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INDIA STRATEGY

Markets Meter - IDFC Top Picks: Nifty FY18 target, 9825

March 2017

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Markets Meter - IDFC Top picks

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Key market trends – March-17

Indian Markets: *The markets have been cheering policy and political certainty in India as they witnessed a turnaround in the performance post the Union Budget FY18. Moreover, as the BJP received a clear mandate in the key state of Uttar Pradesh in state elections, the markets have touched an all-time high with the Nifty up 15% from lows of 26th Dec 2016. Given this strength in the markets, indices across market caps are trading above their 200-day moving average. The current political and policy certainty is being cheered FIIs too as they have invested US$2.8bn in Indian equities within Feb, Mar-17. This is after continued net outflows from Oct-16 to Jan-17 amounting to US$4.6bn. While policy and political certainty have provided support to Indian markets, we believe GST implementation (which could come with minor disruptions in near term), monsoons in FY18 and pace of corporate earnings recovery will determine the pace of Indian equities for FY18.*

Nifty FY18E target at 9825: *In this note, we rollover our Nifty target to FY19 earnings as we introduce our FY19E EPS for Nifty50 at Rs572 (21% yoy growth), yielding a forward (FY19E) PE of 15.9X. The slower pace of corporate earnings recovery, a slowdown in services (GVA) growth (Dec-16/Sep-16 growth 6.8%/8.2%yoy) impacting job creation, weak credit growth (O/s credit grew by 3.3% yoy in Jan-17) and weak private capex would pose downgrade risks to 21% yoy earnings growth in FY19. Hence we believe FY19 earnings growth could realistically settle at 15% yoy growth, thus yielding a similar price growth in Nifty in FY18. Assuming markets have already started pricing FY19 earnings in and demonetisation impact on earnings would be limited to two quarters, we adjust pre- demonetization Nifty levels (8543) for 15% growth, to get a Nifty target of 9825 for FY18 (target 1 year forward PE at 17.2X).*

Global overview: *As the Fed is further expected to increase rates two more times in CY17, there are hopes hinging on fiscal stimulus from the new government, providing strength to US Equity market. Moreover, 25bps rate hike by Fed on 15th March indicates Fed's increasing confidence in global growth. Consequently, US equity markets have been amongst the best performing in recent times (S&P500 up 11% in last 6 months). European markets have been finding strength from an up move in commodities, with Stoxx50 up 4% in last 30 days. However, as Germany and France ready themselves for elections and voices for second Scottish independence referendum are going strong, we may witness increased political uncertainty in Euro-area.*

Latin American continent cluster has been the best performer with in emerging markets with MSCI Argentina/Brazil Bovespa /MSCI Chile up 17%/14%/11% in the last six months.

Key themes, sector recommendations and IDFC top picks

Key themes and IDFC view: *Over the past six years, investors in India played heavily on asset light models which involved stocks with low leverage, strong brands, consumption stories which did not require large infusion of capital for growth. Typically, these stocks had high RoE, RoCE, strong cashflows which worked very well as an investment thesis in uncertain business environment globally during these years. As a result, we now believe that the asset light models have become very expensive and asset heavy models comparatively cheaper. As global growth is showing signs of strength with increasing interest rates and rising commodity prices coupled with political stability in India post the recent state elections, we believe that asset based stocks and export stories could do very well.*

With this we upgrade Metals and Mining, Gas sector, Upstream Oil & Gas and Media sector to overweight from Neutral. Also we continue to be overweight on Engineering and Cap Goods, IT, OMCs and Pharma apart from abovementioned sectors.

Changes in top picks: *We add Rallis India (one of the fastest growing companies in the hybrid seeds segment with strong product offerings in hybrid rice, hybrid corn, and Bt cotton), Gujarat State Petronet (strong play on improving LNG supply in its core area of Gujarat), Dish TV (merger with Videocon D2H to provide cost and revenue synergies), Adani Transmission (final tariff orders for existing assets, commissioning of new assets and refinancing-led interest cost savings to be the key drivers) to IDFC top picks.*

We take Hero Motorcorp (adverse impact of demonetisation to be behind soon and LEAP adding to cost efficiencies) and PI Industries (replacing it with Rallis India) out from IDFC top picks list.

Top picks: *IDFC top buys in large cap space are HDFC Bank, ITC, Infosys, Sun Pharma, L&T, Power Grid, Adani Ports, IndusInd Bank, HPCL, Motherson Sumi and Tech Mahindra. Within mid caps we like UPL, Dish TV, Aurobindo Pharma, AIA engineering and Torrent Pharma. Our top picks in small cap space are Adani Transmission, CPCL, Sintex, Kaveri, Rallis India, Gujarat State Petronet, NBVL and Teamlease. Our top sells are Bajaj, Nestle, BHEL, Titan, Concor, DLF, Gujarat Gas*

