

Diwali Sparklers 2016



When it's about money..



IIFL



Positive Samvat 2073 for Equities

Indian Market

	Oct-16	Nov-15	Return (%)
S&P BSE Sensex	28,091	25,867	8.6%
Nifty 50	8,691	7,825	11.1%
Nifty Bank	19,835	16,956	17.0%
S&P BSE MidCap	13,544	10,801	25.4%
S&P BSE SmallCap	13,519	11,211	20.6%

In Samvat 2072, BSE Sensex is up with gains of 8.9% (as of 24th October 2016). At the start of Samvat 2072, the market fell significantly till Budget 2016 to the levels of 22,500. After government assured in Budget 2016 that it would stick to the fiscal deficit target of 3.5% of GDP in FY17, the market has seen a decent rebound.

Low Inflation, Low Interest rates

In Samvat 2073, the market is likely to make new high as economic macros of India have improved compared to previous year. The inflation has come down to 4.31% in September 2016 from 5.41% in November 2015 due to good monsoon and stable commodity prices which gave room to RBI to cut the interest rates. We expect RBI to continue with its dovish stand and continue cutting interest rate further as the inflation is under control.

Government to focus on implementation of reforms

The GST bill was passed by the Parliament with the government targeting to implement it from next fiscal year. In addition, the government has already doubled its expenditure on infrastructure in FY17 compared to FY16.

Developed Market

	Oct-16	Nov-15	Return (%)
Dow Jones	18,223	17,702	2.9%
Nasdaq	5,310	5,067	4.8%
S&P 500	2,151	2,075	3.7%
Hang Seng	23,565	22,352	5.4%
Nikkei 225	17,365	19,691	-11.8%



Positive Samvat 2073 for Equities

Inflation and Bond Yield

	Oct-16	Nov-15	Change (%)
CPI Inflation (YoY)	4.31%	5.41%	-1.1
10Y India Government Bond Yield	6.92%	7.50%	-0.58

Consumption to rise

During Samvat 2073, the low interest rate environment and good monsoon will boost the consumption. The rural demand is expected to boost after 2 years due to good monsoon. The consumption will also increase as the government has implemented the 7th pay commission recommendations which will infuse Rs. 1.02 trillion in Indian economy. This will benefit 47 lakh Central Government employees and 52 lakh pensioners.

Commodity

	Oct-16	Nov-15	Return (%)
Gold per 10 gram (Rs.)	29,805	25,490	16.9%
Crude Oil/barrel	\$50.75	\$42.93	18.2%

In Samvat 2073, the Indian market will continue to inch higher though the global market uncertainty will continue to haunt the Indian market, but considering the strong growth of Indian economy, global flows are likely to continue. Equities is always given the highest return in long term. We have recommended 10 stock ideas and 4 mutual funds in our 'Diwali Picks' note. We are sure, they will light up your portfolio in time to come.

Institutional activities in equity market

	FII (Rs. Cr)	DII (Rs. Cr)	Total (Rs. Cr)
Net purchase	38,137	31,314	69,451

Note: Nov-15 and Oct-15 figures are as on November 11, 2015 and October 25 2016 respectively.

Diwali Stocks and Equity MFs

Sr. No.	Company	CMP	Upside	EPS CAGR FY16 – 18E	P/E FY18E
1	RBL Bank Ltd.*	344	24%	26%	2.8
2	PTC India Financial Services Ltd.*	39	24%	9%	1.3
3	Heidelberg Cement India Ltd**	143	23%	111%	8.8
4	DHFL*	325	22%	21%	1.5
5	Arvind Ltd.	404	22%	19%	20.5
6	KEC International Ltd.	127	22%	26%	10.6
7	Granules India Ltd	125	21%	31%	13.1
8	Aurobindo Pharma Ltd.	820	21.7%	21%	16.4
9	Tata Chemicals Ltd.	566	21%	16%	13.8
10	Navneet Education Ltd.	109	20%	25%	16.9

