Sharekhan

by BNP PARIBAS

Diwali Picks - 2017

Diwali Greetings!!

Dear Investors,

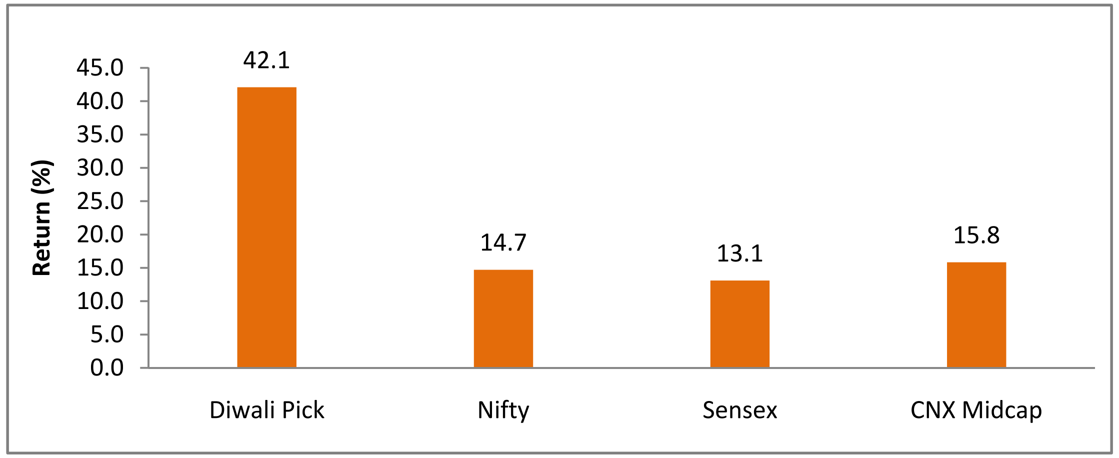
For Samvat 2073, we released our Sharekhan Diwali Picks, which turned out to be quite profitable for all.

Last year, these stocks gave sparkling returns of close to 42% as against 13-16% returns by benchmark indices Nifty/Sensex and even CNX Midcap Index. And this happened despite the turmoil and uncertainty caused by bold policy initiatives such as demonetisation and implementation of Goods and Services Tax (GST).

This year, Get ready for a Diwali like never before!

For Samvat 2074, we have carefully chosen 10 quality picks to make another market-beating portfolio for you. This portfolio is well balanced and provides superior returns, without any unnecessary risk. The picks are largely from our key investment themes; namely Financialisation of household savings, increased government spending on infrastructure development in absence of private investments and benefits accruing to consumption companies, from a shift in market share to organised companies from unorganised ones.

Diwali Picks 2016: Sparkling Returns in Samvat 2073



We wish you a Happy Diwali and a Prosperous New Year!

Regards,

Sharekhan Research

Diwali 2016 Picks: Sparkling gains

Company name	Reco* (Rs.)	CMP# (Rs.)	Return (%)
SBI	260	256.6	-1.3
RBL	327.5	516.0	57.5
L&T Finance	101.7	197.4	94.1
Natco Pharma	590.7	991.8	67.9
Kansai Nerolac	377.9	483.2	27.9
Finolex Cables	427.9	535.2	25.1
Wonderla Holidays	403.8	535.2	32.5
TVS Motors	392.2	660.5	68.4
Rico Auto Industries	67.6	100.2	48.2
Zee Entertainment	519.5	522.8	0.6
Sharekhan Diwali Picks			**42.1**
Nifty return	8699	9979.7	14.7
Sensex return	28130	31814.2	13.1
CNX Midcap	15994.8	18528.2	15.8

- *Reco price as on October 20,2016*

 # CMP as on October 06, 2017

Diwali 2017 (Samvat 2074) Picks

Diwali Picks

Sharekhan’s Diwali Picks 2017 (Samvat 2074)

