Reserves	8036.8	8746.1	9732.4	10733.9
Total Shareholders Funds	8116.8	8986.1	9972.4	10973.9
Total Debt	0.4	0.3	0.3	0.3
Net Deferred Taxes, LT Provisions, etc.	642.2	698.7	779.4	842.2
TOTAL SOURCES OF FUNDS	8759.4	9685.0	10752.1	11816.4
APPLICATION OF FUNDS				
Net Block & CWIP	1213.3	1664.5	1836.0	1984.8
Investments, Goodwill and LT Advances	506.4	807.3	1207.8	1409.5
Total Non-current Assets	1719.7	2471.8	3043.8	3394.3
Inventories	3424.2	4212.8	4210.7	4739.4
Debtors	3805.3	3740.7	4255.5	4813.4
Other Current Assets & ST Advances	738.4	546.4	506.5	469.4
Cash & Equivalents	6037.9	7552.9	7157.5	6475.1
Creditors	1184.3	1193.6	1427.9	1543.4
Other Current Liabilities & Provns	5781.9	7645.9	6994.0	6531.9
Net Current Assets	7039.7	7213.2	7708.3	8422.1
TOTAL APPLICATION OF FUNDS	8759.4	9685.0	10752.1	11816.4

Key Ratios

Year ending March	FY15	FY16	FY17E	FY18E
PROFITABILITY (%)				
EBITDA Margin	23.7	27.4	27.7	27.9
APAT Margin	16.9	18.4	18.5	18.6
RoE	15.6	16.2	16.0	16.1
EFFICIENCY				
Net D/E (x)	-0.7	-0.8	-0.7	-0.6
PER SHARE DATA (Rs)				
EPS	49.9	57.8	63.3	70.3
CEPS	170.4	66.1	72.8	81.2
Dividend	29.2	17.0	22.0	28.0
VALUATION				
P/E (x)	25.3	21.8	19.9	17.9
EV/EBITDA (x)	13.5	11.0	10.0	9.0
Dividend Yield (%)	2.3	1.3	1.7	2.2

(Source: Company, HDFC sec)

Force Motors

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Autos	Rs.4,390	Buy at CMP and add on declines	Rs. 3,865-4,040	Rs.4,952	TILL NEXT DIWALI

HDFC Scrip Code	FORMOT
BSE Code	FORCEMOT
NSE Code	-
Bloomberg	FML IN
CMP as on 21 Oct 16	4,390
Equity Capital (Rs crs)	13.20
Face Value (Rs)	10.00
Equity Sh. Outstanding	1.32
Market Cap (Rs crs)	5785.60
Book Value (Rs)	1482.40
Avg. 52 Week Volumes	31,886.00
52 Week High (Rs)	4,525.00
52 Week Low (Rs)	2,180.00

Shareholding Pattern	
Promoters	60.12
Institutions	5.73
Non Institutions	34.15
Total	100.00

Abhishek Jain
abhishekkumar.jain@hdfcsec.com

Sneha Prashant
sneha.prashant@hdfcsec.com

Force Motors Ltd (FML), a vertically integrated auto company with in-house expertise in design, development and assembly of automobiles and components is poised to grow over the next few years on the back of growing prospects of the luxury car and LCV market.

FML has a sticky relationship with global auto giants Mercedes (since 1997) and BMW for assembly and supply of powertrain components (engines, gearbox, axles and shafts). We expect FML to enjoy significant growth in this sub-contracting business with revenue CAGR of 27% over FY16-19E owing to increasing penetration of luxury cars in total PV sales (to improve from current 1.3% to <2% by 2020).

We expect strong traction from the auto business (LCVs, SCVs, MUVs and tractors) owing to new variants from the stable of the LCV Traveller, market share gains (70%+ share in <5 tonne LCV passenger segment) and robust revenue growth (16% CAGR over FY16-19E). The reason for Traveller's success is its versatility and a monocoque design structure (normally in cars and SUVs) which leads to better performance, fuel efficiency and guarantees a superior and comfortable ride.

Key highlights

- In H1FY17, total auto volumes increased by 11.3% YoY to 16,550 units on the back of 11% growth in LCVs (driven by Traveller) and strong growth in 3Ws. Given the good traction in LCV Traveller and revival in tractor demand, we estimate 10.6% volume growth rate for FY17E (ask rate for H2FY17 is 10%).
- Outlook and view:** We recommend a BUY on FML with a TP of Rs. 4,952 (22x on Sept-18E). Our target multiple for FML (at a 33% premium to its historical mean) is premised on its robust earnings outlook, margin expansion, lean balance sheet (debt free with cash of Rs 241/share as on Mar-16) and improving return ratios as asset sweating rises with volumes. Long-term investors could hold on to the stock with a TP of Rs 8,556 (25x on FY20E).

Financial Summary (Rs Mn)

(Rs mn)	FY15	FY16	FY17E	FY18E
Net Revenues	23,637	30,601	36,166	43,080
EBITDA	1,470	2,744	3,255	4,093
APAT	1,013	1,796	2,059	2,522
Diluted EPS (Rs)	77.3	137.1	157.2	192.5
P/E (x)	56.8	32.0	27.9	22.8
EV / EBITDA (x)	37.4	19.9	16.9	13.3
RoE (%)	8.0	12.8	13.1	14.1

(Source: Company, HDFC sec)

Income Statement

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Net Revenues	23,637	30,601	36,166	43,080
Growth (%)	16.9	29.5	18.2	19.1
EBITDA	1,470	2,744	3,255	4,093
EBITDA Margin (%)	6.2	9.0	9.0	9.5
Depreciation	813	919	1,052	1,154
Other Income (Including EO Items)	658	714	658	665
Interest	66	43	-	-
PBT	1,249	2,496	2,860	3,603
Tax (Incl Deferred)	236	700	801	1,081
Reported PAT	1,013	1,796	2,059	2,522
EO Items	-	-	-	-
APAT	1,013	1,796	2,059	2,522
APAT Growth (%)	30.3	77.3	14.7	22.5
Adjusted EPS (Rs)	77.3	137.1	157.2	192.5

