Research

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Muhurat Picks 2015

Market outlook

The market has rebounded by approximately 8% from recent lows of 7540 to 8150 currently. This was led by the positive surprise from the RBI that announced a repo rate cut of 50 bps to 6.75%. A decline in global commodities aiding government's fiscal position and corporate P/Ls on a front loaded basis would lead to a pick-up in consumer demand and kick in investment cycle in the latter half. This would benefit both operating as well as financial leverage of corporates and would reap positive earnings.

Though volatility is expected to prevail on the global front as central banks across the globe recalibrate liquidity levels, India, with its higher growth rate and least political instability will continue to remain in a sweet spot among other EMs and continue to attract global investors.

We expect Sensex earnings to grow 13.2% 18.5% in FY16E and FY17E to ₹ 1539 and ₹ 1838, respectively. We assign a P/E of 16.5x on FY17E EPS to arrive at a fair value of 30300 by September 2016 with the Nifty reaching 9100. Hence, in our *Diwali 2015* strategy, we recommend investing into quality names that have reasonable growth visibility coupled with strong balance sheets.

Company	Recommended Price Range	Market Cap	P/E (x)		P/BV (x)		ROE (%)	
	(₹)	(₹ crore)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
ITC	350-360	285910	27.0	26.3	9.0	8.9	33.4	33.9
Bajaj Finance	5100-5300	31600	23.1	18.7	3.8	3.3	19.6	18.9
Blue Dart	7500-7800	18100	86.1	68.7	41.9	33.3	48.6	48.5
Kajaria	885-905	7295	33.5	25.4	8.3	6.7	24.9	26.3
Syngene	355-365	7200	26.8	21.0	6.0	5.0	22.2	23.6
Symphony	1900-2100	7100	36.7	28.9	14.5	11.1	39.5	38.4
PNC Infratech	485-515	2606	20.3	16.5	2.1	1.8	10.1	11.2

Muhurat Picks – Epitome of quality

ITC Limited (ITC) — Buying Range (₹ 350-360)

- ITC is the largest cigarette manufacturer (~75% volume share in FY12) and among the largest paperboard manufacturing companies in India. The company also has the second largest hotel chain in the country and is aggressively acquiring a strong position in the FMCG space. ITC's emerging strength is the FMCG (others) business led by robust growth of 20.1% CAGR (FY09-15) and a strong portfolio of brands like Aashirvaad, Sunfeast, Bingo, Vivel, Fiama Di Wills, Superia, Classmate, Paperkraft, Wills Lifestyle & John Players
- ITC has been trying to pass on excise hikes on cigarettes by way of gradual price hikes. The revenue growth at 12.4% (CAGR in FY09-15) from cigarettes (~46.6% of revenues) has been led by 12.9% price led CAGR. ITC plans to stimulate the distribution strategy for the FMCG business by increasing direct reach to one lakh villages in India. This initiative depicts ITC's aggressive approach towards growing its FMCG business (25% of FY15 revenues vis-à-vis 18% in FY08). Further, the company is aggressively diversifying in newer categories as reflected in he recent acquisition of two brands Savlon & Shower to Shower and foray into the dairy industry with Aashirvaad ghee
- We estimate revenue & net profit CAGR of 8.8% & 6.6%, respectively, in FY15-17E. We maintain a positive stance on ITC as we believe ITC's focus on growing its FMCG business would be a catalyst to topline growth in the long run. Simultaneously, a structural decline in commodity prices has increased visibility of earnings growth in segment

Key Financials	FY14	FY15	FY16E	FY17E
Net Sales (₹ crore)	32882.6	36083.2	39339.3	42747.8
Growth (%)	11.0	9.7	9.0	8.7
EBITDA margin (%)	37.5	36.9	35.7	35.1
PAT (₹ crore)	8785.2	9607.7	10009.5	10915.2
PAT growth (%)	18.4	9.4	4.2	9.0
P/E (x)	32.3	29.8	27.0	26.3
P/BV (x)	10.8	9.3	9.0	8.9
RoNW (%)	33.5	31.3	33.4	33.9
RoCE (%)	45.7	43.2	46.4	46.0

Bajaj Finance (BAJAF) — Buying Range (₹ 5100-5300)