Sr. No.	Mutual Fund Scheme	NAV	1 year	3 Years	5 Years
1	HDFC Prudence Fund	434.5	13.7%	24.6%	16.4%
2	Reliance Top 200 Fund	26.2	9.1%	23.4%	17.6%
3	ICICI Pru Value Discovery Fund	126.6	9.9%	31.1%	23.4%
4	HDFC Mid-Cap Opportunity Fund	46.9	22.8%	37.6%	25.6%

Note: CMP and NAV is as on October 25, 2016 and returns are CAGR *Multiple is P/AdjBV FY18E and ** multiple is EV/EBITDA FY18E

RBL Bank Ltd



CMP: Rs 344

BUY

TP: Rs 426

Upside: 24%

- RBL Bank Limited is a scheduled commercial bank with 197 branches and 362 ATMs. The bank focuses on under banked sections of the market. RBL recently issued an IPO of Rs 832 Cr to fund Tier-I equity capital base and fulfill Basel-III norms.
- The bank has completely avoided high leverage sector lending and long-term project financing and focused on working capital loans with regards to corporate advances. GNPA stands at 0.98% with NNPA at 0.59%. Thereby, the asset quality of the bank is one of the healthiest in the industry. This has been supported by its focus to the Agri and SME business.
- The company has one of the best team in the Industry. The bank has been able to differentiate by clear emphasis on new market penetration, identifying new income streams and expanding profitability.
- We value RBL on basis of FY18E P/Adj BV of 2.8x of Rs 426 representing a potential upside of 24% over 12 months. We are Positive on back of growth in advances and diversified portfolio coupled with healthy asset quality

Standalone (Rs Cr.)	FY15	FY16	FY17E	FY18E
Advances (Cr)	14,450	21,229	27,173	32,064
Deposits (Cr)	17,099	19,811	26,547	34,511
NII	556	819	1,269	1,587
NIM (%)	3	3	3.1	3.1
GNPA (%)	0.8	1.0	1.1	1.3
NPA (%)	0.3	0.6	0.7	0.8
ROA (%)	9.8	11.2	12.3	13.3
P/adj BV	-	3.73	3.13	2.8

Source: Company, IIFL Research

PTC India Financial Services Ltd



CMP: Rs 39

BUY

TP: Rs 48

Upside: 24%

- PFS' renewable energy portfolio has grown at CAGR of 52% over FY13-16 and constitutes 44% of its overall loan book. With technological development in Solar energy space, policy support by government and reduced capital cost we foresee incremental growth in the loan portfolio at faster pace
- MCLR coming in place since April-16, its cost of funds has come down by ~20bps. PFS' is also coming in CP market to benefit of lower cost of funds. We believe gradual decline in the funding cost will enable PFS maintain spread of 3 to 3.1% going forward
- PFS' exposure towards thermal portfolio has declined to 29% from 35% two years back. Co. has been focusing on widening loan book in renewable portfolio on account of its lower gestation period & execution risk.
- We estimate PFS to deliver RoA of 2.1% over FY16-18. The earnings before exceptional items and tax is expected to grow by a healthy 18% p.a. during the aforesaid period. We value PFS at FY18E P/ABV multiple of 1.6x to arrive at target price of Rs.48 and assign BUY rating.

Consolidated (Rs cr)	FY15	FY16	FY17E	FY18E
Total Operating Income	385	450	495	625
Growth YoY (%)	58	17	10	26
Op Profit Pre provision	345.3	419.7	459.7	584.6
Net Profit	161	246	223.5	294.5
Growth YoY (%)	-22.5	50.3	-7.6	31.8
EPS (Rs)	2.9	4.4	4	5.2
Adj.BVPS (Rs)	24.4	27.4	25.5	30
ROA (%)	2.6	5	2.1	2.1