Cash Flow Statement

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Reported PBT	1,249	2,496	2,860	3,603
Non-operating & EO Items	(658)	(714)	(658)	(665)
Interest Expenses	66	43	-	-
Depreciation	813	919	1,052	1,154
Working Capital Change	140	(647)	(214)	(615)
Tax Paid	(36)	(289)	(801)	(1,081)
OPERATING CASH FLOW (a)	1,524	1,792	2,194	2,341
Capex	(1,095)	(2,126)	(3,019)	(2,445)
Investments	-	9	(9)	-
Non-operating Income	658	714	658	665
INVESTING CASH FLOW (b)	(437)	(1,402)	(2,370)	(1,780)
Debt Issuance/(Repaid)	(97)	(81)	(26)	-
Interest Expenses	(66)	(43)	-	-
Share Capital Issuance	-	-	-	-
Dividend	(55)	(109)	(111)	(136)
FINANCING CASH FLOW (c)	(217)	(233)	(138)	(136)
NET CASH FLOW (a+b+c)	870	156	(313)	425
EO Items, Others	-	-	-	-
Closing Cash & Equivalents	3,031	3,186	2,873	3,298

(Source: Company, HDFC sec)

Balance Sheet

As at March (Rs mn)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Equity Capital	132	132	132	132
Reserves	13,037	14,693	16,595	18,926
Total Shareholders Funds	13,169	14,824	16,727	19,057
Total Debt	107	26	-	-
Net Deferred Taxes, LT Provisions, etc.	498	942	942	942
TOTAL SOURCES OF FUNDS	13,774	15,807	17,684	20,014
APPLICATION OF FUNDS				
Net Block & CWIP	9,663	10,586	12,552	13,843
Investments, Goodwill and LT Advances	122	209	491	698
Total Non-current Assets	9,785	10,795	13,043	14,541
Inventories	3,925	5,475	5,556	6,685
Debtors	1,087	1,504	1,531	2,124
Other Current Assets	1,889	2,014	2,206	2,628
Cash & Equivalents	3,030	3,186	2,873	3,298
Creditors	3,928	4,172	4,787	6,017
Other Current Liabilities & Provs	2,014	2,994	2,738	3,246
Net Current Assets	3,989	5,012	4,641	5,473
TOTAL APPLICATION OF FUNDS	13,774	15,807	17,684	20,014

Key Ratios

Year ending March	FY15	FY16	FY17E	FY18E
PROFITABILITY (%)				
EBITDA Margin	6.2	9.0	9.0	9.5
APAT Margin	4.3	5.9	5.7	5.9
RoE	8.0	12.8	13.1	14.1
EFFICIENCY				
Fixed Asset Turnover (x)	1.5	1.8	1.9	2.0
Net D/E (x)	(0.2)	(0.2)	(0.2)	(0.2)
PER SHARE DATA (Rs)				
EPS	77.3	137.1	157.2	192.5
CEPS	138.5	206.0	236.1	278.9
Dividend	5.0	10.0	10.2	12.4
VALUATION				
P/E (x)	56.8	32.0	27.9	22.8
EV/EBITDA (x)	37.4	19.9	16.9	13.3
Dividend Yield (%)	0.1	0.2	0.2	0.3

(Source: Company, HDFC sec)

India Cements

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Cement	Rs. 155	Buy at CMP and add on declines	Rs. 123-134	Rs. 211.5-263	TILL NEXT DIWALI

HDFC Sec Scrip Code	INDCEMEQNR
BSE Code	530005
NSE Code	INDIACEM
Bloomberg	ICEM IN
CMP (as on 21 Oct, 16)	Rs. 155
Equity Capital (Rs crs)	307.2
Face Value (Rs)	10.00
Equity Sh Outstanding crs	30.72
Market Cap (Rs crs)	4761.3
Book Value (Rs)	111.7
Avg. 52 Week Volumes	4601724
52 Week High	Rs. 164.2
52 Week Low	Rs. 63.9

Shareholding Pattern % (June 2016)	
Promoters	28.63
Institutions	41.81
Non Institutions	29.56
Total	100.00

India Cements Ltd (ICL) is the largest producer of cement in South India and one of the largest cement manufacturers in the country with a consolidated installed cement manufacturing capacity of 15.55 mtpa. About 50 percent of ICL's cement is sold in Tamil Nadu and Kerala, 10-12 percent in Karnataka, about 13-14 percent in Maharashtra and about 12-14 percent in Andhra Pradesh and the remaining is sold in Rajasthan, Gujarat, some parts of Madhya Pradesh and Chhattisgarh

Key highlights

- India Cements was once a torch bearer of cement industry, especially in the South. However due to the distractions of the promoters in sports and other activities, focus on the company and the group came down. The promoter over the past 1-2 quarters has started to take corrective steps. He has started meeting the investor community, heard their concerns and reportedly assured fast corrective actions (including bringing down debt, unwinding of investments/loans to group companies, improving manufacturing efficiencies etc).
- With an improved demand outlook, better focus and stable/better realizations, we expect profitability to mend - resulting in greater capacity utilisation from present levels.
- Outlook and view:** We think we can take a bet on the changes promised to be implemented by the management especially given the fact that the current valuations (EV/tonne) of the company as per FY16 consolidated results stands at ~\$70 is quite low compared to its peers. As the component of debt in the EV/tonne is high, repayment of debt aided by the above will lead to more than proportionate increase in the equity component of EV/Ton for ICL. ICL owns 26,000 acres of land (mainly limestone mines related – apart from ~250 acres that can be monetized) which means that brownfield/greenfield expansion in cement can be made at a lower costs when acquiring fresh limestone mines is becoming a challenge.
- At the CMP of Rs. 155 Indian Cements quotes at EV/ton of \$70. We think that investors could buy the stock at the CMP and add on declines to Rs. 123-134 band (~EV/Ton of \$56 & ~ 10.8x FY18E EPS) for sequential targets of Rs. 211.5 (~EV/Ton of \$80 ~ 17.7x FY18E EPS) and Rs. 263 (~EV/Ton of \$95 ~ 22x FY18E EPS) over 2-3 quarters. The EV/ton of its more efficient comparable peer Ramco Cements in FY18 is expected to be \$175.