IDFC SECTOR RECOMMENDATIONS AND TOP PICKS

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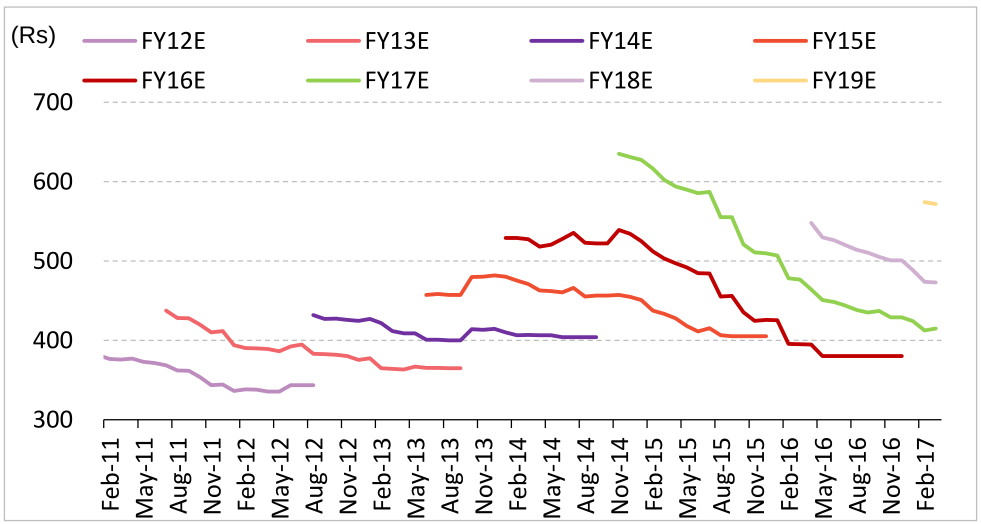
We introduce our FY19E Nifty EPS target at Rs572 (21%yoy growth)

We expect Nifty earnings to grow at a 14.6% CAGR over FY16-19E

	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Nifty Index (%)	6.7	10.1	0.2	-6.2	9.1	14.0	20.9
Sensex Index (%)	5.7	13.4	3.6	-3.5	6.9	13.0	19.2
IDFC Securities Universe (%)	1.8	5.1	-0.3	-2.3	15.1	15.4	32.5
Nifty EPS	367	404	405	380	415	474	572
Sensex EPS	1,140	1,293	1,340	1,294	1,383	1,563	1,863

Source: IDFC Securities Research, Bloomberg



Source: IDFC Securities Research, Bloomberg

In recent years earnings downgrades have been sharper than the years before. Though India Inc is on path to sustainable recovery, the pace of recovery has been slower than earlier estimated. Given, weak private capex, weak credit growth and mild slowdown in services growth, we believe downgrade risks to corporate earnings will continue to exist.

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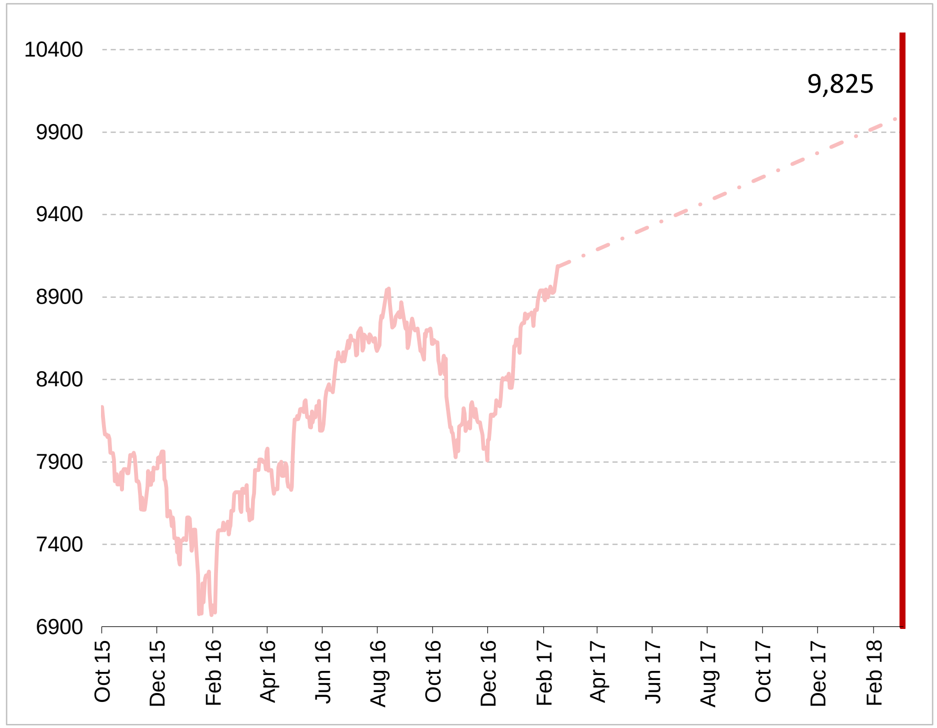
1 IDFC Nifty target for FY18 @9825

Nifty earnings is expected to grow by 21%yoy, FY19E; Given that corporate earnings recovery is weaker than earlier expected, we see a downgrade risk to earnings growth and it could realistically settle at 15%yoy. Assuming, markets have already started pricing FY19 earnings in and demonetisation impact is limited to two quarters, we apply 15% growth expectations to pre-demonetisation Nifty levels.

Nifty earnings expected to grow by 21%yoy, FY19E

	Unit	Value
Nifty EPS for FY18E	INR	474
Nifty EPS for FY19E	INR	572
Expected growth in earnings	%	20.7
Conservative price growth (considering possible downgrade risk to earnings estimates)	%	15
Nifty (Pre-demonetisation levels, As of 8th November 2016)		8,543
IDFC Nifty Target		**9,825**

IDFC Nifty target for FY18 @ 9825



Source: IDFC Securities Research, Bloomberg

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IDFC sector recommendations

A slowdown in Services (GVA) growth (Dec-16/Sep-16 growth 6.8%/8.2%yoy) stands to pose a risk to job creation, thus having a lagged impact on consumption. Moreover, given the high valuations, we continue to maintain our neutral stance on consumption. We reiterate our preference of asset heavy plays, value and export stories as global growth story strengthens. With this we upgrade Metals & Mining, Gas sector, Upstream Oil & Gas and Media sector to overweight from Neutral. Also we continue to be overweight on Engineering and Cap Goods, IT, OMC's and Pharma apart from abovementioned sectors.