Source: Company, IIFL Research

Heidelberg Cement India Ltd



CMP: Rs 142.7

BUY

TP: Rs 175

Upside: 23%

- Satisfactory monsoon in its target markets (UP, MP, Bihar and Karnataka) bodes well for the rural housing demand and HCIL's cement volumes. We estimate the HCIL's cement sales volumes to register ~7.8% CAGR over FY16-18E to ~ 5.2 mmt.
- Insignificant cement capacity addition and improved demand outlook in HCIL's target markets are the key triggers to drive utilization levels. We believe the utilization levels will further improve to ~89% & ~96% in FY17E & FY18E respectively from ~83% in FY16.
- HCIL is using petcoke in the region of 60-70% of total fuel (15-30% cheaper than coal). We believe the lower power & fuel cost, rising utilization level & improving realizations to drive EBITDA margins.
- Stabilization of new capacity & revival in demand will provide HCIL the pricing power in the central region. We expect realization to remain elevated over the next few years. We have factored in ~3.9% realization CAGR over FY16-FY18E.
- The stock is trading attractively at 8.8x FY18E EV/EBITDA multiple. We recommend BUY on the stock with one year target price of Rs 175, based on 10.5x FY18E EBITDA multiple.

Standalone (Rs Cr.)	FY15	FY16	FY17E	FY18E
Revenue	2,044	1,655	1,861	2,071
EBITDA	322	238	360	424
OPM (%)	15.8	14.4	19.3	20.5
PAT	60	39	117	173
EPS Rs	2.6	1.7	5.2	7.6
P/BV(x)	3.7	3.6	3.2	2.7
EV/EBITDA(x)	13.7	18.1	11.2	8.8
ROE %	6.8	4.3	11.6	14.6

Source: Company, IIFL Research

DHFL



CMP: Rs 325

BUY

TP: 400

Upside: 22%

- Dewan Housing Finance (DHFL) has reported a strong performance recently with healthy business momentum led by interest income and a 20% YoY AUM growth. With the onset of housing initiatives especially in Tier 2-3 cities, DHFL is well placed to cater to the home financing demand as it focuses on middle income clientele. We expect AUM growth to remain healthy at a CAGR of 19% over FY16-18E.
- We expect NIM and operational metrics to improve with NCD allotment and operational efficiency. The ~Rs.10,000 Cr NCD is expected to reduce cost of funds by ~40bps over FY16-18E. The Management plans to channelize these funds to Affordable Housing schemes in Tier 2/3 cities. Further, company is focusing to cut costs with reduction in advertising expenses, improving branch efficiency and technology expansion.
- GNPA's are stable at 0.96%, provisions unchanged at Rs 45 Cr. In FY17E, 35% of company's market borrowings and ~20% of bank borrowings are expected to mature. Thereby, provide an incentive for dividend growth going forward supported by revival in the housing industry.
- We maintain Buy with target of Rs 400 (1.46x FY18E P/adjBV).

Standalone (Rs Cr.)	FY15	FY16	FY17E	FY18E
NII	1,256	1,480	1,924	2,270
Net Income	1,522	1,827	2,156	2,501
PAT	623	729	874.8	1,076
ROA (%)	1.27	1.21	1.24	1.26
C/I	30.5	30	27.5	26.6
P/Adj BV	2.07	1.91	1.68	1.46
EPS (Rs.)	21.3	25	30	36.9

Source: Company, IIFL Research

Arvind Ltd



CMP: Rs 403.6

BUY

TP: Rs 495

Upside: 22%

- Company has evolved from volume business to evaluated offering. The company has consciously cut capacities and focused on higher realization business. Arvind has been investing to upgrade customer experience through Omni channel and grow its global brands on a digital platform. With recently launched 'nnow.com', company is attempting to move away from the discount driven e-commerce market to a brand led shopping.
- According to FICCI, the textile industry is expected to grow at 10.6% CAGR over FY16-FY18. Arvind, with its big scale and size, will remain well-poised to benefit from this growth. Company's power brands like Arrow, US Polo Association, Tommy Hilfiger and Flying Machine is expected to continue to demonstrate rapid growth in FY17E. Company is planning to sell 10% stake in Arvind Fashions to raise Rs 740 cr.
- Company plans to reduce debt by Rs 400 cr. through monetizing of non-core assets by FY17E. It is also planning to increase its garment capacity to ~40 million pieces over the next couple of years. We recommend BUY rating with target price of Rs 495 (based on 24.9x P/E in FY18E).