Company	CMP (Rs.)	EPS (Rs.)		PER /PBV (x)		RoE (%)	
		FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Aurobindo Pharma	744.1	45.2	56.8	16.5	13.1	24.9	24.6
Bajaj Finserv	5,305.0	-	-	-	-	-	-
Bata India	739.5	16.4	19.7	45.1	37.5	14.7	15.3
IndusInd Bank	1,689.0	61.8	79.1	4.3	3.6	16.5	18.2
KNR Constructions	209.0	12.3	13.0	17.0	16.1	17.6	15.9
Mahindra & Mahindra	1,302.0	63.1	72.9	20.6	17.9	13.9	14.5
RBL Bank	516.0	15.5	22.4	4.3	3.7	13.7	15.9
TV Today Network	360.0	19.0	22.8	18.9	15.8	29.1	29.7
V-Guard Industries	190.4	4.4	5.7	43.4	33.7	26.3	27.4
Sundram Fasteners	452.0	19.4	22.3	23.2	20.3	27.4	26.2

** PBV multiples are for banks*
 # CMP as on October 06, 2017

Aurobindo Pharma

CMP: Rs. 744.1

Sector: Pharma	
Market cap	Rs. 43560 Cr
52-week high/low:	Rs. 895/ 504
NSE volume (No of shares):	30.11 lakh
BSE code:	524804
NSE code:	AUROPHARMA
Promoter's Share (%)	52%

- Aurobindo Pharma Ltd (Aurobindo), headquartered at Hyderabad, manufactures generic pharmaceuticals and active pharmaceutical ingredients. The company's manufacturing facilities are approved by several leading regulatory agencies such as the USFDA, UK MHRA, among others. Its product portfolio encompasses antibiotics, anti-retrovirals, CVS, CNS, gastroenterologicals, pain management drugs and anti-allergics.
- Management expects to launch over 25 products (more approvals of complex products) in the coming years, which will help Aurobindo to achieve higher growth and mitigate increasing pricing pressure in the US market.
- The company expects to reduce debt to less than $470 million by the end of FY2018 from $560 million currently.
- **Key risks:** Any delay in product approvals from the USFDA, number of players getting approvals for similar drugs and any negative outcome of the USFDA inspection of its plants could significantly affect Aurobindo's revenue and profitability.

Valuation summary

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net sales (Rs cr)	13,955.2	15,089.9	17,038.0	19,716.5
EBIDTA margin (%)	22.8	23.1	24.3	25.9
Net profit (Rs cr)	2055	2290	2647	3326
EPS (Rs.)	35.1	39.1	45.2	56.8
PER	21.2	19.0	16.5	13.1
EV/EBITDA	14.8	13.0	10.5	8.0
RoCE (%)	27.3	25.7	27.2	28.9
RoE (%)	33.0	27.5	24.9	24.6

Bajaj Finserv (BFS)

CMP: Rs. 5305

Sector: Banks & Finance	
Market cap	Rs. 84,4255 Cr
52-week high/low:	Rs. 5835 / 2516
NSE volume (No of shares):	1.64 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Promoter's Share (%)	58.35

- Bajaj Finserv (BFS) is the holding company comprising of lending business and insurance companies
- Bajaj Finance Limited (BFL), subsidiary of BFS (58% stake), is the lending arm with a strong and well-diversified loan book with niche segments. Its strong operating performance with a healthy asset quality, achieved on back of a 38.9% y-o-y growth in assets under management (AUMs) indicates the strength of its business model.
- The insurance subsidiaries of BFS: Bajaj Allianz General Insurance Co Ltd (BAGIC) and Bajaj Allianz Life Insurance Co Ltd (BALIC) too have maintained strong operating metrics. India is significantly under-penetrated in the insurance vertical which will help private players including BAGIC and BALIC to continue gaining market share.
- We believe BFL, BAGIC and BALIC have plenty of headroom to grow and can outperform the industry in terms of growth. Hence, we find significant long-term value in BFS and expect its subsidiaries' earnings momentum to continue.
- **Key risks:** Regulatory risks

Valuation summary

Particulars	FY2015	FY2016	FY2017
Gross Revenue	19,589.3	22,276.2	27,333.3
PAT	1,689.8	1,863.3	2,261.9
Growth %	9.5	10.3	21.4
EPS	106.2	117.1	142.1
RoE %	16.4	15.1	15.2
RoA %	2.1	1.9	2.0

Bata India

CMP: Rs. 739.5

Sector: Retail	
Market cap	Rs. 9,505Cr
52-week high/low:	Rs. 750 / 400
NSE volume (No of shares):	6.8 lakh
BSE code:	500043
NSE code:	BATAINDIA
Promoter’s Share (%)	53

