

Research

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A decorative circular frame composed of orange and yellow floral motifs, including stylized leaves and a central lamp with a flame. The frame is set against a background of repeating floral patterns.

Samvat
2073

Muhurat Picks
2016-17

Muhurat Pick 2016 – Growth Quotient

October 21, 2016

Dear Customers,

Let me begin by wishing you all a Happy Diwali and Prosperous New Year !

The Indian equity rally has been driven by global fund flows from low yield (and negative in some cases) developed economies, which are finding India an attractive investment destination with relatively stable and stronger growth prospects. Furthermore, lack of performance from the other competing asset classes has also meant higher risk appetite and preference towards equities. In such a situation of liquidity benefiting all stocks, growth needs to be the key differentiator. Hence, we have cherry picked companies that are likely to exhibit a strong earnings growth trajectory coupled with efficient allocation of capital.



In terms of valuations, the Sensex, at current levels, is trading at ~15x FY18E EPS. One should also note that the domestic scenario is currently much better than what it was previously. In terms of early indicators, healthy auto volume growth (~14% YoY) and decent cement volume growth (~4.9% YoY coupled with firm pricing) in Q2FY17E are some visible signs of a strengthening domestic economy. The consumption leg of the economy continues to find favour with catalysts such as good monsoons, OROP and Seventh Pay Commission implementation.

Going ahead, with commodities showing early signs of stabilising, we expect the Sensex EPS to grow 16.4% YoY to ₹ 1600 in FY17E and then witness growth of 17.5% YoY in FY18E to ₹ 1880. We have a one year forward target of 31000 for the Sensex and 9400 for the Nifty.

Company	CMP	Target Price	Market Cap (₹ crore)	P/E (x)		P/BV (x)		ROE (%)	
	(₹)	(₹)		FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Exide Industries	199	240	16,919	22.9	19.0	3.4	3.1	15.1	16.3
India Cement	156	190	4,817	24.6	18.4	1.3	1.2	5.1	6.5
HDFC Bank	1,255	1,500	3,19,566	17.5	14.3	3.4	3.0	20.2	21.8
Jubilant Life Sciences	693	795	11,035	15.7	12.6	3.1	2.5	19.7	20.0
MRPL	91	110	15,966	6.7	7.8	1.9	1.6	28.7	20.4
Phillips Carbon Black	257	300	886	19.7	9.6	1.6	1.4	8.2	14.7
Tech Mahindra	425	525	41,292	12.5	11.2	2.5	2.2	19.9	19.5

Muhurat Pick 2016

Exide Industries (EXIIND)



- During FY12-16, the overall automotive demand remained subdued with volume registering CAGR of ~4%. However with normal monsoon supplemented by positive impact of Seventh pay commission, the OEM demand has seen a recovery with volumes on YTD basis up 11.9% YoY. We believe the strong traction in OEMs volume is likely to continue (CAGR of >10%) over the next 2-3 years.
- The Indian automotive battery space is a proxy play on the revival in the OEM demand. We believe Exide Industries (EIL) being the market leader in the automotive battery space (with market share >60% in OEM), is well placed to cater to the rising automotive demand. Further EIL will also be beneficiary of reviving automotive replacement (assuming 3-phase cycle) & industrial battery demand going forward.
- Thus, over FY16-18E, we expect EIL's revenue, EBITDA, PAT to register CAGR of 14.5%, 20%, 19.6%, respectively. Its cost reduction initiative & focus on profitable segment is likely to drive margins to 16.3% in FY18E.
- EIL is also engaged in life insurance business through its subsidiary, which reported embedded value & PAT of ₹ 1870 crore & ₹ 89 crore as of FY16. Keeping in mind, the recent deals & listing of life insurance peers, the segment on a conservative basis provides value of ₹28/share.
- Keeping in mind the structural recovery in automotive demand, EIL remains a play that has re-rating possibilities. Thus, on SOTP we arrive at a target price of ₹ 240 per share with **BUY** recommendation on the stock.