BSE200 Sectoral Weights (adj. FF)

	Weight (%)	Recommendation	
		New	Old
Automobiles & Components	13.0	Neutral	Neutral
Banking & Finance	28.2	Neutral	Neutral
Cement	2.8	Neutral	Neutral
Chemicals & Fertilizers	1.4	Neutral	Neutral
Consumer Goods	10.4	Neutral	Neutral
Engineering & Capital Goods; Construction	4.4	OW	OW
IT Services	10.6	OW	OW
Media	0.9	OW	Neutral
Metals & Mining	3.7	OW	Neutral
Oil & gas (OMC)	2.0	OW	OW
Oil & gas (Gas companies)	0.8	OW	Neutral
Oil & gas (upstream)	6.1	OW	Neutral
Pharmaceuticals	6.6	OW	OW
Power	2.8	Neutral	Neutral
Real Estate	0.2	UW	UW
Telecom	1.9	UW	UW
Others	4.1		
BSE200	**100**		

Source: IDFC Securities Research, Bloomberg

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1 IDFC top picks - What's coming in and What's going out

What's coming in Top Buys	Rationale
Torrent Pharma	Torrent Pharma is one of the most scalable mid-cap pharma models with a highly profitable branded formulations business in India/Brazil/RoW and a promising US business. Management focus on improving profitability across segments and sharply stepping up R&D investments along with willingness to actively explore M&A options augurs well for the stock in the medium term.
Dish TV	Distribution businesses are scale businesses and we expect the merger of Dish TV and Videocon D2H (to be completed in Q3FY18E) to yield both revenue and cost synergies. This is likely to help create significant medium-term value even as near-term financials remain under pressure. Near-term triggers exist such as GST implementation, lowering the license fee and resolution of past license fees.
GSPL	GSPL is a strong play on improving LNG supply in its core area of Gujarat, which is the most developed gas market in India, with a well-connected gas grid. Strong volumes coupled with the imminent hike in tariff (via the recent PNGRB amendment modifying volume norms) are likely to drive an 8% CAGR in transmission volumes and an 18% CAGR in earnings over FY16-19E, in our view.
Rallis India	We expect Rallis India to deliver sustained growth mainly helped by its well-established distribution reach, presence across key product segments and ability to introduce new products. Rallis is one of the fastest-growing companies in the hybrid seeds segment with strong product offerings in hybrid rice, hybrid corn, and Bt cotton, and we expect the company to deliver earnings at ~20% CAGR over FY16-19E supported by improving growth momentum.
Adani Transmission	We expect FY16-19E revenue and earnings CAGR to be 69% and 105% respectively, led by final tariff orders for existing assets, commissioning of new assets, acquisition of assets and refinancing-led interest cost savings. Given the attractive valuations (9.4x FY19E earnings; 1.6x FY19E BV) and strong earnings trajectory (105% EPS CAGR over FY16-19E), we maintain Outperformer rating on the stock.
What's going out	
Hero Motors	The impact of demonetization is coming off, although return to growth is likely only by April 2017. There could be some more benefits from the LEAP program in cutting costs.
PI Industries	We replace it with Rallis India, which is one of the fastest-growing companies in the hybrid seeds segment with strong product offerings in hybrid rice, hybrid corn, and Bt cotton.

Source: IDFC Securities Research

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IDFC Top Buys – Large and Mid Cap

Top Buys - Large Cap

Companies	Price	MCap		Reco	EPS	Earnings CAGR (%)	P/E	EV/EBITDA	P/BV	RoE	RoCE	Target
FY2019E	(Rs)	(Rs bn)	(US$ m)		(Rs/share)	FY17-19E	(x)	(x)	(x)	(%)	(%)	Price (Rs)
HDFC Bank	1,411	3,612	54,674	OP	69.3	21.2	20.4		3.7	19.4		1,455
ITC	267	3,242	49,080	OP	9.5	13.8	28.0	17 .0	8.8	32.3	41.1	303
Infosys Technologies	1,035	2,377	35,983	OP	69.2	10.3	15.0	9.3	3.1	22.3	26.3	1,245
Sun Pharma	708	1,699	25,723	OP	30.0	7.3	23.6	14.7	3.4	15.6	16.1	720
Larsen & Toubro	1,558	1,454	22,007	OP	62.0	15.1	25.1	17.6	2.6	10.8	7.3	1,631
Power Grid	194	1,013	15,337	OP	17.0	15.5	11.4	8.1	1.8	16.9	10.3	231
Indusind Bank	1,354	810	12,261	OP	61.9		21.9		3.5	17.2		1,415
Adani Port & SEZ	308	638	9,661	OP	16.1	4.6	19.2	12.8	3.1	17.7	11.8	344
HPCL	519	527	7,981	OP	49.2		10.6	7.1	2.1	21.4	11.7	650
Motherson Sumi	363	509	7,710	OP	16.2	26.7	22.4	9.3	4.9	24.9	32.7	400
Tech Mahindra	480	467	7,071	OP	39.1	13.4	12.3	6.8	2.2	18.9	19.2	550

Top Buys – Mid-Cap

Companies	Price	MCap		Reco	EPS	P/E	Earnings CAGR (%)	EV/EBITDA	P/BV	RoE	RoCE	Target
FY2019E	(Rs)	(Rs bn)	(US$ m)		(Rs/share)	(x)	FY17-19E	(x)	(x)	(%)	(%)	Price (Rs)
Aurobindo Pharma	662	387	5,866	OP	45.9	14.4	15.2	10.1	3.3	25.6	24.4	873
UPL	702	356	5,391	OP	43.4	16.2	10.0	9.4	3.1	20.7	21.9	782
Torrent Pharma	1,337	226	3,426	OP	66.3	20.2	19.8	13.8	4.7	25.2	22.3	1,592
AIAE	1,482	140	2,116	OP	56.9	26.0	19.7	18.4	4.6	18.9	21.9	1,525
Dish TV India Ltd	107	114	1,721	OP	2.0	53.0	54.7	10.4	15.5	34.2	30.1	98

