

Muhurat Pick Samvat 2072



डर्जया श्री संपत्ति वर्धते ॥

Market Outlook

Last year we had expressed confidence in India's strong prospects and India has indeed emerged as a sweet spot among global market with developed economy as well as China struggling for growth and other emerging economies coming under pressure due to falling commodity prices, India has stood out as a key beneficiary of cheaper commodities on one hand and a reformist action, action-oriented government on the other.

Not surprisingly therefore, India has significantly outperformed other major emerging market such as Brazil and Russia. The Sensex has appreciated 33% even in \$ terms over the last 2 years, while the Russian and Brazil benchmark indices have lost 40% - 50% in \$ terms. A major encouraging factor behind this outperformance is the increasing maturity and depth of all markets. Domestic flow have remained strong, even offsetting the decline in foreign flows recently. This reflects the strong optimism and conviction among domestic retail investor about the India story.

The market has rebounded by approximately 8% from recent low of 7540 - 8150 currently. This was led by the positive surprise from the RBI that announced a repo rate cut of 50 bps. A decline in global commodities aiding government fiscal position and corporate Profit/Loss on a front loaded basis would lead to a pickup in consumer demand. This would benefit both operating as well as financial leverages of corporate.

Foreign inflows coupled with strong domestic investment are likely to lead to our market outperforming all major emerging market over the next few years, re-affirming equities as the best asset class, while returns from other assets classes such as fixed income, Gold and Real State are moderating. Therefore, in our view, this is an opportunity time to increase exposure to equities as an asset class.

India best placed among Emerging Economies

We have a positive view on the markets, as we believe that favorable macro cues such as low inflation, declining interest rates, cheap global commodities and strong governance are likely to drive improvement in corporate performance over the next 18-24 months. In our view, India is best placed within the emerging economies space and is likely to continue attracting higher fund inflows in the medium-term, notwithstanding any near-term global concerns.

So far, while inflation had been coming down, policy rates took longer to decline and banks had been even slower to cut rates. But, now decline in interest rates is gathering momentum even in the hands of the borrowers and in our view there is substantial headroom for rates to decline further by at least 100-150bps. This is considering that deposit growth is still meaningfully higher than credit growth (11.5% Vs. 9.5%) and inflation remains structurally low at sub-5% levels

Further, while the 40-50%+ decline in prices of most major global commodities is a huge positive for the Indian economy in the wider context, but in the near-term, large corporates in the commodity space as well as banks have been negatively impacted and this has slowed corporate earnings growth as well as banks' ability to cut rates faster. However, going forward, as cheaper imports and sharply declining subsidies release huge funds for the government to spend on more productive areas such as infrastructure, we expect the positive stimulus from cheaper commodities to also gain momentum. This is already reflected in the substantial ordering activity by the government in recent months and strong pipeline going ahead (put together, in excess of Rs. 3.5lakh Crores in next few quarters itself).

Prefer companies with strong competitive advantage, benefitting from evolving macros

From a top-down perspective, we expect themes like urbanisation, consumerism, domestic and export service sector plays as well as government spending plays to do well in the coming years. With falling rates and huge under-penetration, retail finance, including housing finance is likely to perform well and BFSI companies better aligned to this would continue to outperform. With reviving domestic macros, we expect auto sector volumes, especially in passenger four-wheeler and commercial vehicle space, to continue growing strongly. We prefer those OEMs and ancillaries that have strong competitive positioning and the ability to maintain or even gain market share, going ahead.

Post the election rally last year when all cyclical and midcap stocks had rallied, there has been a reality check and once again there is a preference for quality companies, which are aligned to the evolving macros. So companies in commoditised sectors where there is global over-supply will remain in the negative list for us. On the other hand, we continue to like defensive sectors like IT and pharma where Indian companies have strong competitive advantages on a global scale; within these sectors, we prefer those companies where margins have scope to improve relative to peers, which is not being factored in valuations currently.

Valuation

From a bottom-up perspective, we continue to like select companies with strong brands, entrepreneurial success and healthy growth outlook. Overall, we expect the Sensex EPS to report a growth of ~11% in FY2016 and 17% in FY2017, with an upward bias. Attributing an 18x multiple to our FY2017E Sensex EPS, we arrive at a target of 31,500 for the Sensex, implying a 16% upside from the present levels with a 12-18 month horizon.