Financial Summary (Consolidated)

(Rs mn)	FY15	FY16	FY17E	FY18E
Net Revenues	50,827	48,896	49,936	55,481
EBITDA	7,851	8,908	9,887	11,374
APAT	-33	1,344	2,227	3,664
Diluted EPS (Rs)	-0.1	4.4	7.3	11.9
P/E (x)	-	35.4	21.4	13.0
EV / EBITDA (x)	9.9	8.3	7.2	5.9
RoE (%)	-0.1	3.9	6.2	9.4

(Source: Company, HDFC sec)

Income Statement

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Net Revenues	50,827	48,896	49,936	55,481
Growth (%)	0	-4	2	11
EBITDA	7,851	8,876	9,887	11,374
EBITDA Margin (%)	15.4	18.2	19.8	20.5
Depreciation	3,029	2,639	2,765	2,788
Other Income (Including EO Items)	2	0	10	20
Interest	4,781	4,208	3,765	3,147
PBT	44	2,029	3,367	5,458
Tax (Incl Deferred)	56	688	1,145	1,801
Reported PAT before MI	-12	1,340	2,222	3,657
EO Items	0	0	0	0
Reported PAT after MI	-33	1,344	2,227	3,664
APAT Growth (%)	-	LTP	66	65
Adjusted EPS (Rs)	-0.1	4.4	7.3	11.9

Cash Flow Statement

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Reported PBT	44	2029	3367	5458
Non-operating & EO Items	2	0	10	20
Interest Expenses	4,781	4208	3765	3147
Depreciation	3,029	2639	2765	2788
Working Capital Change	-3848	2017	959	-248
Tax Paid	55	688	1145	1801
OPERATING CASH FLOW (a)	4063	11581	12011	12966
Capex	894	-854	-4202	-3579
Investments	6	26	88	90
Non-operating Income	2	0	10	20
INVESTING CASH FLOW (b)	902	-828	-4104	-3469
Debt Issuance/(Repaid)	600	-3385	-2416	-3676
Interest Expenses	-4,781	-4208	-3765	-3147
Share Capital Issuance	0	0	0	0
Dividend	0	370	462	555
FINANCING CASH FLOW (c)	-4181	-7223	-5719	-6268
NET CASH FLOW (a+b+c)	784	3530	2188	3229

(Source: Company, HDFC sec)

Balance Sheet

As at March (Rs mn)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Equity Capital	3,072	3,072	3,072	3,072
Reserves	30,734	31,230	32,995	36,104
Total Shareholders Funds	33,806	34,302	36,067	39,176
Total Debt	29,782	26,398	23,982	20,305
Net Deferred Taxes, LT Provisions, etc.	5,018	5,393	6,207	6,886
TOTAL SOURCES OF FUNDS	68,606	66,093	66,256	66,367
APPLICATION OF FUNDS				
Net Block & CWIP	46,973	44,915	46,352	47,143
Investments, Goodwill and LT Advances	21,968	22,925	22,089	20,772
Total Non-current Assets				
Inventories	6,761	6,664	6,997	7,696
Debtors	5,160	5,645	5,927	6,639
Other Current Assets	5,940	5,450	5,177	5,695
Cash & Equivalents	72	362	601	694
Creditors	9,483	10,127	10,633	11,484
Other Current Liabilities & Provns	8,785	9,742	10,255	10,789
Net Current Assets	-335	-1,748	-2,186	-1,548
TOTAL APPLICATION OF FUNDS	68,606	66,093	66,256	66,367

Key Ratios

Year ending March	FY15	FY16	FY17E	FY18E
PROFITABILITY (%)				
EBITDA Margin	15.4	18.2	19.8	20.5
APAT Margin	-0.1	2.7	4.5	6.6
RoE	-0.1	3.9	6.2	9.4
EFFICIENCY				
Fixed Asset Turnover (x)	1.1	1.1	1.1	1.2
Net D/E (x)	0.9	0.8	0.7	0.5
PER SHARE DATA (Rs)				
EPS	-0.1	4.4	7.3	11.9
CEPS	9.8	13.0	16.3	21.0
Dividend	0	1	1.3	1.5
VALUATION				
P/E (x)	-	35.4	21.4	13.0
EV/EBITDA (x)	9.8	8.3	7.2	5.9
Dividend Yield (%)	0	0.6	0.8	1.0

(Source: Company, HDFC sec)

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Banking	Rs.780	Buy at CMP and add on declines	Rs. 700-725	Rs.854	TILL NEXT DIWALI

HDFC Scrip Code	KOTMAH
BSE Code	500247
NSE Code	KOTAKBANK
Bloomberg	KMB
CMP as on 21 Oct 16	780.0
Equity Capital (Rs crs)	917.8
Face Value (Rs)	5.0
Equity Sh. Outstanding	1835.6
Market Cap (Rs crs)	143308
Book Value (Rs)	155
Avg. 52 Week Volumes	153,568
52 Week High	825.6
52 Week Low	586.5

Shareholding Pattern	
Promoters	33.65
Institutions	40.75
Non Institutions	25.60
Total	100.00

Darpin Shah
darpin.shah@hdfcsec.com

Parul Gulati
parul.gulati@hdfcsec.com

Kotak Mahindra Bank encapsulates most of the virtues that should characterise a high quality Indian bank. Its core lending business has sustainably high spreads, durable fee streams and tightly controlled asset quality on a strategically constructed loan mix. The bank is well capitalised at 16.3% (with Tier I at 15.8%). A market leading (and synergistic) securities and IB practice align it well with cyclical tailwinds. Asset management and insurance businesses look surprisingly small (given the evolution in other verticals) but are now well positioned to outpace system growth.

Valuations are expectedly high at 3.9x standalone FY18E ABV, adjusted for subs at 20% holdco discount. Our SoTP of Rs 854 assigns 4.5x to standalone FY18E ABV and lower multiples of 3.5/3x to the auto-finance/LAS verticals. Maintain BUY. To us, KMB represents a high-quality and broad-based play on Indian financial services and not just banks.

Key 1QFY17 highlights

- **Integration weighs on growth:** Loan growth (~17% YoY) was a tad lower than estimates, attributable to business banking (-6% QoQ). We estimate 19% loan CAGR over FY16-18E with the integration process now behind, along with healthy Tier-I capital and CV cycle acceleration.
- **Healthy SA trend:** CASA grew 31% YoY (37.4% of deposits +310bps YoY) led by SA growth ~34% YoY. The differential SA rate offering will keep this accretion steadily ahead of peers.
- **Asset quality impeccable:** Net stressed assets (restructured + NNPA) are still at a mere 1.3%, with sharp decline in restructured book. SMA-II increased to 39bps attributable to an e-VYSB exposure, which has since been recovered.
- **Outlook and view:** With the e-VYSB integration nearing completion (costs and management bandwidth), and a gradual uptick in macros, we foresee core improvement led by (1) Loan growth, (2) Improving operating leverage, and (3) LLP reverting to normalised levels. ROAA will rise to 1.64% by FY18E (1.41% in FY16).