Source: IDFC Securities Research, Bloomberg ; Stock price as on 14th March 2017

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IDFC Top Buys: Small Cap, Top Sells

Top Buys - Small Cap

Companies FY2019E	Price (Rs)	MCap (Rs bn)	MCap (US$ m)	Reco	EPS (Rs/share)	Earnings CAGR (%) FY17-19E	P/E (x)	EV/EBITDA (x)	P/BV (x)	RoE (%)	RoCE (%)	Target Price (Rs)
Gujarat State Petronet	160	90	1,363	OP	12.9	22.9	12.3	7.5	1.8	15.7	18.4	195
Adani Transmissions	63	69	1,049	OP	6.2	35.2	10.2	7.3	1.8	19.8	12.8	70
CPCL	369	55	832	OP	70.0	17.9	5.3	4.5	1.5	31.7	20.7	400
Sintex	97	51	770	OP	15.1	18.5	6.4	6.0	0.7	11.3	9.6	128
Rallis India	239	46	704	OP	9.3	19.4	25.6	15.7	4.0	16.4	20.4	302
Kaveri Seed	513	35	536	OP	32.7	20.1	15.7	13.0	3.3	21.9	19.2	523
Nava Bharat Ventures	113	20	307	OP	22.0	132.0	5.2	4.7	0.6	12.1	10.9	156
TeamLease Services	881	15	228	OP	33.8	29.9	26.0	16.2	3.7	15.1	16.0	1,175

Top Sell

Companies FY2019E	Price (Rs)	MCap (Rs bn)	MCap (US$ m)	Reco	EPS (Rs/share)	Earnings CAGR (%) FY17-19E	P/E (x)	EV/EBITDA (x)	P/BV (x)	RoE (%)	RoCE (%)	Target Price (Rs)
Bajaj Auto	2,867	830	12,558	UP	148.1	10.3	19.4	16.3	5.7	30.4	32.7	2,515
Nestle India	6,119	590	8,932	UP	166.7	17.3	36.7	22.5	15.8	46.0	56.7	5,335
Titan Industries	462	410	6,212	UP	11.2	18.1	41.4	28.5	8.9	23.1	29.8	368
BHEL	161	395	5,979	UP	4.7	40.0	34.0	17.0	1.1	3.4	2.3	118
DLF	147	262	3,959	UP	4.2	15.0	34.8	12.4	0.9	2.6	6.2	159
Container Corporation	1,242	242	3,665	N	47.9	19.3	25.9	16.1	2.7	10.6	9.8	1,221
Gujarat Gas	675	93	1,406	N	33.4	37.9	20.2	10.4	3.5	18.6	15.2	535

Source: IDFC Securities Research, Bloomberg ; Stock price as on 14th March 2017

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IDFC Top Picks' recent performance

	1 Week	1 Month	3 Months	6 Months	YTD	1 Year	2 Years	5 Years
Top Buys - Large Cap								
ITC	1.1	-2.3	9.2	5.9	10.5	24.7	18.0	91.6
HDFC Bank	1.8	8.2	14.2	10.2	17.0	37.1	35.3	169.0
Infosys Technologies	1.5	6.9	3.5	-1.8	2.4	-9.5	-6.8	44.7
Sun Pharma	4.2	8.1	9.8	-10.0	12.4	-18.4	-30.0	142.6
Larsen & Toubro	4.8	3.7	7.5	6.5	15.5	31.4	-7.9	71.6
Power Grid	-0.5	-3.1	-2.2	7.4	5.5	40.1	32.1	73.9
Indusind Bank	1.8	2.4	11.0	13.2	22.2	46.1	54.7	330.2
Adani Port & SEZ	0.3	-0.6	5.6	18.9	15.2	33.8	1.0	135.9
HPCL	-1.7	-9.2	5.0	29.8	17.6	113.7	149.9	414.9
Tech Mahindra	-4.0	-4.0	-0.3	3.4	-1.9	4.8	-31.9	197.9
Motherson Sumi	2.6	2.0	10.1	16.1	11.2	48.0	9.6	572.9
Top Buys - Mid-Cap								
Aurobindo Pharma	-0.3	-2.5	-4.7	-15.4	-1.1	-9.6	15.3	1,017.1
UPL	-0.1	-3.4	2.4	8.2	8.5	60.1	69.9	416.1
Torrent Pharma	-0.8	6.8	0.8	-19.2	1.5	3.8	22.8	342.9
AIAE	0.1	8.2	5.9	24.7	14.1	79.2	17.2	329.0
Dish TV India Ltd	7.2	21.5	22.3	16.2	26.0	33.6	26.8	87.1
Top Buys - Small-Cap								
Adani Transmission	-0.6	-7.8	7.0	58.9	11.0	105.2		
Gujarat State Petronet	-0.2	-1.5	15.1	6.6	14.8	25.9	44.2	104.5
Chennai Petroleum Corporation	-0.8	-2.9	11.8	30.3	34.7			
Sintex	-0.9	0.4	12.2	26.9	28.7	36.7	-21.5	12.2
Rallis India	0.4	-0.2	15.1	9.5	25.1	52.8	-1.0	84.1
Kaveri Seed	-1.8	6.2	18.2	52.4	25.2	30.3	-44.3	344.7
Nava Bharat Ventures	-1.5	-0.8	-4.8	5.4	2.8	44.9	20.9	11.0
TeamLease Services	-3.1	-2.3	-1.3	-19.0	-0.6	-10.1		
Top Sells								
Bajaj Auto	-0.4	2.4	4.7	-3.0	8.9	23.3	41.7	60.8
Nestle	-3.2	-1.0	4.5	-4.8	1.5	18.5	-16.2	37.3
Titan Industries	5.2	7.0	27.1	12.4	41.4	33.6	15.9	86.7
BHEL	0.7	2.1	26.1	9.4	33.1	55.6	-36.7	-44.5
Container Corporation	-0.4	-6.4	2.0	-5.9	11.9	8.2	-25.4	107.1
DLF	1.0	-0.9	17.0	0.8	31.6	37.7	-6.9	-29.4
Gujarat Gas	0.6	9.2	24.6	8.7	29.0	32.6		
What went out								
PI Industries	7.5	-1.0	6.9	7.8	6.2	54.1	33.5	757.2
Hero MotoCorp	1.6	2.7	8.9	-5.0	10.3	19.3	28.6	71.0