Stock Recommendations for Diwali Samvat 2072

Sr. No.	Company Name	Sector	CMP (Rs.)	Buying Range	Target	Stop loss	Upside (%)
1	INDUSIND BANK	BFSI	893.00	Above 900.00	1030.00	812.00	15.34
2	ICICI BANK	BFSI	262.00	Above 260.00	382.00	215.00	45.80
3	DHFL	BFSI	212.00	Above 220.00	315.00	190.00	48.58
4	LIC HOUSING FINANCE	BFSI	463.00	Above 480.00	595.00	426.00	28.51
5	LARSEN TOUBRO	CAPITAL GOODS	1348.00	Above 1375.00	1600.00	1230.00	18.69
6	MARUTI SUZUKI	AUTO	4712.00	Around 4700.00	5200 - 5500	4350.00	13.54
7	TVS MOTORS	AUTO	296.00	Around 300.00	360.00	260.00	21.62
8	ASHOK LEYLAND	AUTO	89.00	Above 90.00	125.00	80.00	40.45
9	SUN PHARMA	PHARMA	732.00	Above 735	1115.00	650.00	52.32
10	BRITANNIA	FMCG	3035.00	Above 3100	3630.00	2763.00	19.60

INDUSIND BANK

INDUSIND BANK

CMP: 893.00

STRATEGY: BUY ABOVE 900.00

TARGET 1030.00

BSE Code	532187
Face Value	10
Book Value	173.93
Div Yield(%)	0.45
EPS	34.23
P/E	26.07
Mcap (Cr.)	52856.29
NP(Cr.)	1793.72
Industry	BFSI

- ❑ IndusInd Bank is among the fastest growing banks (a 27% CAGR growth over FY2010-15) having a loan book of Rs 68,700 crore and 811 branches across the country. About 25% of the bank's book pertains to vehicle finance, which is a high-yielding category and is showing signs of recovery. Given the aggressive measures taken by the management, the deposit profile has improved considerably (a CASA ratio of 34%). Going ahead, the bank would follow a differentiated branch expansion strategy (a 5% branch market share in identified centers) that would help ensure healthy savings accounts and retail deposit growth.
- ❑ Despite a weak economic growth and a higher proportion of vehicle finance book the bank has maintained its asset quality. With total stressed loans (restructured loans + gross NPAs) forming just 1.4% of the book, the bank's asset quality is among the best in the system.
- ❑ A likely revival in the economy will further fuel growth in the consumer finance division and strong capital ratios will support the growth plans. The stock is trading at 3.3x its FY2017E book value (not factoring in the QIP issue). We have a positive view on the stock, given its strong loan growth, amongst the highest RoAs in the sector, and robust asset quality.

ICICI BANK

CMP: 262.00

STRATEGY: BUY ABOVE 260.00

TARGET 382.00

BSE Code	532174
Face Value	2.00
Book Value	138.52
Div Yield(%)	1.91
EPS	20.35
P/E	12.89
Mcap (Cr.)	152396.85
NP(Cr.)	24493.94
Industry	BFSI

- ❑ We like the quality of liability franchise - CASA mix at 45.1% (Q2FY16), one of the best in the industry and NIM has been strong on back of strong accretion to low cost deposits as well as better ALM, lower risk on SME portfolio (~5% of total portfolio). While retail piece has witnessed insignificant net slippage, corporate segment continues to perform well.
- ❑ RoA is likely to remain stronger at 1.8% (FY16/17), driving up the RoE to 15%+ (FY17). Management focus on stable growth with improving structural profitability reinforces our existing positive outlook on the stock and incremental stress build-up is front-loaded and likely to be lower in FY16 as compared to the same seen during FY15 therefore we have used SOTP method to value the stock, where standalone business comes to Rs.323 (2.0x FY17E ABV) and subsidiaries are valued at Rs.77 (holding co discount: 20%).
- ❑ It is the largest private sector bank (4054 branches in Q2FY16) with 4.2% market share in domestic loans and after conscious strategy of de-growing their B/S post Lehman collapse, bank has started focusing on profitable growth.