Consolidated (Rs cr)	FY15	FY16	FY17E	FY18E
Net Sales	7,851	8,450	9,100	10,500
EBITDA	1,013	1,065	1,150	1,400
APAT	341	363	390	510
EPS (Rs)	13.2	14.1	15.2	19.8
ROE (%)	13.1	12.5	11.7	13.7
P/E (x)	21.2	28.8	26.7	20.5
EV/EBITDA (x)	10.4	10.9	10.1	8.3
P/BV (x)	2.7	3.3	2.7	1.5

KEC International Ltd.



CMP: Rs 127

BUY

TP: Rs 155

Upside: 22%

- KEC will be the key beneficiary of investment pickup in power transmission and distribution business (T&D). Power Grid & State Electricity Boards (SEB's) are expected to invest ~Rs 45,000 cr (FY17-FY20E) to improve intra-state transmission network. KEC owns 17% market share in power grid transmission EPC orders.
- The company has a strong order book of Rs 10,400 cr which ensures 10% revenue CAGR over FY16-FY18E. The order book majorly comprises of T&D business-70%, SAE-17%, railways-9% and remaining 5% from cables, water and solar business.
- KEC expects order inflow of Rs. 1,000 cr in railway business in FY17E. This will help the company to reach revenue target of Rs 2,000 cr over next 3 years. It has 25% market share in railway segment.
- KEC International EBITDA is estimated to grow at 12% CAGR. This will be led by steady margins in T&D business and discontinuation of entry level pricing strategy in railway business. In addition, pickup in EBITDA margin of SAE business from 5% (FY16) to 9.5% (Q1 FY17) will also drive EBITDA.
- We recommend Buy rating on the stock with target price of Rs 155 (based on 14.3x PE in FY17E)

Consolidated (Rs cr)	FY15	FY16	FY17E	FY18E
Net Sales	8,346	8,422	9,264	10,190
EBITDA	512	679	760	846
APAT	161	192	278	306
EPS (Rs)	6.2	7.4	10.8	11.8
ROE (%)	13.6	14.3	15.3	14.6
P/E (x)	19.9	17.05	11.7	10.6
EV/EBITDA (x)	11	9	7.2	6.4

Source: company, IIFL Research

Granules India Ltd.



CMP: Rs 125

BUY

TP: Rs 151

Upside: 21%

- We expect ~15% revenue growth over FY16-FY18E, as targeted 80% capacity utilization for PFI and strong growth in finished dosages sales to aid revenue growth over FY16-18E.
- The company is among the top global manufacturer of API's like Paracetamol, Ibuprofen, Metformin & Guaifenesin.
- Its concentration towards integrated select API's to finished dosages will improve its margin besides it is moving towards higher margin finished dosages.
- Management guided for 10 ANDA filings in FY17 against 4 in FY16. These filings would be mostly in OTC products and some from Auctus molecules and a few complex products from the Virginia facility.
- Higher formulation, better product mix and capacity expansion to improve growth momentum. The stock presently trading at 13.1x FY18E EPS. We recommend BUY with one year target price of Rs 151 on FY18E EPS.

Consolidated Rs cr	FY15	FY16	FY17E	FY18E
Revenue	1,293	1,430	1,599	1,882
EBITDA	209	277	331	412
PAT	91	119	155	215
EPS Rs	4.5	5.5	6.8	9.4
P/E	27.6	22.5	18.2	13.1
P/BV	5.9	4.0	3.1	2.6
RoE%	23.1	21.6	20.1	22.3
RoCE%	13.3	14	14.2	16.5

Source: Company, IIFL Research

Aurobindo Pharma Ltd



CMP: Rs 820

BUY

TP: Rs 998

Upside: 21.7%

- The management intends to commercialize 26-27 products during FY17E (19 oral solids and 7-9 injectables) with the market size of US\$ 6.8 bn. We forecast ~16% US revenue CAGR over FY16-18E backed by higher expected approvals.
- Europe business turnaround to drive margins. This turnaround was due to shifting of some product manufacturing to India due to low manufacturing cost. Besides several new product launches for Europe are in the pipeline provides revenue visibility.
- Its US injectible business to outpace FY16 growth in FY17E backed by more approvals. Moreover, ~27% of its pending ANDA's relates to Injectible business. We believe the injectible business share to rise in the total US business thus improving its product mix.
- We expect company to generate Rs ~2,900 cr & Rs 3,400 cr free cash flows over FY17E & FY18E from Rs ~2400 cr in FY16. We believe with the improving cash flows going ahead would strengthening its balance sheet
- We estimate 21.4% earning CAGR over FY16-18E. ARBP trades attractive at 16.4x on FY18E earnings. We recommend BUY on the stock with one year target price of Rs 998, based on 20x FY18E earnings.