Financial Summary (Standalone)

Year Ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Net Interest Income	42,237	69,004	86,639	99,807
PPOP	29,975	40,411	57,948	68,440
PAT	18,660	20,898	32,776	39,928
EPS (Rs)	24.2	11.4	17.9	21.8
Core ROAE (%)	14.1	11.0	12.9	14.4
Core ROAA (%)	1.94	1.41	1.58	1.64
Core Adj. BVPS (Rs)	168	120	136	155
P/E (x)	22.1	58.1	36.0	28.6
P/Adj BV (x)	3.18	5.54	4.75	4.02

(Source: Company, HDFC sec)

Income Statement

(Rs mn)	FY15	FY16	FY17E	FY18E
Interest Earned	97,199	163,842	207,534	241,132
Interest Expended	54,961	94,838	120,895	141,325
Net Interest Income	42,237	69,004	86,639	99,807
Other Income	20,285	26,122	33,426	39,242
Fee Income (CEB)	12,263	17,644	21,583	26,565
Treasury Income	3,148	2,132	4,250	3,750
Total Income	62,522	95,126	120,065	139,048
Total Operating Exp	32,547	54,715	62,117	70,608
Employee Expense	14,667	28,170	31,295	35,320
PPOP	29,975	40,411	57,948	68,440
Provisions	1,645	9,174	8,734	8,488
Prov. for NPAs	2,582	7,478	7,734	7,988
PBT	28,330	31,237	49,213	59,952
Provision for Tax	9,670	10,339	16,437	20,024
PAT	18,660	20,898	32,776	39,928

Valuation Ratio	FY15	FY16	FY17E	FY18E
EPS (Rs)	24.2	11.4	17.9	21.8
Earnings growth (%)	24.2	12.0	56.8	21.8
BVPS	176.0	126.4	142.0	160.9
Adj. BVPS (Core)	168.1	119.5	135.6	154.8
ROAA (%)	1.94	1.41	1.58	1.64
ROAE (%)	14.1	11.0	12.9	13.9
P/E (x)	22.1	58.1	36.0	28.6
P/ABV (x)	3.18	5.54	4.75	4.02
P/PPOP (x)	10.0	17.7	12.3	10.5
Dividend Yield (%)	0.1	0.1	0.1	0.1

Asset Quality	FY15	FY16	FY17E	FY18E
Gross NPLs (Rs bn)	12.4	28.4	31.4	32.6
Net NPLs (Rs bn)	6.1	12.6	11.6	11.1
Gross NPLs (%)	1.9	2.4	2.2	1.9
Net NPLs (%)	0.9	1.1	0.8	0.7
Coverage Ratio (%)	50.8	55.5	63.0	65.9
Provision/Loans (%)	0.4	0.8	0.6	0.5

(Source: Company, HDFC sec)

Balance Sheet

As at March (Rs mn)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Share Capital	3,862	9,172	9,172	9,172
Reserves	137,579	230,419	259,692	295,310
Shareholder's Funds	141,441	239,591	268,864	304,482
Savings	140,361	294,947	405,552	539,385
Current	131,813	232,817	256,098	281,708
Term Deposit	476,429	858,666	993,071	1,156,923
Total Deposits	748,603	1,386,430	1,654,721	1,978,016
Borrowings	121,497	209,787	230,763	253,836
Other Liabilities & Prov	48,580	86,790	95,469	105,015
Total Liabilities	1,060,121	1,922,598	2,249,817	2,641,348
APPLICATION OF FUNDS				
Cash & Bank Balance	62,624	108,797	134,026	155,521
Investments	286,591	512,602	581,255	668,418
G-Secs	228,817	407,610	471,596	553,844
Advances	661,607	1,186,653	1,410,650	1,681,313
Fixed Assets	12,067	15,516	17,068	18,774
Other Assets	37,232	99,067	106,818	117,322
Total Assets	1,060,121	1,922,635	2,249,817	2,641,348

Profitability and Other Ratios	FY15	FY16	FY17E	FY18E
Yield on Advances (%)	12.5	13.5	12.4	12.2
Cost of Deposits (%)	6.8	7.4	6.6	6.5
Core Spread (%)	5.6	5.8	5.5	5.4
NIM (%)	4.7	4.4	4.6	4.5
Cost/Avg. Asset Ratio (%)	3.4	3.7	3.0	2.9
Cost-Income Ratio (Excl Treasury)	54.8	58.8	53.6	52.2
Loan Growth (%)	24.8	79.4	18.9	19.2
Deposit Growth (%)	26.7	85.2	19.4	19.5
C/D Ratio (%)	88.4	85.6	85.3	85.0
Equity/Assets (%)	13.3	12.5	12.0	11.5
Equity/Advances (%)	21.4	20.2	19.1	18.1
CASA (%)	36.4	38.1	40.0	41.5
Total Capital Adequacy Ratio (CAR)	17.2	16.3	15.4	14.9
Tier I CAR	16.2	15.2	14.9	14.5

(Source: Company, HDFC sec)

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Pharmaceuticals	Rs.1,505	Buy at CMP and add on declines	Rs. 1,350-1,400	Rs. 2,050	TILL NEXT DIWALI

HDFC Scrip Code	LUPLTD
BSE Code	500257
NSE Code	LUPIN
Bloomberg	LPC IN
CMP as on 21 Oct 16	1,499
Equity Capital (Rs crs)	90.20
Face Value (Rs)	2.00
Equity Sh. Outstanding	45.10
Market Cap (Rs crs)	67,857.90
Book Value (Rs)	10,984.40
Avg. 52 Week Volumes	78,741.00
52 Week High (Rs)	2,096.30
52 Week Low (Rs)	1,294.00

Shareholding Pattern	
Promoters	46.74
Institutions	41.85
Non Institutions	11.41
Total	100.00

Amey Chalke
amey.chalke@hdfcsec.com

After a 25-28% fall from its peak, we believe most of the negatives are priced in for LPC and present a great opportunity to BUY this stock at attractive valuations (below 18x on FY18E EPS).