- Bata India is the largest retailer and manufacturer of footwear in India with a network of over 1,300 stores; unmatched by any of its peers. The company has strong brands such as Bata, Hush Puppies and Power catering to varied strata of population in the Indian market.
- Indian consumers’ retail sentiments are improving, aided by stable a macroeconomic environment and evolving aspirations. Further, Indian buyers are shifting from basic, need-based footwear to fashion and style variants.
- With redefined strategies and senior management changes, Bata is transforming itself from a conventional footwear player to branded footwear player. Sustained store expansion, premiumisation and steady same store sales growth (SSSG) would help the company’s revenue and profit after tax (PAT) to clock CAGRs of 11% and 22% over FY17-FY20, respectively.
- **Key risks:** Slowdown in SSSG or increase in key cost elements.

Valuation summary

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net sales (Rs cr)	2,455.9	2,504.3	2,740.8	3,064.2
EBIDTA margin (%)	11.2	11.1	12.7	13.0
Net profit (Rs cr)	150.2	159.0	210.7	253.6
EPS (Rs.)	11.7	12.4	16.4	19.7
PER	63.3	59.8	45.1	37.5
EV/EBITDA	30.2	27.7	22.6	19.7
RoCE (%)	19.9	20.4	22.1	23.0
RoE (%)	13.4	12.5	14.7	15.3

IndusInd Bank

CMP: Rs. 1,681

Sector: Banks & Finance	
Market cap	Rs. 100,909 Cr
52-week high/low:	Rs. 1818 / 1038
NSE volume (No of shares):	9.80 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Promoter's Share (%)	16.78

- IndusInd Bank (IndusInd) has been among the best-performing private sector banks with its superior operating metrics. Its advances have recorded a 27.1% CAGR during FY14-FY17, while net profit clocked a CAGR of 26.8%. Net interest margin stood at a healthy 4.0% in FY17.
- Despite the banking sector facing tough times on asset quality owing to various reasons, IndusInd's asset quality has been excellent. Gross non-performing asset (GNPA) ratio of IndusInd stands at 0.93% as of March 2017, which is among the best in the industry.
- Currently, the bank is in merger talks with Bharat Financial Inclusion Ltd, which if successful, could bring in a lot of synergies for IndusInd. These include acquisition of high-yielding loans, enhanced priority-sector lending and capital release from Bharat Financial for the merged entity.
- **Key risks:** Higher credit risk in case of merger with Bharat Financial Inclusion Ltd.

Valuation summary

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net Interest Income	4,517	6,063	7,986	10,354
Growth %	32.1	34.2	31.7	29.6
PAT	2,286	2,868	3,674	4,708
Growth %	27%	25%	28%	28%
EPS	38.4	48.2	61.8	79.1
BVPS	291.0	340.6	393.9	464.2
P/E (x)	44.0	35.0	27.3	21.3
P/BV (x)	5.8	5.0	4.3	3.6

KNR Constructions

CMP: Rs. 209

Sector: Infrastructure	
Market cap	Rs. 2,942 Cr
52-week high/low:	Rs. 237/ 125
NSE volume (No of shares):	0.91 lakh
BSE code:	532942
NSE code:	KNRCON
Promoter's Share (%)	57.4%

- KNR Constructions (KNR) is a leading EPC service provider, mainly operating in the roads and highways segment (that forms 85% of order book). KNR has exposure to two build-operate-transfer (BOT) projects. The company has over two decades of experience, having executed of more than 6,000 km of road projects across 12 states in India. KNR has in-house construction capabilities , which insures project completion on time.
- KNR expects tendering activity to pick up from H2FY2018. Management aims to achieve Rs. 1,700-1,800 crore revenue in FY2018 and around Rs. 2,000 crore in FY2019, on a conservative basis. Moreover, KNR's capital utilisation is prudent and its balance sheet is strong.
- We expect KNR to report more than a 15% CAGR in standalone revenue and EBITDA during FY2017-FY2019. We see intake of order inflow for KNR as a key re-rating trigger.
- **Key risks:** Slowdown in domestic economy and/or company's inability to bag new projects will affect operational performance.