Consolidated (Rs Cr)	FY15	FY16	FY17E	FY18E
Revenue	12,121	13,896	15,754	17,740
EBITDA	2,564	3,206	3,847	4,570
OPM%	21.2	23.1	24.4	25.8
PAT	1,576	1,982	2,413	2,922
EPS (Rs)	26.9	33.9	41.2	49.9
P/E (x)	30.5	24.2	19.9	16.4
ROE %	30.6	28.1	26.0	24.4
ROCE %	17.3	17.9	20.7	23.5

Source: company, IIFL Research

TATA Chemicals Ltd.



CMP: Rs 565.5

BUY

TP: Rs 684

Upside: 21%

- ~ 2.8 mmt soda ash capacities in China and other countries have shut down over last 1 year, as a result we expect the realization to improve in the region by 10-15% going ahead.
- In last couple of years, the company took cost cutting measures at UK and Kenya plant and also decided not to allocate extra capital towards fertilizer business (which used to be drag on margins). These factors will see surge in margins from present 11-12%.
- The recent urea plant sale for Rs 2,670 cr is positive for the company as it will improve cash flow and enhance its margins in fertilizer business. Besides, normal monsoon will improve growth prospects for its phosphatics business
- Given the better soda ash demand outlook, cost cutting measures, asset monetization through selling urea plant and debt repayment commitment we re-rate the stock. The stock trade attractive at 13.8x times FY18E earnings, we value the stock on SOTP based valuation to arrive at the target prices of Rs 684.

Consolidated (Rs cr)	FY15	FY16	FY17E	FY18E
Net Sales	17,213	17,708	16,450	17,627
EBITDA	2,157	2,143	2,244	2,428
APAT	802	783	964	1,045
EPS (Rs)	31.5	30.7	37.8	41
ROE (%)	14.4	13.2	13.6	13
P/E (x)	14.9	18.4	15.0	13.8
EV/EBITDA (x)	8.1	9.2	8.8	8.1
P/BV (x)	2.2	2.3	1.3	1.1

Source: company, IIFL Research

Navneet Education Limited



CMP: Rs 109

BUY

TP: Rs 130

Upside: 20%

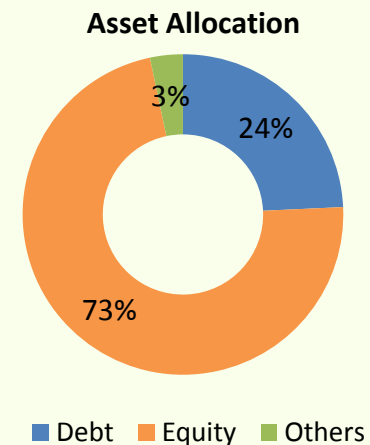
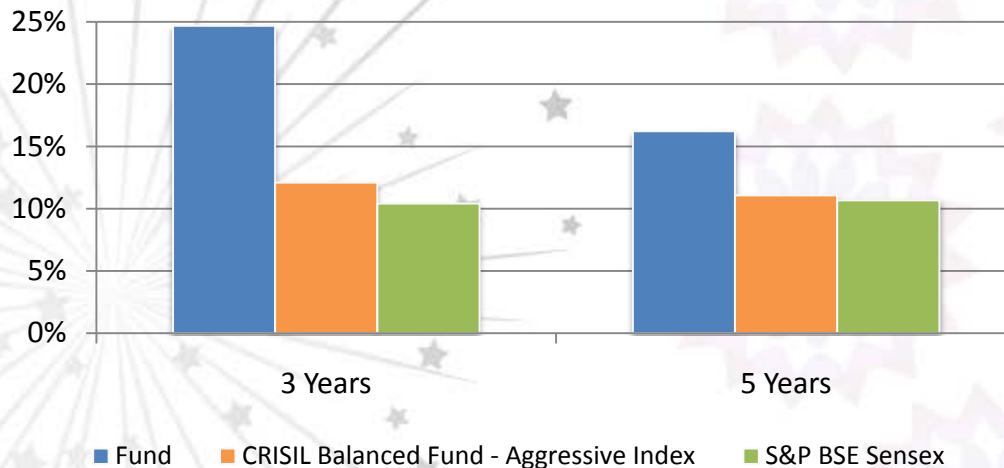
- Navneet Education Limited publication segment is to benefit from impending syllabus change in FY17E in Maharashtra and Gujarat state. Further, re-introduction of Government scholarship program augurs well for the publication business.
- Navneet enjoys a leadership position in publication business with a market share of 65% in both Maharashtra and Gujarat state. Further, it is planning to expand into new geographies resulting in improved market share.
- E-learning offers huge growth potential over next 3-5 years as many schools are expected to adopt digital teaching method. 'TOPCLASS' (animated content for B2B business) of the company has been installed in 2,400 state board institutions. It has also launched offline products such as pen drives, CD-ROMS to improve its product mix in digital business.
- Stationary business is expected to grow at 10% CAGR over FY16-FY18E as Navneet will continue to focus on export business. Further, we expect a big recover in sales from Maharashtra as draught in rural area had a big impact on sales in FY16.
- We recommend Buy rating on the stock with target price of Rs 130 (based on 21.4x PE in FY17E).