- **Multiple triggers in place in the US** - A robust ANDA pipeline (160+), windfall profits from gGlumetza and gFortamet in FY17, and the addition of the Gavis portfolio will drive US business at 28% CAGR over FY16-18E. We also expect LPC to launch 40+ products in the US over FY17-18E.
- **India business robust and growing:** Thrust on chronic therapies like Anti-diabetes, CNS, Cardiac, Derma and Respiratory will drive 16-17% revenue CAGR over FY16-18E. Shifting product mix towards chronic drugs will also improve the profitability of the India business.
- **Better profitability with sustainable cashflows** - We believe margins are likely to improve from 26.4% in FY16 to 28.7% in FY18E, led by (1) Exclusivity in key products, (2) Acquisition of the profitable Gavis portfolio, and (3) Operational efficiency (despite investing ~US\$ 750mn in R&D over FY16-18E). We also expect LPC to generate ~US\$ 750mn free cash flows over FY17-18, resulting in net debt of a mere Rs. 7.5bn in FY18 (v/s Rs. 62.8bn now).

Key Highlights

- **2QFY17 expectations:** Top line will grow 33%YoY and EBITDA margins will be around 28% in 2QFY17E, largely on account of strong benefits flowing from gGlumetza and gFortamet. India business is likely to grow at 13-14%YoY, driven by a strong season for the acute segment and growing chronic portfolio. US revenue will be down sequentially at US\$295mn (vs US\$ 327mn in 1QFY17), although growth on YoY basis will be 65% approximately.
- **Outlook and valuation:** At CMP, the stock is trading at 21.3x FY17E EPS and 17.7x FY18E EPS, a hefty 25% discount to the trailing three-year average multiple. US FDA clearance for the Goa facility would be the key trigger in the near term.

Financial Summary (Standalone)

(Rs mn)	FY15	FY16E	FY17E	FY18E
Net Revenues	1,27,700	1,42,085	1,83,273	2,12,869
EBITDA	36,196	37,534	52,416	61,093
APAT	24,032	22,706	31,807	38,307
Diluted EPS (Rs)	53.5	50.4	70.5	85.0
P/E (x)	28.1	29.9	21.3	17.7
EV / EBITDA (x)	32.2	12.4	19.2	15.1
RoE (%)	30.4	22.9	25.8	24.9

(Source: Company, HDFC sec)

Income Statement

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Net Revenues	1,27,700	1,42,085	1,83,273	2,12,869
Growth (%)	13.1	11.3	29.0	16.1
EBITDA	36,196	37,534	52,416	61,093
EBITDA Margin (%)	28.3	26.4	28.6	28.7
Depreciation	4,347	4,635	9,185	10,346
Other Income (Including EO Items)	2,398	1,877	2,500	3,800
Interest	98	447	1,342	1,194
PBT	34,148	34,329	44,389	53,354
Tax (Incl Deferred)	9,704	11,536	12,207	14,672
Reported PAT	24,444	22,794	32,182	38,682
EO Items	-	-	-	-
APAT	24,032	22,706	31,807	38,307
APAT Growth (%)	30.87	-5.52	40.09	20.43
Adjusted EPS (Rs)	53.46	50.39	70.54	84.96

Cash Flow Statement

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Reported PBT	34,148	34,329	44,389	53,354
Non-operating & EO Items	(129)	(36)	(2,561)	(3,576)
Interest Expenses	98	447	1,342	1,194
Depreciation	4,347	4,635	9,185	10,346
Working Capital Change	7,364	(34,084)	(1,485)	(3,208)
Tax Paid	(10,300)	(11,479)	(12,207)	(14,672)
OPERATING CASH FLOW (a)	35,528	(6,188)	38,663	43,437
Capex	(16,726)	(70,670)	(23,045)	(11,500)
Investments	(14,799)	16,509	(75)	(75)
Non-operating Income	131	189	2,561	3,576
INVESTING CASH FLOW (b)	(31,395)	(53,972)	(20,558)	(7,999)
Debt Issuance/(Repaid)	(1,282)	66,483	(1,120)	(7,500)
Interest Expenses	(98)	(447)	(1,342)	(1,194)
Share Capital Issuance	(1,766)	2,343	1	-
Dividend	(3,681)	(3,954)	(4,748)	(4,748)
FINANCING CASH FLOW (c)	(6,828)	64,425	(7,209)	(13,442)
NET CASH FLOW (a+b+c)	(2,694)	4,265	10,895	21,996
EO Items, Others	(467)	(700)	-	-
Closing Cash & Equivalents	(3,161)	3,565	10,895	21,996

(Source: Company, HDFC sec)

Balance Sheet

As at March (Rs mn)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Equity Capital	899	901	902	902
Reserves	87,842	1,08,943	1,36,002	1,69,561
Total Shareholders Funds	88,741	1,09,844	1,36,904	1,70,463
Total Debt	4,710	71,193	70,073	62,573
Net Deferred Taxes, LT Provisions, etc.	1,182	1,239	1,239	1,239
TOTAL SOURCES OF FUNDS	97,370	1,86,247	2,12,562	2,38,996
APPLICATION OF FUNDS				
Net Block & CWIP	33,381	91,501	1,05,239	1,06,394
Investments, Goodwill and LT Advances	35,390	34,301	34,544	34,619
Total Non-current Assets	68,771	1,25,801	1,39,783	1,41,013
Inventories	25,036	31,787	34,309	38,221
Debtors	26,566	45,498	43,957	46,798
Other Current Assets	5,350	12,106	10,349	11,410
Cash & Equivalents	4,814	8,379	19,274	41,270
Creditors	19,561	21,919	21,113	24,267
Other Current Liabilities & Provns	13,605	15,406	13,997	15,449
Net Current Assets	28,599	60,446	72,779	97,983
TOTAL APPLICATION OF FUNDS	97,370	1,86,247	2,12,562	2,38,996

Key Ratios

Year ending March	FY15	FY16	FY17E	FY18E
PROFITABILITY (%)				
EBITDA Margin	28.3	26.4	28.6	28.7
APAT Margin	18.8	16.0	17.4	18.0
RoE	30.4	22.9	25.8	24.9
EFFICIENCY				
Fixed Asset Turnover (x)	2.8	2.5	2.5	2.5
Net D/E (x)	0.0	0.6	0.4	0.1
PER SHARE DATA (Rs)				
EPS	53.5	50.4	70.5	85.0
CEPS	197.4	243.8	303.6	378.1
Dividend	7.0	7.5	9.0	9.0
VALUATION				
P/E (x)	28.1	29.9	21.3	17.7
EV/EBITDA (x)	18.7	19.7	13.9	11.5
Dividend Yield (%)	0.5	0.5	0.6	0.6

(Source: Company, HDFC sec)

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Mining	Rs. 296	Buy at CMP and add on declines	Rs. 273-280	Rs. 333-354	TILL NEXT DIWALI