Valuation summary

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net sales (Rs cr)	902.5	1,541.1	1,772.7	2,051.4
EBIDTA margin (%)	16.9	14.9	14.9	14.9
Net profit (Rs cr)	105.6	168.1	172.5	182.9
EPS (Rs.)	7.5	12.0	12.3	13.0
PER	27.7	17.4	17.0	16.0
EV/EBITDA	16.0	10.7	9.3	8.0
RoCE (%)	15.4	19.7	17.4	15.7
RoE (%)	16.2	20.6	17.6	15.9

Mahindra & Mahindra

CMP: Rs. 1,302

Sector: Auto & Ancillaries	
Market Cap	Rs.80,866
52-Week high/low	1460 / 1142
NSE volume (No Of Shares)	10.8 Lakh
BSE Code	500520
NSE Code	M&M
Promoters Share(%)	25.25

- Mahindra & Mahindra (M&M) benefits from the encouraging outlook for farm equipment segment, given the normal monsoon and higher minimum support prices (MSPs) that will boost farm incomes. Further, its focus on introducing new products will help it outpace industry growth.
- In the auto segment, M&M plans to launch two new utility vehicle (UVs) models in the next two years (an MUV is to be launched in FY2018 and a compact UV in FY2019). Newer products and upgraded models would help company regain market share. Moreover, improved rural demand and GST implementation would boost light commercial vehicle (LCV) sales volumes.
- M&M is the only Indian automobile company having a track record of manufacturing passenger electric vehicles (EVs). Given the government's push for EVs and M&M's planned new launches in this space, it will clearly enjoy a first-mover advantage and significantly benefit from the shift to EVs.
- **Key risks:** Increasing competitive pressures in the UV space and erratic monsoons affecting tractor demand.

Valuation summary

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net sales (Rs cr)	38,887.9	41,895.4	46,329.1	50,254.4
EBIDTA margin (%)	13.5	13.5	13.8	14.1
Net profit (Rs cr)	3,337.8	3,687.7	3,919.5	4,530.6
EPS (Rs.)	53.7	59.4	63.1	72.9
PER	24.2	21.9	20.6	17.9
EV/EBITDA	14.6	13.6	11.7	10.3
RoCE (%)	16.5	16.7	16.7	17.4
RoE (%)	14.3	14.4	13.9	14.5

RBL Bank

CMP: Rs. 516

Sector: Banks & Finance	
Market cap	Rs. 21,413
52-week high/low:	Rs. 600 / 296
NSE volume (No of shares):	17.49 lakh
BSE code:	540065
NSE code:	RBLBANK
Promoter's Share (%)	NIL

- RBL Bank (RBL) has been among the fastest growing private sector banks in the past 5-6 years, with advances CAGR of 44.1% over FY2014-FY2017. RBL has a wide range of products, catering to various segments from corporate to retail customers.
- As of March 2017, RBL's GNPA stood at 1.20%, which is among the best in the industry. Further, despite having 13.9% of loan book exposure to the developmental banking and financial inclusion segments (microfinance), the bank has been able to maintain a strong asset quality.
- Over the past few years, RBL has invested significantly to improve its system and processes. As a result, the bank's cost-to-income ratio has remained high. However, as these investments bring economies of scale, we can expect costs to decline in the coming years, which in turn boost return on assets (RoA) and return on equity (RoE).
- **Key risks:** If a slowdown in SME and MSME segments persists, it could pave the way for some delinquencies.

Valuation summary

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net Interest Income	819.6	1,221.3	1,799.3	2,567.7
Growth %	47%	49%	47%	43%
PAT	292.9	446.1	631.5	837.7
Growth %	41%	52%	42%	33%
EPS	9.0	11.9	15.5	20.5
BVPS	92.0	115.6	120.2	138.0
P/E (x)	57.2	43.4	33.3	25.1
P/BV (x)	5.6	4.5	4.3	3.7

TV Today Network

CMP: Rs. 360

Sector: Media	
Market cap	Rs. 2,147 Cr
52-week high/low:	Rs. 433 / 211
NSE volume (No of shares):	2.1 lakh
BSE code:	532515
NSE code:	TVTODAY
Promoter's Share (%)	57.4