Consolidated (Rs cr)	FY15	FY16	FY17E	FY18E
Net Sales	980	950	1,111	1,278
EBITDA	238	206	240	276
APAT	131	103	130	153
EPS (Rs)	5.5	4.3	6.1	6.7
ROE (%)	24.1	19.8	19.9	18.3
P/E (x)	18.1	25.2	19.9	16.9
EV/EBITDA (x)	9.5	12.1	10.4	9

Source: Company, IIFL Research

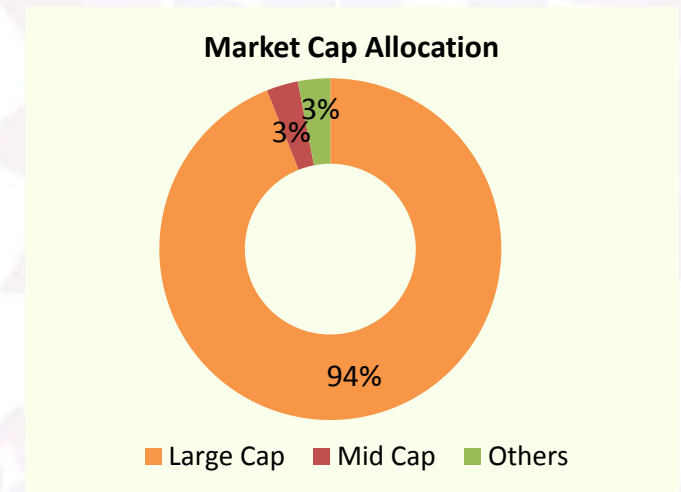
HDFC Prudence Fund

- HDFC Prudence Fund is a balanced equity-oriented fund which does tactical allocation between debt and equity to ensure optimal risk reward. It has generated 18.3% CAGR return since its inception.
- The fund is managed by '**Prashant Jain**' who is CIO of HDFC Mutual Fund and one of the best fund manager in India.
- The fund is the best balanced equity-oriented fund. In last five years, it has outperformed its benchmark, CRISIL Balanced Fund – Aggressive Index, by more than 5% CAGR. If you had invested Rs 1 lakh in this fund 5 years ago, you would have Rs. 2.12 lakh, a return of more than 112% in 5 years.
- If you had started a SIP of Rs. 5,000 per month 5 years ago, the value of your investments would have been Rs. 4.67 lakh, a SIP return of 18.3% in 5 years.
- Its dividend option has consistently paid tax-free dividends in last 15 years with an average dividend yield of - 12%. **But from 2016 the fund is paying dividends every month and maintained dividend yield of ~1% every month.**