- Bajaj Finance (BFL), is one of the leading asset finance NBFCs. The USP of BFL is its stronghold in the consumer durable (CD) & lifestyle product financing business (~15% of the AUM) wherein it does not have any major competition (BFL's share is ~16%). These segments are under penetrated & growing in size. The loan portfolio is divided into three broad categories viz. consumer finance (40% of loans), SME (54%) & commercial & rural category (6%).
- Such diversity has given BFL an edge in terms of AUM growth (44% CAGR to ₹ 32410 crore in FY11-15) despite a weak economic environment. Going ahead, we expect AUM growth at 29% CAGR to ₹ 54126 crore in FY15-17E, led by the CF segment (32.7% CAGR)
- BFL's GNPA ratio at 1.5% (₹ 471 crore) as on FY15, is better vs. its peers wherein the ratio is above 2.5%. Owing to its strong underwriting processes, focus on affluent & mass affluent clients, NPA is expected to remain acceptable. Further, such healthy asset quality and higher yields in the CF space enable BFL to earn one of the highest margins among its peers of ~10%. We assume this will largely be sustained, going ahead
- We believe BFL's niche positioning in CD financing coupled with the diversified nature of its book helps de-risk the portfolio. BFL's premium valuations are expected to sustain on better earnings visibility (PAT CAGR estimated at 29% to ₹ 1502 crore over FY15-17E)

Key Financials	FY14	FY15	FY16E	FY17E
NII (₹ crore)	2216.3	2871.7	3734.2	4811.6
PPP (₹ crore)	1349.5	1741.0	2311.6	3042.9
PAT (₹ crore)	718.5	897.4	1,180.6	1,502.4
EPS(₹)	144.4	179.9	228.6	282.0
P/E (x)	36.5	29.3	23.1	18.7
P/ABV (x)	6.7	5.7	3.8	3.3
RoA (%)	3.4	3.1	3.1	3.1
RoE (%)	19.5	20.4	19.6	18.9

Muhurat Picks – Epitome of quality

Blue Dart Express (BLUDAR) — Buying Range (₹ 7500 - 7800)

- BlueDart continues to be a market leader in the air express market with ~52% market share. However, it has 15% market share in ground express,. The industry is highly fragmented with ~53% in the unorganised sector, which is expected to shift to the organised segment post GST implementation era
- BDE offers an entire range of services from a document to an entire charter load of shipment. Having a strong fleet of six aircraft & 8685 vehicles, it serves 34257 locations, with more than 220 countries. With customised solutions like time & day definite solution and packaging solutions, BDE is a one-stop shop for logistics requirement of its clientele. With a gamut of services in the logistics value chain, BDE remains a preferred partner of choice in express distribution services
- With a continuous increase in internet penetration & growing usage of smart phones & tablets, popularity of ecommerce is rising in Tier II, Tier III towns. E-tailing is likely to maintain strong growth momentum of ~54% in FY15-18. Current e-commerce contribution to total revenues for BDE is 26% that is expected to grow faster. Also, BDE has set up a 1,00,000 sq ft e-fulfilment centre, which operates on activity based revenue model
- Positive development around aviation sector in terms of rationalized ATF and operational levers on the back of route optimization would continue to favour the EBITDA growth, on the back of which we continue to remain positive.

Key Financials	FY14	FY15	FY16E	FY17E
Net Sales (₹ crore)	1,938.3	2,272.2	2,802.9	3,388.0
Growth (%)	11.6	17.2	23.4	20.9
EBITDA margin (%)	9.0	9.9	13.7	13.9
PAT (₹ crore)	122.6	129.3	212.5	267.2
PAT growth (%)	-20.7	5.1	67.1	25.3
P/E (x)	131.8	143.9	86.1	68.7
P/BV (x)	25.1	61.5	41.9	33.3
RoNW (%)	19.1	42.7	48.6	48.5
RoCE (%)	22.5	28.0	43.5	47.4

Kajaria Ceramics (KAJCER) — Buying Range (₹ 885 - 905)