- TV Today, a leading TV News broadcaster in India, operates four news channels and three FM radio stations.
- Through its flagship channel AajTak, the company has been maintaining its dominant position in the Hindi general news genre , whereas India Today (its English news channel) has improved its market share steadily to become one of the leading English news channels in India.
- TV Today is in a sweet spot to leverage the uptrend in advertising spends and full digitalisation regime, which augur well for the company's further growth prospects.
- With 20% earnings CAGR over FY2017-FY2020E coupled with impressive return ratios, TV Today is an ideal investment bet in the TV broadcasting space.
- **Key risks:** Cut down in advertising spends from clients due to lower than expected GDP growth

Valuation summary

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net sales (Rs cr)	608.1	669.6	746.4	834.4
EBIDTA margin (%)	26.2	29.3	31.2	32.5
Net profit (Rs cr)	92.3	113.5	136.1	160.5
EPS (Rs.)	15.5	19.0	22.8	26.9
P/E (x)	23.3	18.9	15.8	13.4
EV/EBITDA	12.0	9.6	7.9	6.5
RoCE (%)	17.7	18.3	18.7	18.7
RoE (%)	26.8	29.1	29.7	29.9

V-Guard Industries Ltd

CMP: Rs. 190.4

Sector: Electrical & Consumer Durable	
Market cap	Rs. 8,084 crore
52-week high/low:	Rs. 109 /221
NSE volume (No of shares):	1.0 lakh
BSE code:	532953
NSE code:	VGUARD
Promoter’s Share (%)	65.2

- V-Guard Industries Ltd (V-Guard) is an established brand in the electrical and household goods space, particularly in south India and has grown its earnings impressively at 46% CAGR over FY2015-2017.
- The company plans to be a pan-India player, aggressively expanding in non-south markets (adding 15,000 retailers over a period of 5 years) and is particularly focusing on the tier-II and III cities where there is a lot of pent-up demand for its products. We believe this to drive earnings and expect 26% CAGR from FY2017-2019E.
- We believe V-Guard will continue to generate strong cash flow and returns ratios at a sustainable basis to create shareholders value.
- **Key risks:** Inability of the company to pass on the rising commodity prices.

Valuation summary

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net sales (Rs cr)	1,862	2,151	2,501	3,009
EBIDTA margin (%)	9.6	10.0	10.0	10.5
Net profit (Rs cr)	112	152	186	240
EPS (Rs.)	2.6	3.6	4.4	5.7
PER	72.4	53.3	43.4	33.7
EV/EBITDA	43.5	34.9	29.5	22.9
RoCE (%)	37.2	38.0	35.4	37.0
RoE (%)	26.3	27.4	26.3	27.4

Sundram Fasteners Limited

CMP: Rs. 452

Sector: Auto & Ancillaries	
Market Cap	Rs. 9,500 Cr
52-Week high/low	487 / 263
NSE volume (No Of Shares)	1.59 Lakh
BSE Code	500403
NSE Code	SUNDRMFAST
Promoters Share(%)	49.5

- Sundram Fasteners Ltd (SFL) is introducing new products like engine components, pump assemblies, powder metal parts and shafts. This would help the company broaden its offerings and outpace industry growth.
- Upcoming regulatory changes in the auto industry are likely to open up huge opportunities for ancillary players like SFL. Moreover, auto OEMs' focus on introducing flexible modular platforms to reduce costs require specialised fasteners, which provides a huge growth opportunity.
- SFL's focus on high-value products (transmission and electric vehicle products) would lead to sustained higher margins. Improved operating performance and a low interest cost would boost the earnings
- **Key risks:** Any slowdown in the auto industry, adverse currency movement.

Valuation summary

Particulars	FY2016	FY2017	FY2018E	FY2019E
Net sales (Rs cr)	3,254.9	3,290.0	3,731.9	4,162.4
EBIDTA margin (%)	11.8	18.1	18.2	18.3
Net profit (Rs cr)	243.7	340.6	408.5	468.2
EPS (Rs.)	11.6	16.2	19.4	22.3
PER	39.0	27.9	23.2	20.3
EV/EBITDA	26.1	16.9	14.2	12.4
RoCE (%)	20.7	26.0	29.2	29.5
RoE (%)	25.6	27.6	27.4	26.2

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