Reliance Top 200 Fund

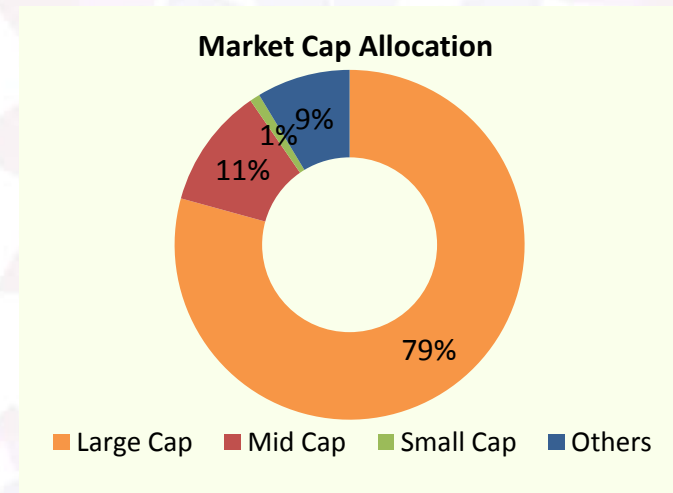
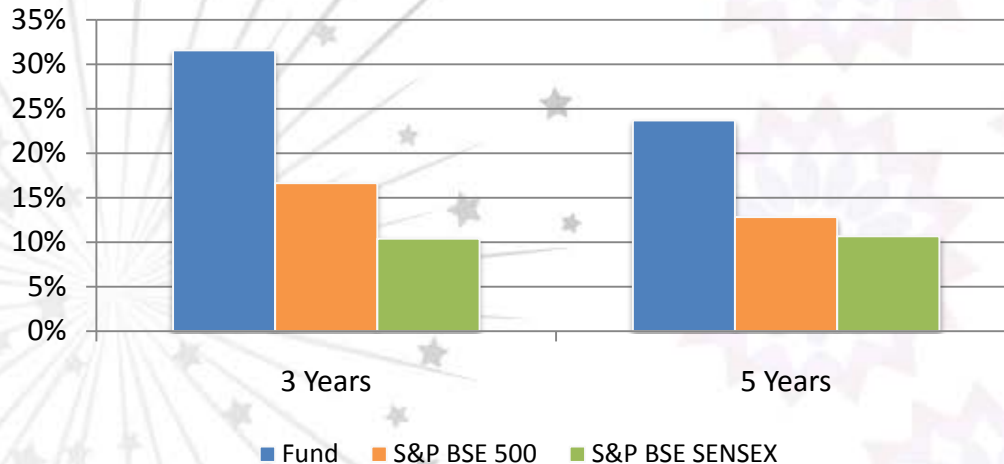
- Reliance Top 200 fund is a large-cap equity MF which has allocated ~94% of the AUM to large-cap stocks. It has generated 11% CAGR return since its inception.
- It is the best large-cap equity fund. The fund has invested ~25% of its AUM in Banks - ~17% in private banks and ~8% in Public banks. This signifies that the fund is all set to get benefited from banks as they are recovering now. In addition, the fund has invested ~80% AUM in 20 stocks which all are 'A' group companies.
- In last five years, it has outperformed its benchmark, S&P BSE 200, by ~5% CAGR. If you had invested Rs 1 lakh in this fund 5 years ago, you would have Rs. 2.25 lakh, a return of 125% in 5 years.
- If you had started a SIP of Rs. 5000 per month 5 years ago, the value of your investments would have been Rs. 4.68 lakh, a SIP return of 18.4% in 5 years.



ICICI Pru Value Discovery Fund



- ICICI Pru Value Discovery Fund is a multi-cap equity fund which does tactical allocation between large-cap and Mid-cap stocks to ensure growth. It has generated 23.2% CAGR return since its inception.
- It is the best multi-cap equity fund. The fund has invested ~79% of its AUM in large cap stocks to generate stable returns while it has allocated 11% to Mid-cap stocks to boost the returns. In addition, the fund has invested ~67% AUM in 20 stocks which all are A group companies.
- In last five years, it has outperformed its benchmark, S&P BSE 500, by more than ~11% CAGR. If you had invested Rs 1 lakh in this fund 5 years ago, you would have Rs. 2.89 lakh, a return of ~190% in 5 years.
- If you would have started a SIP of Rs. 5000 per month 5 years ago, the value of your investments would have been Rs. 5.36 lakh, a SIP return of 24.2% in 5 years.