- Kajaria Ceramics is the largest manufacturer of ceramic, vitrified tiles in India. Being the market leader, it has significantly increased its capacity from 30.6 msm in FY11 to 59.1 msm in FY15. This was driven mainly by the acquisition of a stake in Cosa, Soriso, Vennar and Jaxx and expansion/conversion of existing facilities.
- EBITDA margins improved sharply by 468 bps YoY to 19.2% in Q2FY16 aided by lower power & fuel cost, which as percentage of revenues, has fallen 92 bps to 20.6% in Q2FY16 due to softening natural gas prices. Going ahead, we expect EBITDA margins to stay at 17.5, 18.0% in FY16E, FY17E, respectively, due to softening natural gas prices as some benefits would be re-invested in brand promotions. Also, recently the Commerce Ministry took a positive step by initiating anti-dumping investigation into vitrified tiles import , originating in or exported from China. This step was much awaited by the Indian tile industry and is positive for Kajaria, going ahead. Import of these tiles has been rampant in cities near port and price differences were at 10-15% among certain categories of the product
- We remain positive on Kajaria given the sturdy growth in the industry, favourable structural shift, its better margin and return ratio profile coupled with a strong balance sheet. We expect the topline and bottomline to grow at a CAGR of 18.9% and 27.8%, respectively, during FY15-17E. Hence, we have a BUY recommendation on the stock

Key Financials (₹ crore)	FY14	FY15	FY16E	FY17E
Net Sales (₹ crore)	1829.4	2174.6	2485.3	3075.0
Growth (%)	15.6	18.9	14.3	23.7
EBITDA margin (%)	15.2	15.7	17.5	18.0
PAT (₹ crore)	124.2	175.6	217.8	286.7
PAT growth (%)	18.9	41.4	24.1	31.6
P/E (x)	55.9	41.5	33.5	25.4
P/BV (x)	13.1	10.3	8.3	6.7
RoNW (%)	23.5	24.7	24.9	26.3
RoCE (%)	26.3	27.0	28.3	31.3

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Syngene International (SYNINT) — Buying Range (₹355-365)

- Syngene International (SIL) is the contract research organisation (CRO) arm of Biocon. SIL caters to outsourced research requirements of global pharmaceutical, biotechnology, agrochemical, consumer health, animal health, cosmetic and nutrition companies on a fee-based contractual arrangement. SIL provides a gamut of integrated, end-to-end services to develop novel molecular entities (NMEs) or new drugs
- Global pharmaceutical players are facing structural issues like profit pressures arising from impending patent cliff, drying product pipeline and rising R&D costs. Surprisingly, however, new product approvals from USFDA are on the rise. Hence, to maintain the cost balance at one end and new product introduction at the other, these players are inclined to outsource some of the R&D budget to CROs like Syngene. Also, the need for greater flexibility has reduced the willingness of these players to incur large fixed costs associated with large scale R&D programmes
- Due to its integrated service offerings coupled with consistent performance and high data integrity ethos, Syngene enjoys high recall value, which is reflected in the fact that eight out of top 10 clients have been engaged with the company for the past five years.
- Syngene is a play on increasing global outsourcing trend by large Pharmaceutical and Biopharma players. The company plans to foray into manufacturing to cash on its expertise in research services. We believe in the company's growth prospects and thus have a positive view

Key Financials	FY15	FY16E	FY17E	FY18E
Net Sales (₹ crore)	859.9	1,025.1	1,222.2	1,531.1
Growth (%)	22.9	19.2	19.2	25.3
EBITDA margin (%)	32.7	31.6	31.6	31.7
PAT (₹ crore)	175.0	208.5	261.1	332.6
PAT growth (%)	29.8	19.2	25.2	27.4
P/E (x)	40.0	33.6	26.8	21.0
P/BV (x)	8.3	7.1	6.0	5.0
RoNW (%)	20.7	21.0	22.2	23.6
RoCE (%)	19.5	20.8	22.5	24.4

Symphony Ltd (SYMCOM) — Buying Range (₹ 1900-2100)