Source: IDFC Securities Research; Data as of 14th March 2017

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GLOBAL MARKETS – PERFORMANCE AND VALUATION

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With BJP winning Mandate in UP and Uttarakhand, Indian markets amongst the best performers in last 30 days/1 Week

	1 Week	1 Month	3 Months	6 Months	Since 8th November 16	YTD	1 Year	2 Years	5 Years
	India								
NIFTY 50	1.6	3.3	10.5	4.3	6.4	11.0	21.0	5.1	67.4
CNX 500	1.3	2.7	11.2	5.6	6.4	12.2	25.2	10.4	81.5
BSE Small Cap Index	0.7	1.2	12.6	9.6	5.5	14.3	34.0	19.5	97.4
BSE Mid Cap Index	0.4	0.7	9.8	4.7	4.6	12.7	32.0	25.6	109.4
Defty	2.3	4.5	12.7	5.4	7.2	14.0	22.7	(0.5)	26.1
	EM v/s DM								
MSCI Emerging Markets	0.4	1.1	7.2	6.1	4.2	9.0	17.4	0.0	(11.9)
MSCI AC Asia Pac ex Japan	0.7	1.7	7.4	7.0	5.9	9.9	16.0	(0.7)	5.4
DJ Global Developed Markets Index	0.1	0.9	3.8	8.6	8.9	5.2	13.6	7.2	41.6
	Developed Economies								
S&P 500	(0.1)	2.1	4.1	11.2	10.6	5.7	17.0	15.2	69.5
Euro Stoxx 50	0.4	3.9	5.0	14.3	12.4	3.3	10.6	(7.0)	33.0
FTSE 100	0.3	1.4	5.6	10.4	7.5	3.0	19.8	9.2	23.5
	Emerging Economies								
Jakarta Composite	0.5	1.1	2.6	4.1	(0.7)	2.5	12.8	0.1	35.5
FTSE Bursa Malaysia	(0.4)	1.4	4.7	2.7	3.5	4.9	1.5	(3.3)	10.1
PSEi - Philippines IDX	(0.4)	0.4	5.5	(3.8)	(0.6)	6.2	2.3	(7.0)	45.1
Stock exchange of Thailand Index	(0.4)	(2.7)	0.8	6.7	2.2	0.0	10.7	0.1	33.8
Ho Chi Minh (Vietnam)	(0.3)	1.6	9.2	8.3	5.7	7.5	23.8	21.9	66.4
MSCI Argentina	2.0	(0.9)	26.5	17.3	14.3	25.8	17.2	4.2	63.8
MSCI Chile	(0.4)	0.3	2.5	10.7	1.4	8.4	14.0	6.1	(40.0)
Mexico IPC	(0.7)	(1.5)	0.5	2.0	(2.9)	3.2	5.3	7.0	23.9
Brazil IBOVESPA	(1.6)	(2.2)	9.1	13.9	0.8	7.4	30.3	33.1	(5.4)
MSCI Russia	(1.2)	(7.4)	(10.9)	(0.2)	1.7	(10.4)	6.6	22.9	24.2
NIFTY 50	1.6	3.3	10.5	4.3	6.4	11.0	21.0	5.1	67.4
MSCI China	1.3	2.5	9.6	5.1	6.1	12.2	21.2	(2.7)	7.5
JSE Top 40 (South Africa)	0.7	(2.4)	1.1	(3.5)	1.0	1.7	(2.4)	-2.66	47.4

Source: Bloomberg, Data as of 14th March 2017; Colors are allocated on a percentile basis with green indicating best and red worst and other colors indicating returns in between

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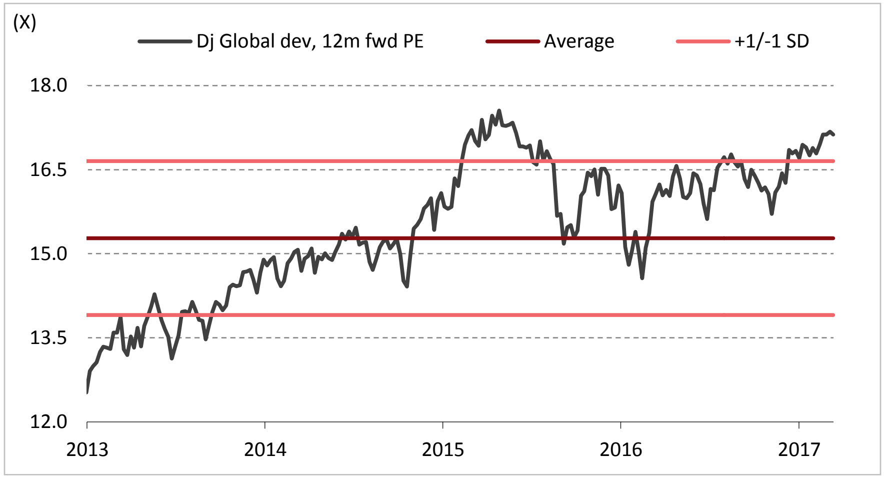
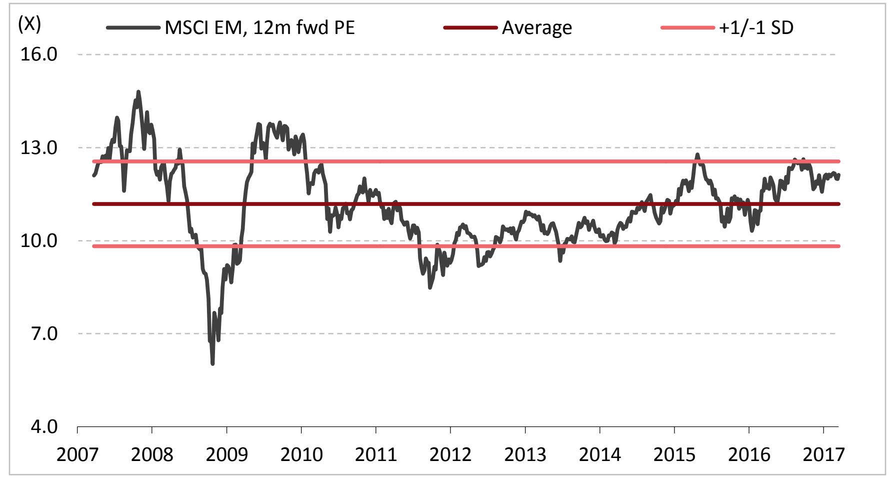
2 Developed markets trading one standard deviation above average 12m fwd PE and MSCI emerging markets close to average