Dewan Housing Finance Corporation Limited

DHFL

CMP: 212.00

STRATEGY: BUY ABOVE 220.00

TARGET 315.00

BSE Code	511072
Face Value	10.00
Book Value	158.89
Div Yield(%)	2.83
EPS	23.15
P/E	9.17
Mcap (Cr.)	6194.21
NP(Cr.)	621.29
Industry	BFSI

- ❑ Founded in 1984, DHFL is a dominant player in niche markets (Tier II & III cities) with strong foothold in the limited competition low and middle income (LMI) segment. After the acquisition and merger of First Blue Home Finance, it caters to the middle and upper-middle income group.
- ❑ Its low penetration levels in the LMI segment provide significant potential for housing finance companies. Rising proportion of working age population (nearly 2/3rd of population is in the 15 to 64 years age group³) and increasing nuclearisation of families will further drive the demand.
- ❑ The company has created separate business verticals namely Housing loans and non housing loans enabling each vertical to focus on its core business, to drive profitability and customer satisfaction.
- ❑ DHFL has been able to maintain a healthy portfolio with low delinquency rates. Around 80% of loan portfolio comprises housing loans given for purchase of homes, extension & improvements and self construction. 74:26 JV between DHFL and its Promoters and Prudential Financial Inc (PFI) catering to the Life Insurance segment will benefit in future
- ❑ Low penetration levels in the LMI segment provide significant potential for housing finance companies. Government initiatives like “Affordable Housing for All’ & “100 Smart Cities” to drive the growth. Benefits of easing borrowing cost. Reshuffling in the existing borrowing mix and decrease in cost of funding will improve the overall margins.

LIC HOUSING FINANCE

LICHSGFIN

CMP: 463

STRATEGY: BUY ABOVE 480.00

TARGET 595.00

BSE Code	500253
Face Value	2.00
Book Value	154.92
Div Yield(%)	1.08
EPS	30.05
P/E	15.42
Mcap (Cr.)	23,386.08
NP(Cr.)	1386.19
Industry	BFSI

- ❑ Significant under penetration of mortgages in India: India is expected to witness a robust housing finance growth going forward as the mortgage penetration in India remains at very low levels at 8% to GDP as compared to the developed countries where it is in the range of 60-100%. Given the strong growth outlook (amongst the fastest growing loan segments at the industry levels, while overall credit growth remains sub-10%) as well as relatively healthy asset quality, in our view, make mortgage finance one of the most attractive BFSI segments.
- ❑ NIM expansion visible: LIC Housing Finance is able to raise funds from low-cost NCDs due to its strong AAA credit rating and backing by strong promoters like LIC. The company has seen a significant reduction in its cost of funds to 9.29% as against 9.68% a year ago. In a declining interest rate environment, NBFC's like LIC Housing are well-placed to increase margins in our view.
- ❑ Despite competition in mortgages, volume growth in the individual loans segment remains fairly strong. LICHF continues to grow its retail loan book at a healthy pace with healthy asset quality. We expect the company to post a healthy loan book CAGR of 18.7% over 2015-17E which is likely to reflect in an earnings CAGR of 20.5% over the same period.

LARSEN & TOUBRO

LARSEN & TOUBRO

CMP: 1348.00

STRATEGY: BUY 1375.00

TARGET 1600.00

BSE Code	500510
Face Value	2.00
Book Value	398.08
Div Yield(%)	1.21
EPS	53.80
P/E	25.05
Mcap (Cr.)	1,25,476.53
NP(Cr.)	5056.18
Industry	Capital Goods

- ❑ L&T's Management sees a bid pipeline of Rs. 3,70,000cr (Rs. 1,00,000cr of this would be from the international markets), which are at different stages of awarding. Considering the huge bid-pipeline and the company's wide presence across sub- verticals, it should attain its 5-7% revised order inflow growth guidance for FY2016.
- ❑ L&T, as of 2QFY2016-end, is sitting on an order book of Rs. 2,44,097cr, which gives revenue visibility for over the next 30 months. Considering the huge order book, we expect L&T to report a 12.5% yoy top-line growth for FY2016.
- ❑ With legacy Hydro-carbons projects in Middle-East nearing completion, we expect the Hydro-carbons business to show signs of turn-around by 4QFY2016. Accordingly, L&T could see consol EBITDA margin expansion in FY2017.
- ❑ The standalone D/E ratio (2QFY2016) stands at 0.41x. Divestment of non-strategic holdings, further equity infusion in infra projects and listing of L&T InfoTech would address the IDPL equity requirements to a certain extent.
- ❑ Ascribing separate values to the parent business (on P/E basis) and to investments in subsidiaries (using P/E, P/BV and M-cap basis), we arrive at a FY2017E based target price of `1,646. At the current market price of Rs. 1,414, the standalone entity is trading at an implied P/E multiple of 14x (FY2017), which is attractive.