(₹ crore)	FY15	FY16	FY17E	FY18E
Revenue (₹ crore)	6874.2	6809.2	7688.5	8927.2
Growth (%)	15.3	(0.9)	12.9	16.1
EBITDA margin (%)	13.2	14.8	15.8	16.3
PAT (₹ crore)	545.9	622.7	741.0	890.5
PAT growth (%)	12.1	14.1	19.0	20.2
P/E (x)	31.1	27.3	22.9	19.0
P/BV (x)	4.2	3.8	3.4	3.1
RoNW (%)	13.5	14.0	15.1	16.3
RoCE (%)	18.9	18.7	20.5	22.7

India Cement (INDCEM)



- India Cement (ICL) is one of the largest cement manufacturers in the southern region with the total cement capacity of 15.7 MT. Out of the total cement capacity, 83.0% of the company's capacity is in south and rest 17.0% is spread across northern (10%) and western (7%) region.
- After demand remaining sluggish in the past two years, we expect cement demand in the southern region to increase at a CAGR of 5-6% in the next two to three years led by higher infra spend by AP and Telangana, Tamil Nadu housing scheme for poor and increase in demand from individual house builders. In addition, pricing discipline maintained by cement players is expected to keep realisation at elevated levels.
- India Cement is expected to be a key beneficiary of improving demand and pricing in the southern region. Further, limited capacity addition in the south would help the company to improve its capacity utilisation over the longer term. In addition, ICL's pragmatic approach towards cost rationalisation through improving fuel mix, installation power plant in AP and improving efficiency of plants should help improve margins.
- Consequently, we expect revenues and PAT to increase at a CAGR of 11.3% and 31.5%, respectively, over the next two years. With the better operating cash flow, we expect debt levels to reduce in the next two years. The stock is trading at attractive valuation of US\$80/tonne (vs. current replacement cost of \$120/tonne), which makes it a compelling buy at this level.

(₹ crore)	FY15	FY16	FY17E	FY18E
Net sales (₹ crore)	4,418.8	4,377.1	5,068.6	5,426.5
Growth (%)	-0.5	0.9	15.8	7.1
EBITDA margins (%)	15.3	17.9	17.1	17.9
PAT (₹ crore)	29.4	150.3	194.7	260.2
PAT growth (%)	-182.1	411.2	29.5	33.6
P/E (x)	162.9	31.9	24.6	18.4
P/BV (x)	1.4	1.4	1.3	1.2
RoE (%)	0.8	4.1	5.1	6.5
RoCE (%)	6.3	8.4	9.5	10.6

Muhurat Pick 2016

HDFC Bank (HDFBAN)



- HDFC Bank, India's largest bank by market value, has grown its asset book at 20%+ CAGR over last several years. Going forward, we expect this traction to continue and expect loan book of ~₹ 838114 crore by FY19E.
- Currently, the bank has 49.5% in retail (₹ 233060 crore) and 44% in wholesale (₹ 206972 crore) in the total loan book of ₹ 470623 crore. Retail has 22% in auto, 7% in CV/CE, 17% in personal loans, 14% in home loans & 11% in business banking. We expect it to continue with higher credit growth than industry
- The bank has a strong liability franchise with CASA of 43% (in FY05-16) & retail term deposit comprising ~85% of total deposit of ₹ 546424 crore as on FY16. CASA and fee based income from cross-selling continues to grow on a rising presence in remote locations. This has led cost of funds to remain less volatile, thereby enabling lucrative NIM >4% consistently.
- GNPA and NNPA ratios have been stable around 1-1.5% in the last 25 quarters. Retail NPA had risen just once in the FY08 crisis to 2%. We expect GNPA & NNPA to be stable at ~0.9% (₹ 5838 crore) & 0.3% (₹ 2355 crore), respectively, by FY18E
- Superior quality of balance sheet, stable management & strategic investments in technology and rural areas would result in healthy performance to sustain. RoA at ~1.9% is one of the best in class. The bank remains a portfolio stock & premium valuation may continue

(₹ crore)	FY15	FY16	FY17E	FY18E
NII (₹ crore)	27,590.4	32,332.2	38,608.3	45,673.6
PPP (₹ crore)	21,364.2	25,193.7	30,347.3	36,826.0
PAT (₹ crore)	12,296.8	14,839.9	18,116.9	22,132.6
ABV (₹)	282.3	328.3	366.7	412.0
P/ABV (x)	4.5	3.8	3.4	3.0
P/E (x)	25.8	21.4	17.5	14.3
ROA (%)	1.9	1.9	1.9	2.0
ROE (%)	18.2	18.9	20.2	21.8

Jubilant Life Sciences (JUBLIF)