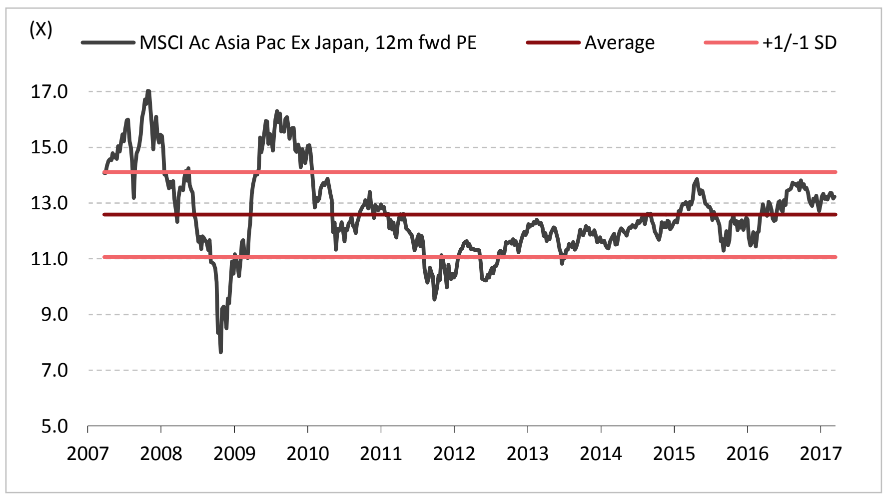
Developed markets – 12 month forward PE continued to inch up