HDFC Sec Scrip Code	MOILLTDEQNR
BSE Code	533286
NSE Code	MOIL
Bloomberg	MOIL IN
CMP (as on 21 Oct, 16)	Rs. 296
Equity Capital (Rs crs)	133
Face Value (Rs)	10.00
Equity Sh Outstanding crs	13.3
Market Cap (Rs crs)	3936.8
Book Value (Rs)	205.6
Avg. 52 Week Volumes	126098
52 Week High	Rs. 301.0
52 Week Low	Rs. 179.5

Shareholding Pattern % (11 th Oct 2016)	
Central/State Govt	75.58
Institutions	12.67
Non Institutions	11.75
Total	100.00

MOIL Limited (formerly Manganese Ore India Limited) is a mini ratna state-owned manganese-ore mining company headquartered in Nagpur, India. MOIL operates 10 mines, 6 located in Nagpur and Bhandara districts of Maharashtra and 4 in the Balaghat district of Madhya Pradesh. Of the 10, 7 are underground mines and 3 are opencast mines. MOIL is also one of the lowest cost producers of manganese ore in the world. At present MOIL is having a total mining lease over an area of 1613.611 hectares out of which 699.066 hectares are in Maharashtra and 914.545 hectares are in Madhya Pradesh. It is the largest producer of manganese ore with a 50% market share in India and 5th largest globally.

Key highlights

- The price of seaborne manganese ore has surged more than 60% over the past three weeks and more than 130% since July 2016 lows to its highest level since early 2013 on rising Chinese demand for imported supply from spot market.
- Imposition of MIP and recent extension of safeguard duties on HRC till March'18 would enable larger steel companies to regain the domestic market share from imports, leading to increase in manganese ore volumes. Domestic steel capacities of ~17mtpa by larger steel players are expected to be commissioned over FY16-FY18 driving ore demand. MOIL is well positioned to capitalize on the increased demand with plans to double the production to 2MT by 2021 and 2.5MT by 2024-2025.
- MOIL has cash and cash equivalents of Rs. 23bn (FY18E), which would constitute ~58% of its current market capitalisation. This provides a high margin of safety. We expect the dividend yield on the stock to remain high at 2.5% levels over FY17-18.
- Given the company has recently got government approval for 76.409 ha. land in Balaghat, adjacent to the existing mines, timely execution of the same will help the company to boost production volume.
- Outlook and view:** We think having regard to the favourable outlook for manganese ore, one can look to buy MOIL at the current CMP and add on dips of Rs. 273-280 band (~4.5x FY18E EV/EBITDA) for sequential targets of Rs. 333 (7x FY18E EV/EBITDA) and Rs. 354 (8x FY18E EV/EBITDA) for the period of 2-3 quarters.

Financial Summary (Standalone)

(Rs mn)	FY15	FY16	FY17E	FY18E
Net Revenues	8,601	6,368	7,808	8,549
EBITDA	4,159	995	2,248	2,956
APAT	4,280	1,938	2,597	2,865
Diluted EPS (Rs)	25.5	11.5	18.5	21.5
P/E (x)	11.6	28.7	16.0	13.8
EV / EBITDA (x)	4.2	17.4	6.5	3.8
RoE (%)	13.2	5.7	8.3	10.0

(Source: Company, HDFC sec)

Income Statement

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Net Revenues	8,601	6,368	7,808	8,549
Growth (%)	-19.4	-23.6	22.8	9.5
EBITDA	4,159	995	2,248	2,956
EBITDA Margin (%)	50.5	15.8	29.1	34.9
Depreciation	451	525	535	632
Other Income (Including EO Items)	2,798	2,232	1,996	1,770
Interest	0	0	0	0
PBT	6,506	2,703	3,709	4,093
Tax (Incl Deferred)	2,226	973	1,113	1,228
Reported PAT	4,280	1,730	2,597	2,865
EO Items	-	(208)	-	-
APAT	5,096	4,280	1,938	2,597
APAT Growth (%)	18.0	(16.0)	(54.7)	34.0
Adjusted EPS (Rs)	30.3	25.5	11.5	18.5

Cash Flow Statement

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E
Reported PBT	6,506	2,703	3,709	4,093
Non-operating & EO Items	(2,798)	(2,441)	(1,996)	(1,770)
Interest Expenses	0	0	0	0
Depreciation	451	525	535	632
Working Capital Change	-1,884	-130	528	23
Tax Paid	-2,226	-973	-1,113	-1,228
OPERATING CASH FLOW (a)	49	-316	1,664	1,751
Capex	-844	-526	-1,300	-1,300
Investments	0	40	0	0
Non-operating Income	2,798	2,441	1,996	1,770
INVESTING CASH FLOW (b)	1,954	1,954	696	470
Debt Issuance/(Repaid)	0	0	0	0
Interest Expenses	0	0	0	0
Share Capital Issuance	0	0	-8,633	0
Dividend	-1,714	-989	-826	-784
FINANCING CASH FLOW (c)	-1,714	-989	-9,460	-784
NET CASH FLOW (a+b+c)	289	649	-7,100	1,437
EO Items, Others	81	(447)	-	-
Closing Cash & Equivalents	28,299	28,501	21,401	22,838

(Source: Company, HDFC sec)

Balance Sheet

As at March (Rs mn)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Equity Capital	1,680	1,680	1,332	1,332
Reserves	32,137	32,854	26,339	28,420
Total Shareholders Funds	33,817	34,534	27,670	29,752
Total Debt	0	0	0	0
Net Deferred Taxes, LT Provisions, etc.	213	201	201	201
TOTAL SOURCES OF FUNDS	34,030	34,734	27,871	29,953
APPLICATION OF FUNDS				
Net Block & CWIP	3,468	3,913	4,678	5,346
Investments, Goodwill and LT Advances	840	669	669	669
Total Non-current Assets				
Inventories	1,442	1,630	1,080	1,330
Debtors	1,072	1,420	1,442	1,169
Other Current Assets	1,358	1,147	1,147	1,147
Cash & Equivalents	28,299	28,501	21,401	22,838
Creditors	35	34	34	34
Other Current Liabilities & Provn	2,415	2,512	2,512	2,512
Net Current Assets	29,722	30,153	22,524	23,938
TOTAL APPLICATION OF FUNDS	34,030	34,734	27,871	29,953

