

# DIWALI DHAMAAKA

## TOP PICKS FOR DIWALI, SAMVAT 2074

Stock Name	CMP	Target	Upside (%)
Birla Corporation Ltd.	1005	1150	14
HDFC Ltd.	1763	2020	15
RBL Bank	518	651	25
Manpasand Beverages Ltd.	445	534	20
Granules India Ltd.	136	200	47

\*Prices as on Friday (13th October 2017) closing



**NIFTY : 10,167**

**SENSEX : 32,433**

## **Birla Corporation Ltd.**

**Cement**

CMP 1005

Target 1150

**Introduction** : Established in 1919, is part of the MP Birla group. It manufactures cement, jute products, synthetic viscose and cotton yarn. Cement constitutes about 85% of its revenue. It has cement plants in Rajasthan, Madhya Pradesh, Uttar Pradesh and West Bengal.

**Valuation View** : Its consol. operations with capacity of 15.5mt are among the largest in the Satna cluster, with ~22% market share. Blended EBITDA/ton profile for consol. operations improved substantially due to significantly higher profitability of Reliance Cement. Given its size and profitability, is trading at a significant discount to peers (both on EV/ton and EV/EBITDA) and has strong potential for multiple re-rating, given its exposure to the lucrative markets of central India. However, the key risk would be lower profitability from its Chanderia operations on a sustained basis. The stock trades at P/E of 15.6x/13.6x on FY19E/FY20E, 8x/7.3x FY19E/FY20E EV/EBITDA and EV/ton of USD97 on FY19E capacity. We conservatively value at 1150 at 9x FY20E EV/EBITDA.

## **HDFC Ltd.**

**NBFC**

CMP 1763

Target 2020

**Introduction** : Incorporated in 1977 as India's first housing finance company (HFC). HDFC Ltd is the largest HFC with asset under management of over INR3t, 5m+ home loan customers and 1.7m depositors (largest mobilize of deposits outside banking system). It has successfully seeded various other entities in financial services space which includes 2nd largest private bank (HDFC Bank) Insurance (Life and General), Asset Management, Realty, Real Estate Venture Capital, Education Loans among others. HDFC's retail loan growth is impressive, despite intense competition and a high base.

**Valuation View** : Over the past three quarters, corporate loan growth has also picked up smartly - this remains a key for overall spreads, considering individual spreads are under pressure. We upgrade estimates by ~5% to factor in better-than-expected corporate loan growth. We expect core PBT CAGR ~14% over FY17-20. We expect AUM CAGR of ~16%. The stock trades at 4.4x FY18E AP/ABV and 3.2x FY19E AP/ABV (price adjusted for value of other businesses and book value adjusted for investments made in those businesses). We maintain a buy with price target of INR2020.

## RBL Bank

Banks - Private

CMP	518	<b>Introduction</b> : RBL Bank has been in existence since past 73 years; the bank underwent the transformation as new management took control in FY10. It has adopted a unique business model whereby a) the bank has adopted a linkages based approach to agricultural lending, b) has used large corporate accounts as an entry strategy to gain access to their supply chain ecosystem, and c) has strategically acquired business banking clients in the emerging sectors (primary bankers to gain lion's share of their wallet).
Target	651	

**Valuation View** : We strongly believe RBL has a potential to generate significant returns in the next three years led by (1) pedigreed leadership team, which is driving high-quality loan growth, (2) niche business model, (3) improvement in core income, driving down cost-to-income ratio. We expect robust EPS CAGR of 40%, with RoA improving by ~30bps to 1.3%. Steady asset quality, structural change in balance sheet and Strong improvement in profitability to support rich valuations. Management has guided for credit costs to be in the range of 70-75bps for FY18. We largely maintain our earnings estimates for FY18-19, trades at 2.9x FY19E P/BV, We value company at TP INR651.

## Manpasand Beverages Ltd.

Consumer

CMP	445	<b>Introduction</b> : Company has unique distinction of being the sole listed company in the beverages sector. MANB primarily focuses on mango-based drinks. MangoSip, launched in 1997, is the company's flagship product, contributing 80% to revenues in FY16 (97%in FY14). Mango Sip is strategically focused on semi-urban and rural markets; it derives ~55% of revenues from rural areas, 20-22% through railways and the remaining from urban areas. It has sound performance despite GST transitional concerns. There were new product launches alongside capacity expansion to aid growth.
Target	534	

**Valuation View** : We believe that the company will benefit from its expanding distribution network in which pilot for tie-up with Parle Products has been initiated in West Bengal, and should boost its distribution network leading to better capacity utilization. Trades at 29.5x FY19E P/E, Maintain Buy with TP INR534.

## Granules India Ltd.

Healthcare

CMP 136

Target 200

**Introduction** : Hyderabad-based company is a vertically integrated manufacturer of pharmaceutical products. It is among the largest manufacturers of Paracetamol and Ibuprofen in the world. It derives 63% of its business from Europe and the US. GRAN also has a formulations plant, with a capacity to produce 18b tablets per annum. It has its own Abbreviated New Drug Applications (ANDAs) and dossiers. GRAN services more than 300 customers across 60 nations (exports are ~87% of revenues).

**Valuation View** : Over the last six years, company has reported 39% earnings CAGR on improved profitability, higher operating leverage and superior business mix. It expanded its finished dosages business at a CAGR of 24% over FY12-17, leading to higher profitability and improved utilization of the existing capacity of 18b tablets. Profitability of the PFI business has also improved substantially, with the implementation of 6MT order capacity. As a result, GRAN has expanded its EBITDA margins from 11.8% in FY11 to ~21% in FY17. Strong growth will be driven primarily by ramp-up of the base business (led by capacity expansion), shift in product mix, Omnicem JV, and OTC business expansion also plans to file ~25 ANDAs in the US by FY19E. Trades at 12.5x FY19E EPS, P/E re-rating for GRAN, given (a) strong PAT growth outlook >35% CAGR over FY17-20E, backed by 27% revenue CAGR and (b) expansion in high-margin CRAMs and US generic business to arrive at TP of 200.

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