MSCI emerging markets close to long term 12 month forward average P/E



Asia pacific ex Japan -12 month forward P/E at long term average too

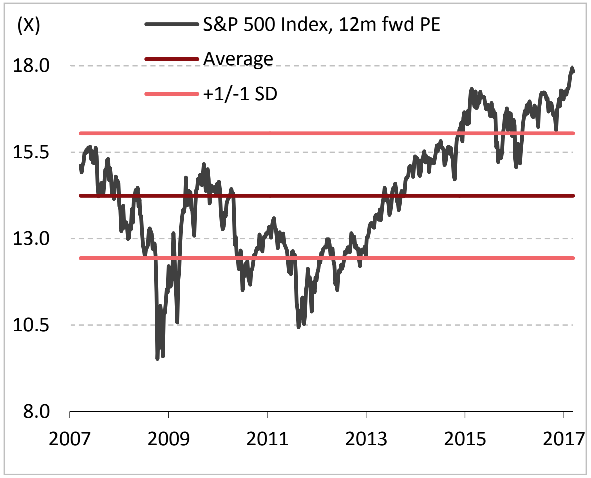


Source: Bloomberg; Data as of 14th March 2017

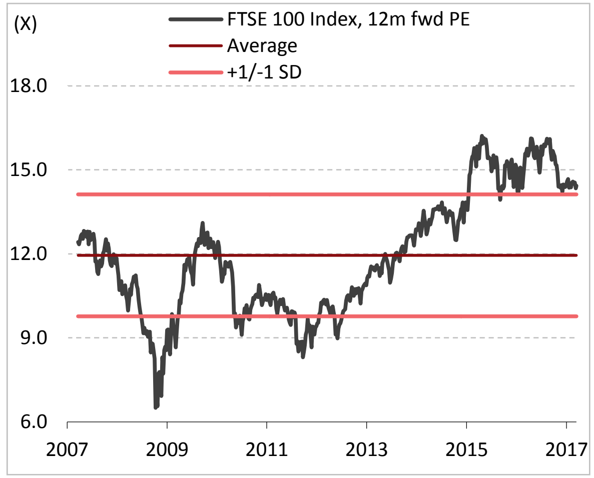
IDFC SECURITIES

2 Fuelled by robust performance, most developed economies (except UK) - 12 month forward P/E valuation inching up higher

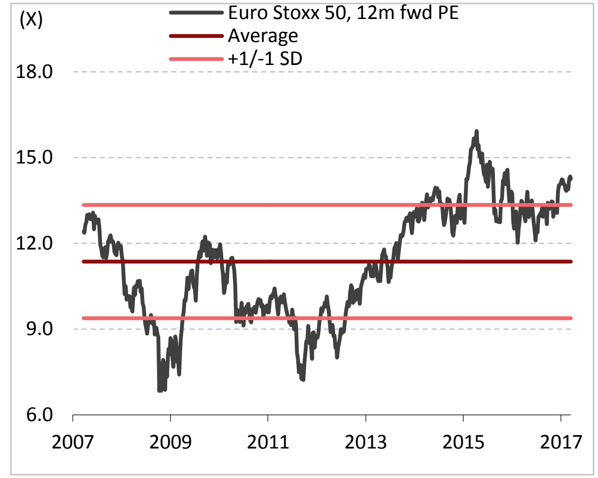
S&P 500 –12m fwd P/E at 10 year highs



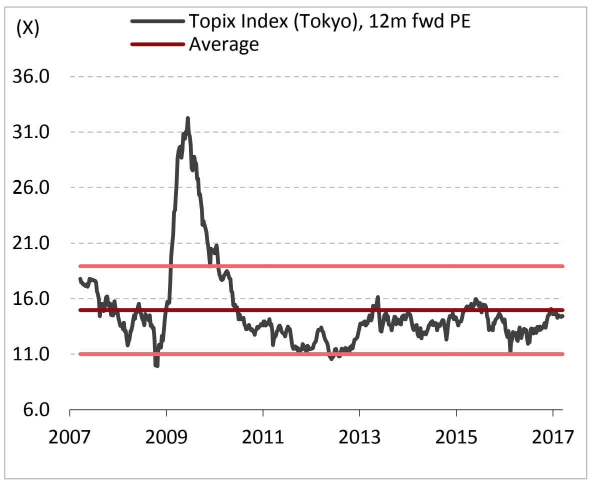
FTSE100's 12m fwd P/E has come down



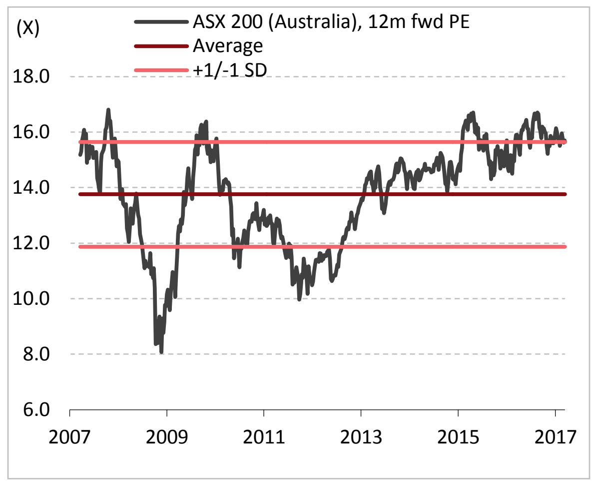
Euro Stoxx 50 valuation crossed 1std deviation band on the upside, this one too fuelled by strong performance



Given robust performance by Topix, valuations have seen an uptick



Australia (ASX 200) – at one standard deviation above average 12 month forward PE

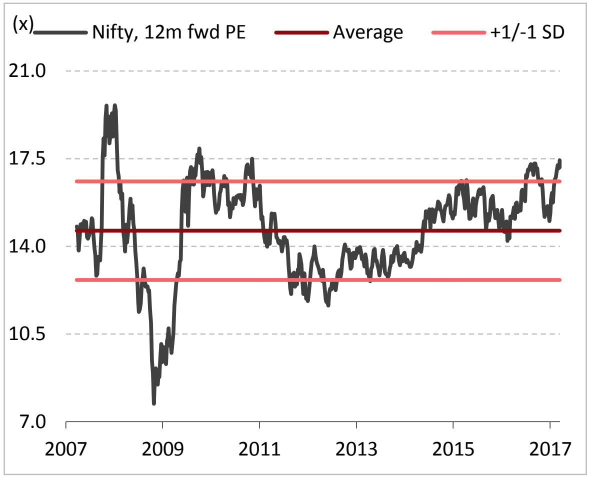


Source: Bloomberg; Data as of 14th March 2017

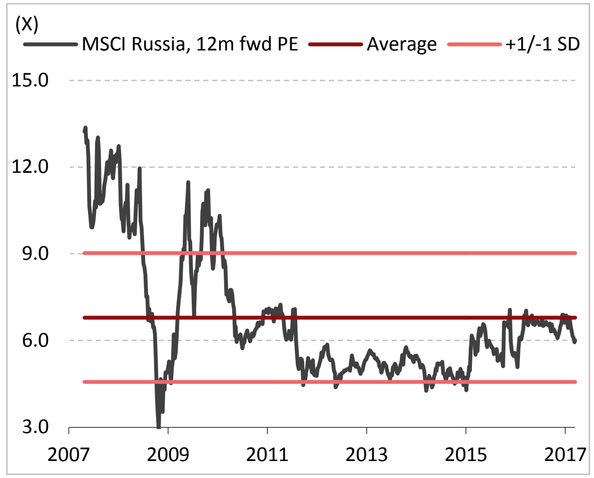
IDFC SECURITIES

2 Nifty 12 month forward PE inched up on recent strength in markets; Other BRICs with in one std. deviation and average band

India –Nifty 12m fwd P/E close to last five year's high



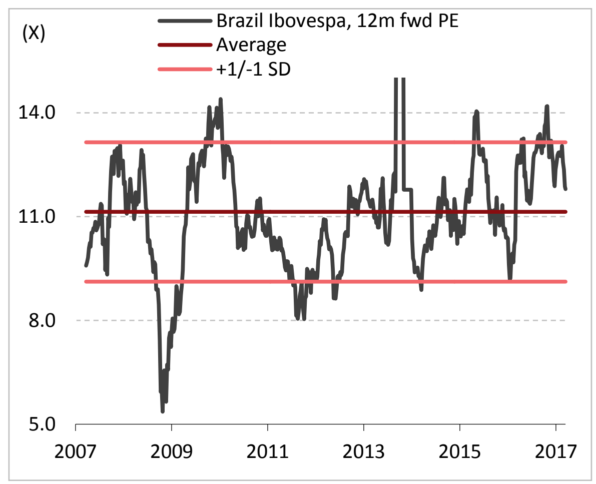
Russia – With stronger commodities, MSCI Russia's 12 month forward PE at long term average levels