- The company operates in two segments- pharma (46% of revenue) and life science ingredients (LSI) (54% of revenue). The pharma segment consists of sub segments such as 1) Generics- APIs and formulations, 2) Specialty Pharma- Radio Pharma, Allergy Therapy and Contract manufacturing (CMO) 3) Drug discovery and development solutions.
- Pharma business is expected to grow at 17% CAGR over FY16-19E to ₹ 4912 crore on the back of strong growth in radiopharma business followed by CMO and generic sub-segments.
- Radiopharma segment (23% of Pharma business) grew 44% in FY12-16. Jubilant is the only listed Indian company having exposure in the Radiopharma segment. We expect Radiopharma segment contribution to Pharma business improves to 29% by FY19.
- EBITDA margins are likely to improve ~430 bps to 26% by FY19 given the tilt of product mix towards margin accretive businesses. RoE and RoCE are expected to improve 541 bps and 700 bps to 19.6% and 19.0%, respectively, over FY16-19E.
- With improvement in operational performance, free cash flow situation has improved markedly. Going ahead, as the capex cycle moderates in medium term, the company expects to utilise maximum FCF for debt repayment. We expect the company's Net D/E and Debt/EBITDA ratio further go down to 0.3x and 1.2x respectively by FY19E from 1.6x and 3.5x in FY16.

(₹ crore)	FY16	FY17E	FY18E	FY19E
Net Sales (₹ crore)	5,802.3	6,000.9	6,641.9	7,374.8
Growth (%)	-0.4	3.4	10.7	11.0
EBITDA margin (%)	22.0	25.7	26.3	26.3
PAT (₹ crore)	414.0	699.3	871.9	1,054.2
PAT growth (%)	LP	62.1	24.7	20.9
P/E (x)	25.5	15.7	12.6	10.4
P/BV (x)	3.8	3.1	2.5	2.0
RoNW (%)	14.2	19.7	20.0	19.6
RoCE (%)	12.0	15.9	17.6	19.0

Muhurat Pick 2016

MRPL (MRPL)



- Mangalore Refinery & Petrochemicals (MRPL), a standalone refinery with a capacity of 15 MMTPA, has completed and commissioned its Phase III expansion and upgradation project, to enter the league of complex refineries. While the capacity of MRPL has already increased from 11.8 MMTPA to 15 MMTPA, the commencement of operations at all the secondary processing units has enhanced the complexity of the refinery from 6 to ~10.
- Higher complexity on commissioning of Phase III project will lead to an increase in distillate yield from ~76.5% to ~80.1%, better capability to handle heavier & sourer crude and production of higher margin value added products. We have estimated GRMs of US\$6.6/bbl & US\$6.7/bbl for FY18E & FY19E, respectively against GRMs of \$5.3/bbl in FY16. We expect throughput of 15.3 MMTPA, 15.2 MMTPA and 15.2 MMTPA for FY17E, FY18E & FY19E respectively.
- MRPL has the lower policy leverage and gearing on the balance sheet among PSU refineries. With the improvement in operational performance, we expect the standalone company to deliver better profit, thus creating value for shareholders in coming years. The performance of the OMPL remains crucial in determining the overall company performance. A scheme of amalgamation of MRPL with OMPL has been proposed for approval of various regulatory authorities. We value the stock at 6x FY19E EV/EBITDA multiple and OMPL at ₹ 7.6/share to arrive at a target price of ₹ 110.

(₹ crore)	FY16	FY17E	FY18E	FY19E
Net Sales (₹ crore)	39,649.3	53,177.8	55,613.3	55,964.8
Growth (%)	-31.2	34.1	4.6	0.6
EBITDA margin (%)	4.5	7.5	6.5	6.5
PAT (₹ crore)	1,148.2	2,416.2	2,060.8	2,110.5
PAT growth (%)	NA	110.4	-14.7	2.4
P/E (x)	14.0	6.7	7.8	7.6
P/BV (x)	2.5	1.9	1.6	1.4
RoNW (%)	17.9	28.7	20.4	17.9
RoCE (%)	7.4	20.8	17.5	16.9

Phillips Carbon Black Ltd (PHICAR)