MARUTI SUZUKI

MARUTI SUZUKI **CMP: 4712.70** **STRATEGY: AROUND 4700.00** **TARGET: 5200 - 5500**

BSE Code	532500
Face Value	5.00
Book Value	784.70
Div Yield(%)	0.53
EPS	149.13
P/E	31.62
Mcap (Cr.)	1,42,442.83
NP(Cr.)	3711.20
Industry	AUTO

- ❑ Maruti Suzuki is expected to benefit from multiple earnings growth lever in the next 2-3 years. On the back of expected recovery in the economy, the domestic passenger car industry is likely to grow on a strong note. MSIL, being the market leader will be the key beneficiary of this expected revival in car demand. Factors such as expected recovery in small car demand, preference shift towards petrol cars due to fall in fuel prices and strong urban centric new product pipeline should lead to healthy market share for the company.
- ❑ MSIL's operating margins is likely to stay healthy on the back of favorable currency, reduction in discounts on demand recovery and benefits of operating leverage from expected strong volume growth outlook.
- ❑ MSIL, India's largest passenger car company, is a subsidiary of Suzuki Motor Corporation of Japan. Formed as a government owned company (Maruti Udyog Limited), it entered into a JV with Suzuki Motor Corporation. Over the years the company has been one the most successful player in the Indian car market.
- ❑ India's passenger vehicle industry sold 3mn vehicles in FY14. While 80% of sales happened in the domestic market, balance 20% were exported. Top five players account for 80% of industry sales volumes.

TVS MOTORS

TVS MOTORS

CMP: 296.00

STRATEGY: BUY AROUND 300.00

TARGET: 360.00

BSE Code	532343
Face Value	1.00
Book Value	34.63
Div Yield(%)	0.64
EPS	8.15
P/E	36.35
Mcap (Cr.)	14,074.46
NP(Cr.)	347.83
Industry	AUTO

- ❑ TVS Motor Company is 4th largest two-wheeler company in India. TVS Motor Company is the flagship company of the 100 year old six billion USD TVS Group, which has some 40 companies and holdings in the automotive sector. TVS Motor Company offers the widest range of product in the Indian two and three wheeler industry. TVS Motor Company has international presence in more than 50 countries in Asia, Africa and Latin America.
- ❑ TVSL targets 15% market share in domestic 2W business by FY16-end and 27% market share in 3W exports, new product offerings (Victor and new Apache) on track for 4QFY16 launch, strong growth in Jupiter led to the postponement of new launches, new moped launched in UP, with pan-India launch in three months, TVS-BMW alliance product launch in FY17 (both for TVS as well as BMW), some benefit of soft commodity prices might come in 2HFY16, part benefit of favorable forex passed on to distributors in exports, TVSL has made an investment of Rs.267million in an Indonesian subsidiary and Rs. 50million in TVS Motor Services.
- ❑ After a stellar performance from the bottom of nearly 27, TVS Motors has given multiple returns in less than two years and registered a life-time high of 322.25 in the month of January, 2015. Thereafter, the stock corrected sharply inline with its peers and formed multiple bottoms near 200 level. In that process, the weekly chart formed the 'Falling Wedge' pattern and stock has eventually breakout from the aforementioned pattern.
- ❑ The RSI (14) on monthly & weekly chart indicates the strong possibility of up move in coming weeks. Thus we advise investors to accumulate the stock in a range of 281 – 260 for the upside target of 360 in the coming 9 – 12 months. The stop loss for the set up should be placed at 222 on closing basis.

ASHOK LEYLAND

ASHOK LEYLAND

CMP: 89.00

STRATEGY: BUY ABOVE 90.00

TARGET: 125.00

BSE Code	500477
Face Value	1.00
Book Value	14.40
Div Yield(%)	0.50
EPS	2.49
P/E	35.94
Mcap (Cr.)	25,470.60
NP(Cr.)	334.81
Industry	AUTO

- ❑ Ashok Leyland Ltd. (ALL) is country's second largest CV manufacturer and fully-integrated manufacturing company. The company, through its JV with Nissan Motor and John Deere, intends to expand its product portfolio and has launched Dost to tap the growing LCV demand, and a backhoe loader. Ashok Leyland is also the largest fleet provider of logistics vehicles to the Indian Army.
- ❑ The current growth in the M&HCV industry is largely being driven by pent up replacement demand. Fleet operators are also aiding demand growth as their cash situation has significantly improved with low fuel prices and favourable freight rates.
- ❑ Expected recovery in the mining sector due to the recent coal allocation is expected to boost demand for new fleet of trucks which could prove positive for the company.
- ❑ Rebound in industry demand should drive down discounts significantly along with cost reduction measures, which are expected contribute in margin improve.
- ❑ Strong volume recovery coupled with weak commodity prices would drive significant margin expansion and EPS growth. At CMP Ashok Leyland trades at 17.8x FY17 EPS.