Key Ratios

Year ending March	FY15	FY16	FY17E	FY18E
PROFITABILITY (%)				
EBITDA Margin	50.5	15.8	29.1	34.9
APAT Margin	52.0	30.8	33.6	33.9
RoE	13.2	5.7	8.3	10.0
EFFICIENCY				
Fixed Asset Turnover (x)	1.3	0.8	1.0	1.0
Net D/E (x)	(0.87)	(0.85)	(0.80)	(0.80)
PER SHARE DATA (Rs)				
EPS	25.5	11.5	18.5	21.5
CEPS	28.2	13.4	22.3	26.3
Dividend	8.5	5.0	5.0	5.0
VALUATION				
P/E (x)	11.6	28.7	16.0	13.8
EV/EBITDA (x)	4.9	20.6	8.6	5.4
Dividend Yield (%)	2.9	1.7	1.7	1.7

(Source: Company, HDFC sec)

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Oil and Gas	Rs.1064	Buy at CMP and add on declines	Rs. 1064-1020	Rs.1225	TILL NEXT DIWALI

HDFC Scrip Code	RELIND
BSE Code	500325
NSE Code	RELIANCE
Bloomberg	RIL
CMP as on 3 Feb 16	1064
Equity Capital (Rs crs)	2948
Face Value (Rs)	10
Equity Sh. Outstanding	294.8
Market Cap (Rs crs)	345250
Book Value (Rs)	750
Avg. 52 Week Volumes	2854259
52 Week High	1129
52 Week Low	888

Reliance Industries Ltd (RIL) - is India's largest private sector entity, with a turnover of over Rs. 3 lakh cr and profits more than 30,000 cr a year. It is a backward integrated energy conglomerate in Petro-chemicals, Refining and Exploration. In recent years it has diversified into Retail and Telecom. In terms of revenue, Refining contributes ~70%, Petrochemicals ~21%, Oil & Gas 2%, Retail 5% and the rest 2% of other businesses.

Outlook and view

- It operates one of the largest refining capacities of 1.24 mmbbl/d at a single location and is the largest producer of polyester fiber and yarn. Weak global macros which has led to margin decline for other global players has least impacted RIL owing to its superior raw material sourcing and efficient operations.
- Company has invested Rs. 1.5 lakh cr in telecom venture (R-Jio). It has built all-IP data network with latest 4G LTE technology. It can be easily upgraded to support new technologies like 5G, 6G and beyond. Huge investment of this venture is an overhang on the stock and its success will lead to re-rating of the stock. Retail business has grown by 30% CAGR for the last five years and has become profitable now. It operates 2600 stores in 200 cities in 20 states. It is going to expand this business to over 900 cities by next year.
- Over the last couple of years it has invested 2 lakh cr in capital expenditure in core business for capacity expansions and technology upgradation viz. expansion of Polyester business, 1.5 million tonne ethylene cracker, coke gasification plant. These investments are expected to start yielding results in next 12 months. We recommend investors to buy the stock at CMP and on declines with a target of Rs. 1225 in a year's a time.

Financial Summary (Standalone)

(Rs bn)	2QFY17	2QFY16	YoY%	1QFY17	QoQ%	FY15	FY16E	FY17E	FY18E
Net Revenues	595.77	608.17	-2	534.96	11.4	2,331.58	2,460.52	2,742.69	2,808.94
EBITDA	105.55	98.33	7.3	108.17	-2.4	401.39	421.23	507.36	568.58
APAT	77.04	65.61	17.4	75.48	2.1	274.17	285.02	334.2	381.3
Diluted EPS (Rs)	23.8	20.3	17.4	23.3	2.1	84.6	88	103.1	117.7
P/E (x)						12.9	12.4	10.5	9.2
EV / EBITDA (x)						8.8	8.4	6.9	6.2
RoE (%)						12	11.3	12	12.3

(Source: Company, HDFC sec)

Shareholding Pattern	
Promoters	46.5
Institutions	34.1
Non Institutions	19.4
Total	100

Income Statement

Year ending March (Rs bn)	FY15	FY16	FY17E	FY18E
Net Revenues	3,290.76	2,331.58	2,460.52	2,742.69
Growth (%)	-15.6	-29.1	5.5	11.5
EBITDA	316.02	401.39	421.23	507.36
EBITDA Margin (%)	9.6	17.2	17.1	18.5
Depreciation	84.88	95.66	101.97	133.5
Other Income (Including EO Items)	231.14	305.73	319.26	373.87
Interest	23.67	24.54	25.65	23.62
PBT	294.68	357.01	372.58	436.86
Tax (Incl Deferred)	67.49	82.84	87.56	102.66
Reported PAT	227.19	274.17	285.02	334.2
EO Items	0	0	0	0
APAT	227.19	274.17	285.02	334.2
APAT Growth (%)	3.3	20.7	4	17.3
Adjusted EPS (Rs)	70.1	84.6	88	103.1

Cash Flow Statement

Year ending March (Rs bn)	FY15	FY16	FY17E	FY18E
Reported PBT	294.68	357.01	372.58	436.86
Non-operating & EO Items	-72.71	-102.99	-78.97	-86.62
Interest Expenses	23.67	24.54	25.65	23.62
Depreciation	84.88	95.66	101.97	133.5
Working Capital Change	83.15	147.89	-27.73	18.96
Tax Paid	-60.82	-81.29	-87.56	-102.66
OPERATING CASH FLOW (a)	352.85	440.82	305.94	423.66
Capex	-427.2	-213.22	-297	-132
Investments	-93.66	-505.72	-	-
INVESTING CASH FLOW (b)	-417.7	-579.1	-218	-45.4
Debt Issuance/(Repaid)	54.7	48.12	50	-200
Interest Expenses	-23.67	-24.54	-25.65	-23.62
Share Capital Issuance	-43.32	251.18	33.29	68.04
Dividend	2.26	2.83	-	-
FINANCING CASH FLOW (c)	0.61	-46.18	-18.67	-274.06
NET CASH FLOW (a+b+c)	-64.19	-184.48	69.24	104.22
EO Items, Others	-14.5	27.17	-	-
Closing Cash & Equivalents	620.86	463.21	532.45	636.67

(Source: Company, HDFC sec)