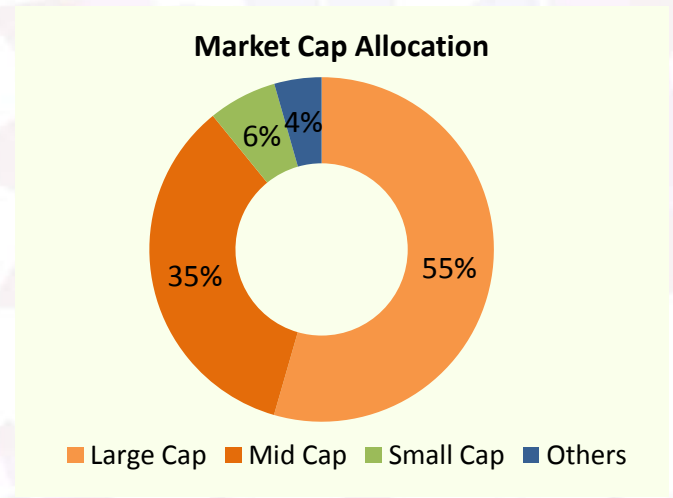
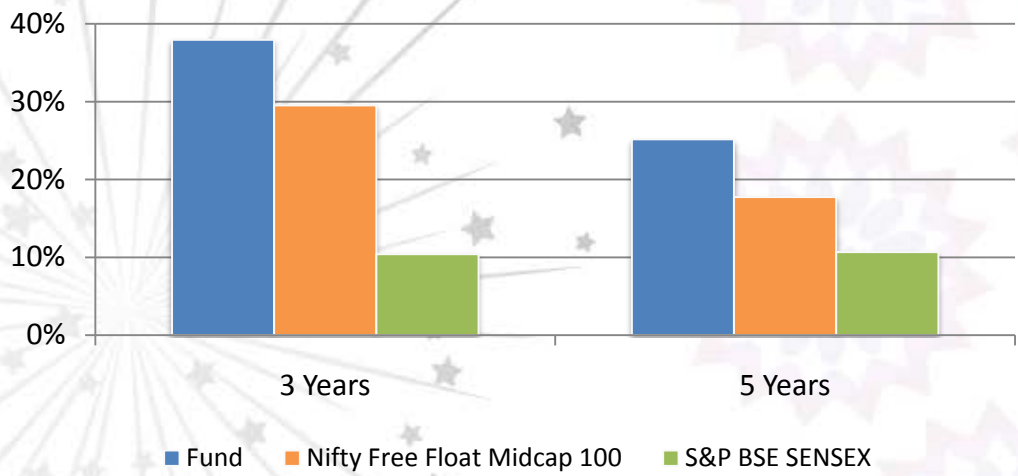


*As on 25th October 2016



HDFC Mid-Cap Opportunities Fund

- HDFC Mid-Cap Opportunities Fund is a mid-cap equity fund which does tactical allocation between large-cap, mid-cap and small-cap to generate high returns for investors. It has generated 18% CAGR return since its inception.
- It is the best multi-cap equity fund. The fund has invested ~55% of its AUM in large cap stocks to generate stable returns while ~40% to Mid-cap and Small-cap stocks to give higher returns. It has well diversified portfolio. It has no more than ~9% exposure to any particular sector. It has also managed its concentration risk, top 10 stocks account for only ~24% of the AUM.
- It is the best Mid-cap equity fund. In last five years, it has outperformed its benchmark, Nifty Free Float Mid-cap 100, by ~7.5% CAGR. If you had invested Rs 1 lakh in this fund 5 years ago, you would have Rs. 3 lakh, a return of 200% in 5 years.
- If you would have started a SIP of Rs. 5,000 per month 5 years ago, the value of your investments would have been Rs. 6 lakh, a SIP return of 29% in 5 years.



*As on 25th October 2016



Disclaimer

Recommendation Parameters for Fundamental Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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