SUN PHARMACEUTICALS

SUN PHARMA

CMP: 732.00

STRATEGY: BUY ABOVE 735.00

TARGET: 1115.00

BSE Code	524715
Face Value	1.00
Book Value	24.80
Div Yield(%)	0.20
EPS	24.40
P/E	30.02
Mcap (Cr.)	1,76,264.22
NP(Cr.)	(1474.13)
Industry	PHARMA

- ❑ Ranbaxy merger as well as compliance issues at its largest USFDA approved plant at Halol. However, some indications of revival in supplies from Halol as well as guiding for lower to nil one time expenses related to Ranbaxy merger highlights that the worst is over.
- ❑ Additionally, SUNPHARMA expects to get the phase 3 trial data for its novel molecule – MK3222, which was licensed from Merck. Data is expected by end of this calendar year or early next year. Looking at the data from similar molecule as well as data points publicly available for MK3222, molecule is showing high probability of getting approved. We believe this will be a critical data for SUNPHARMA as this will be the first NCE molecule to be commercialized (if approved).
- ❑ On valuation front too Sun is trading at an attractive 22.1x FY17E EPS, leaving little room for downside. Though FY16E will be a challenging year for SUNP, we believe with better outlook for FY17E coupled with lower valuations (at current valuations SUNP trades at 22.1x FY17E EPS) Sun looks poised for good run up over the next 9-12 months. We have a Buy rating on the stock with a target price of Rs. 1055, 25x FY17E EPS and an NPV of Rs. 70 (for MK-3222, a novel molecule).
- ❑ Sun Pharma was established in 1983 with a portfolio of five products to treat psychiatry ailments and a manufacturing facility in Vapi, Gujarat. Over the last 30 years, Sun Pharma has become one of the most profitable pharmaceuticals manufacturers. Sun Pharma's growth has been driven by both organic as well inorganic expansion

BRITANNIA

BRITANNIA	CMP: 3035.00	STRATEGY: BUY ABOVE 3100	TARGET: 3630.00
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BSE Code	500825
Face Value	2.00
Book Value	102.99
Div Yield(%)	0.53
EPS	56.88
P/E	53.31
Mcap (Cr.)	36,379.67
NP(Cr.)	622.41
Industry	FMCG

- ❑ Britannia Industries is the second largest player in the Indian biscuit market with about 30% market share. It has chalked out an aggressive growth strategy to sustain a double-digit volume growth in the biscuit segment by enhancing its product portfolio. It is likely to maintain a 14-15% revenue growth with the volume growth standing at 10-11% (largely driven by an enhanced distribution reach and an improved product portfolio). The operating margins are expected to remain at 14-15% on the back of a benign input cost and better operating efficiencies
- ❑ It has a strong balance sheet with the free cash flow consistently improving over the past few years. Its return ratios have improved over the past few years and remained strong at above 50%.
- ❑ Under a new leadership, the company has been able to leverage and monetize its strong brand and position in the biscuit and snack segment. We believe it can sustain its higher than industry growth rates with an improving distribution reach, entry into newer categories and focus on cost efficiencies.
- ❑ Any increase in competitive intensity (especially by the regional brands) and rise in the price of the key inputs would act as a key risk to our earnings estimates in the near to medium term.

Performance Of 2014 Diwali Pick

Company Name	Reco. Price	Price on October 30, 2015	Target	Status	Return (%)	Absolute Return Upto October 30, 2015 (%)
State Bank of India*	259.60	237.05	350.00	Profit Booked @ 330	27.12	-8.69
Biocon Ltd.	474.50	454.95	598.00	Profit Booked @ 545	14.86	-4.12
Infosys Ltd.**	953.08	1135.45	1087.50	Target Achieved	14.10	19.13
Bharat Forge Ltd.	764.00	859.35	950.00	Target Achieved	24.35	12.48
Rallis India Ltd.	216.00	207.15	300.00	Profit Booked @ 280	29.63	-4.10
BPCL	696.85	965.25	800.00	Target Achieved	14.80	38.52
Lloyd Electric	147.85	255.10	200.00	Target Achieved	35.27	72.54
Total Return					22.88	17.97
INDEX						
SENSEX	26108.53	26656.83				2.10
NIFTY	7779.70	8065.80				3.68
URJA DIWALI PICK 2014						22.88

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Happy
Diwali

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