- Symphony is India's leading evaporative air cooler manufacturer with a market share of ~55% (value terms) in the organised product category. Over the years, it has been able to create a strong brand name, which has become synonymous with air coolers in India. Symphony has launched more than one new model annually for six years. Over the years, it has established a robust distribution network comprising ~750 dealers, ~16,500 retail dealers and ~4,500 towns (1430 in 2007)
- Symphony operates through an asset light model wherein it outsources manufacturing of air coolers to about nine exclusive vendors in India and uses the cash and carry model for sales. It has maintained strong return ratios i.e. RoCE and RoE at 39% and 35%, respectively, in FY15 mainly due to an asset light model and almost debt-free status. To get access to the Chinese market the company recently acquired Chinese air cooler brand MKE for a meagre ₹ 1.55 crore. Symphony would also benefit from sourcing advantage for its OEMs (which largely sources from China)
- We believe the air cooler industry will grow at ~19% CAGR in FY15-25E, due to demand remaining intact in tier-II and tier-III cities. Currently, the air cooler industry is largely dominated by the unorganised segment (~80% volume market share). We believe a shift from the unbranded to the branded category, would drive Symphony's sales, PAT CAGR at 27%, 31%, respectively, for FY15-18E

Key Financials (₹ crore)	FY15	FY16E	FY17E	FY18E
Net Sales (₹ crore)	578.5	548.5	958.3	1,181.1
Growth (%)	84.5	-5.2	74.7	23.2
EBITDA margin (%)	22.8	27.3	27.7	27.7
PAT (₹ crore)	115.9	117.2	205.4	261.1
PAT growth (%)	9.6	1.1	75.3	27.1
P/E (x)	65.0	64.3	36.7	28.9
P/BV (x)	23.0	19.1	14.5	11.1
RoNW (%)	35.3	29.7	39.5	38.4
RoCE (%)	38.9	37.0	50.2	47.4

Muhurat Picks – Epitome of quality

PNC Infratech (PNCINF)* **Buying Range (₹ 485-515)**

- Incorporated in 1999, PNC Infratech is an infrastructure construction, development and management company, with expertise in execution of major infra projects, including highways, bridges, flyovers, power transmission lines, airport runways, development of industrial areas and other infra activities. The company has executed 44 projects till date on an EPC basis and also forayed into the BOT space in 2007 where it generates revenue via toll collection or via annuity payments. The company has an established track record of successful execution of projects in roads & highways and airport runways sectors and is spread geographically
- Order book is at ~₹ 3029 crore (excluding L-1 bids of ₹ 1098.4), implying an order book to bill ratio of 1.9x . Also, it is L1 for orders worth ₹ 1098.4 crore as on Q1FY16, including an airport runway project in Kanpur worth ₹ 167.25 crore and two NHAI road EPC projects in Bihar aggregating to ₹ 1506 crore of which PNC's share is ~₹ 931 crore. PNC has eight projects in its BOT portfolio including an OMT project with total size of 953.8 km comprising both toll, annuity assets. Out of eight projects in its BOT portfolio, six are operational & two under construction. Overall, total equity requirement for existing BOT portfolio is ₹ 876.1 crore of which PNC's share is ₹ 487.4 crore & has been fully funded
- We expect revenues & bottomline to grow at CAGR of 21.7%, 26.8% respectively during FY15-FY17E, which is likely to much better than witnessed during FY10-FY15. Hence we are positive on the stock

Key Financials (₹ crore)	FY14	FY15	FY16E	FY17E
Net Sales (₹ crore)	1120.4	1530.1	1828.0	2228.5
Growth (%)	-12.2	36.6	19.5	21.9
EBITDA margin (%)	12.3	13.9	13.4	12.9
PAT (₹ crore)	70.1	100.4	128.7	157.7
PAT growth (%)	-8.3	43.1	28.3	22.6
P/E (x)	28.8	20.2	20.3	16.5
P/BV (x)	3.2	2.8	2.1	1.8
RoNW (%)	11.2	14.0	10.1	11.2
RoCE (%)	17.6	21.0	17.7	19.2

* Owing to low liquidity buy in staggered manner

Muhurat Picks – Epitome of quality

Performance of 2014 Muhurat Picks

Scrip Name	Reco price	Exit price/CMP	Return (%)	Target	Status
Exide Industries	169	153	-9.5	220	Exited
Kansai Nerolac*	192	233	21.3	240	Booked Profit
Maharashtra Seamless	335	204	-39.1	430	Exited
Rallis India	246	209	-15.0	302	Exited
State Bank of India*	246	323	31.5	323	Booked Profit
SKF India	1144	1450	26.7	1448	Booked Profit
Ultratech Cement	2550	3220	26.3	3180	Booked Profit

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