- Phillips Carbon Black (PCBL) with a capacity of 411 KT is the largest manufacturer of carbon black domestically with market share in excess of 30%. Carbon black is used as a reinforcement material providing tensile strength and forms ~26% by volume of the tyre weight
- PCBL manufactures carbon black using a crude derivative i.e. carbon black feedstock. Hence, a drop in crude price makes it more competitive vs. its Chinese competition. Moreover, the Government of India has imposed an anti dumping duty of US\$400/tonne (realizations at ~US\$600/tonne) on Chinese imports (up to 2020), which protects the interest of Indian manufacturers, including PCBL
- Given the positive momentum being witnessed in the domestic automobile sector we foresee strong tyre and consequent carbon black demand. We expect PCBL to report strong volume growth (6.5% CAGR in FY16-18E), going forward. This along with drop in raw material costs, higher share of value added products and operational efficiencies associated with increasing capacity utilisation level is expected to result in an expansion of EBITDA margins to the tune of 430 bps in FY16-18E
- PCBL is a classic turnaround story wherein we expect PAT to quadruple by FY18. We expect PCBL to report PAT of ₹ 45.5 crore in FY17E & ₹ 93 crore in FY18E (₹ 22.7 crore in FY16). Strong Cash flows over FY16-18E will eventually improve the leverage profile with consequent D/E expected at 1.2x by FY18E. On the valuation front, at the CMP, it trades at inexpensive valuations of 9.6x P/E & 1.4x P/B on FY18E financials.

(₹ crore)	FY15	FY16	FY17E	FY18E
Net Sales (₹ crore)	2470.2	1894.7	1711.3	1850.1
Growth (%)	8.5	-23.3	-9.7	8.1
EBITDA margin (%)	6.2	8.7	12.7	13.0
PAT (₹ crore)	12.6	22.7	45.5	93.0
PAT growth (%)	-114.6	80.3	100.1	104.6
P/E (x)	71.1	39.2	19.7	9.6
P/BV (x)	1.8	1.7	1.6	1.4
RoNW (%)	2.5	4.4	8.2	14.7
RoCE (%)	6.2	8.0	12.1	13.7

Muhurat Pick 2016

Tech Mahindra (TECMAH)



- Tech Mahindra (Tech M) is the fifth largest listed IT service player in India. Revenue grew at a CAGR of ~27% to US\$ 4.03 billion during FY10-16. TechM major business vertical is Communication (contributes ~55%) which was facing some headwinds due to M&A integration in telecom space. However, this vertical has started showing signs of uptick in revenues since past 2 quarters which we expect to sustain on the back of anticipated revival in Telecom spending, going ahead.
- We prefer TechM due to its lesser exposure in Banking, Financial services and Insurance (BFSI) which is currently facing macro headwinds. Currently BFSI vertical contributes only ~11% to revenue vs. ~35-40% among other IT peers. Furthermore, TechM witnessed healthy improvement in large deal win (up 40% YoY to \$1.2 billion in FY16) lending us the comfort for better performance, going ahead.
- Historically, TechM EBITDA margin declined from ~20% in FY13 to 14.9% in Q1FY17 due to integration of acquisition. We believe TechM EBITDA margin should bottom out at current level and should improve to 16.5% in FY18E on the back of anticipated recovery in growth.
- At CMP, TechM is available at attractive valuations of ~11.5x FY18E. Though, macro environment remains challenging for IT sector, we expect company to perform better on account of pick-up in communication business and large deal ramp-ups. Furthermore, the negative news related to IT sector is already priced in current valuation. We value TechM at ₹525 (14x FY18E EPS).

(₹ crore)	FY15	FY16	FY17E	FY18E
Net Sales (₹ crore)	22621.3	26494.1	28987.6	32193.8
Growth (%)	20.1	17.1	9.4	11.1
EBITDA margin (%)	18.5	16.3	16.2	16.5
PAT (₹ crore)	2627.8	3117.9	3237.1	3605.0
PAT growth (%)	-13.2	18.7	3.8	11.4
P/E (x)	15.7	13.3	12.5	11.2
P/BV (x)	3.4	2.9	2.5	2.2
RoNW (%)	21.5	21.7	19.9	19.5
RoCE (%)	27.2	25.5	24.9	24.5

Muhurat Pick 2016

Performance of 2015 Muhurat Picks

Name of the company	Market Cap (₹ crore)	Reco price	Exit price / CMP	Return (%)	Status
ITC*	289829	237	239	1.0	Closed
Bajaj Finance	58342	5200	5900	13.5	Book Profit
Blue Dart	12139	7650	5116	-33.1	Closed
Kajaria	11165	895	1045	16.8	Book Profit
Syngene	9865	360	438	21.7	Book Profit
Symphony	8109	2000	2350	17.5	Book Profit
PNC Infratech	3245	500	546	9.2	Book Profit

*Adjusted for Bonus

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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