Balance Sheet

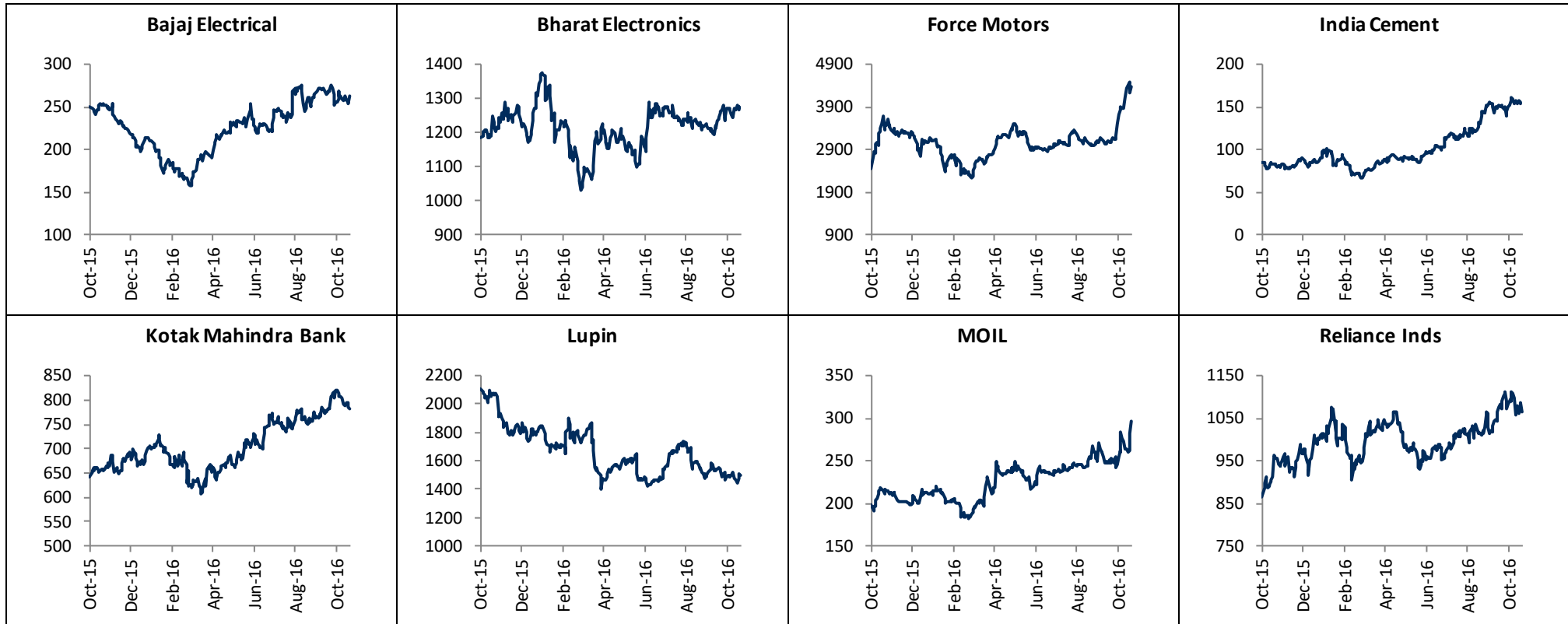
As at March (Rs bn)	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS				
Equity Capital	32.36	32.4	32.4	32.4
Reserves	2,129.40	2,369.44	2,611.44	2,895.20
Total Shareholders Funds	2,161.76	2,401.84	2,643.84	2,927.60
Total Debt	976.2	1071.3	1121.3	921.3
Net Deferred Taxes, LT Provisions, etc.	140.81	146.48	146.48	146.48
TOTAL SOURCES OF FUNDS	3,278.77	3,619.62	3,911.62	3,995.38
APPLICATION OF FUNDS				
Net Block & CWIP	1970.33	2413.44	2608.47	2606.98
Investments, Goodwill and LT Advances	225.42	131.82	131.82	131.82
Total Non-current Assets	620.58	1,126.30	1,126.30	1,126.30
Inventories	365.51	280.34	303.35	338.14
Debtors	46.61	34.95	36.88	41.11
Other Current Assets	128.54	127.14	127.14	127.14
Cash & Equivalents	620.86	463.21	532.45	636.67
Creditors	544.7	545.21	505.59	563.57
Other Current Liabilities & Provns	154.4	412.4	449.2	449.2
Net Current Assets	462.44	-51.94	45.03	130.29
TOTAL APPLICATION OF FUNDS	3,278.77	3,619.62	3,911.62	3,995.38

Key Ratios

Year ending March	FY15	FY16	FY17E	FY18E
PROFITABILITY (%)	9.6	17.2	17.1	18.5
EBITDA Margin	7	13.1	13	13.6
APAT Margin	6.9	11.8	11.6	12.2
RoE	11	12	11.3	12
EFFICIENCY				
Fixed Asset Turnover (x)	1	0.6	0.6	0.5
Net D/E (x)	0.2	0.3	0.2	0.1
PER SHARE DATA (Rs)				
EPS	70.1	84.6	88	103.1
CEPS	96.4	114.1	119.4	144.4
Dividend	9.5	10.5	11.3	13.3
VALUATION				
P/E (x)	15.5	12.9	12.4	10.5
EV/EBITDA (x)	11.3	9.5	9.1	7.5
Dividend Yield (%)	0.9	1	1	1.2

(Source: Company, HDFC sec)

1yr share price movement



Source: BSE

Disclosure

Company	Analyst	Team	Holding	Analysts Qualification
Bajaj Electricals	Kushal Rughani	PCG	NO	MBA
Bharat Electronics	Nisha Sankhala	PCG	NO	MBA
Force Motors	Abhishek Jain, Sneha Prashant	INSTITUTION	NO	MBA, MBA
Kotak Mahindra Bank	Darpin Shah, Parul Gulati	INSTITUTION	NO	MBA, MBA
India Cements	Zececa Mehta	RETAIL	NO	MMS
Lupin	Amey Chalke	INSTITUTION	NO	MBA
MOIL	Zececa Mehta	RETAIL	NO	MMS
Reliance Industries	Devarsh Vakil	PCG	NO	MBM

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HDFC Securities Ltd or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HDFC Securities Ltd .

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HDFC Securities Ltd may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HDFC Securities and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HDFC Securities Ltd, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HDFC Securities Ltd and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HDFC Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HDFC Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HDFC Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HDFC Securities nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HDFC Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report. HDFC Securities Ltd. is a SEBI Registered Research Analyst having registration no. INH000002475

HDFC securities Limited

I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station,
Opp. Crompton Greaves, Kanjurmarg (East),
Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Website: www.hdfcsec.com

Celebrate a sparkling
festival of light

HDFC securities
wishes you a very

**Happy
Diwali**