MSCI China – At long term average 12 month forward PE too

South Africa – 12m fwd P/E – With recent correction, valuation with in 1 standard deviation band

Brazil –Close to 1 standard deviation above long term average



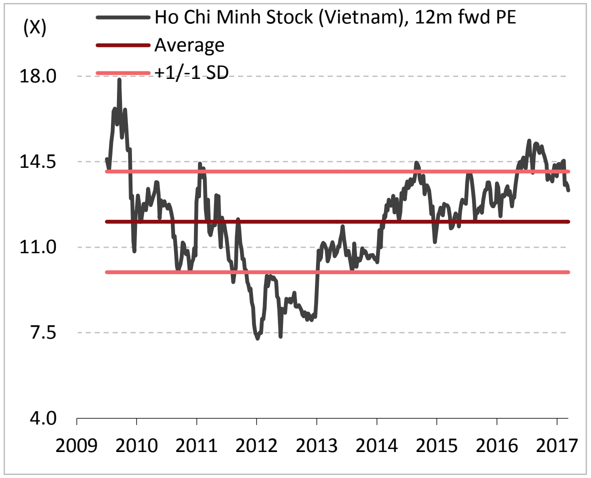
Source: Bloomberg; Data as of 14th March 2017

IDFC SECURITIES

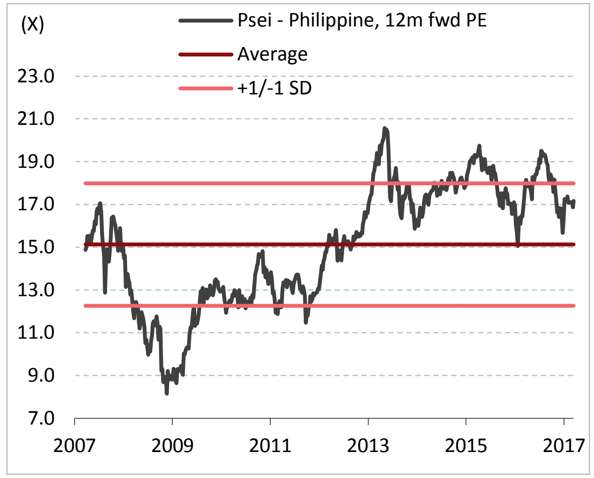
2

Other key emerging economies 12 month forward PE

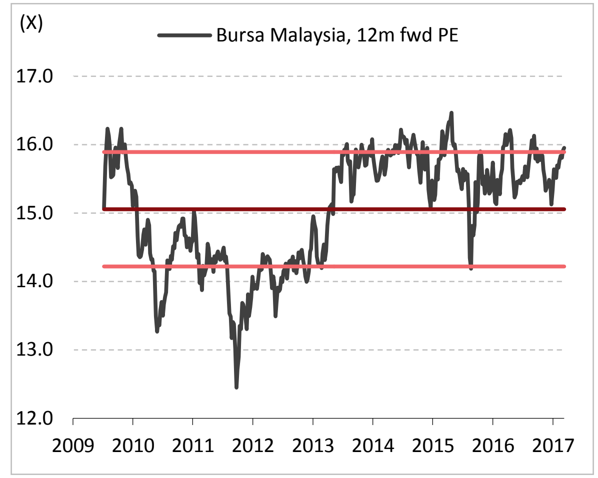
Vietnam



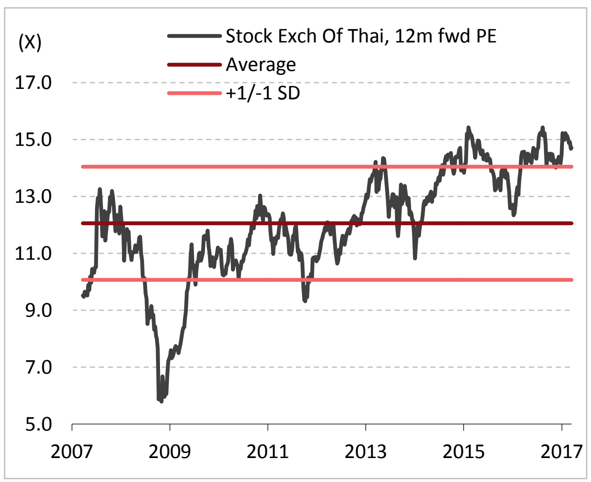
Philippines



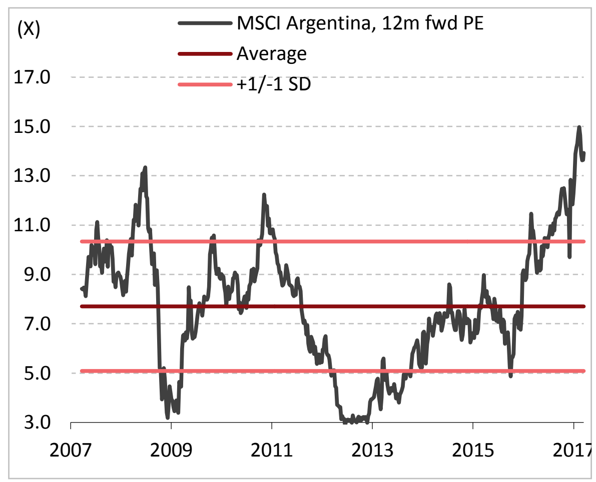
Malaysia



Thailand



Argentina

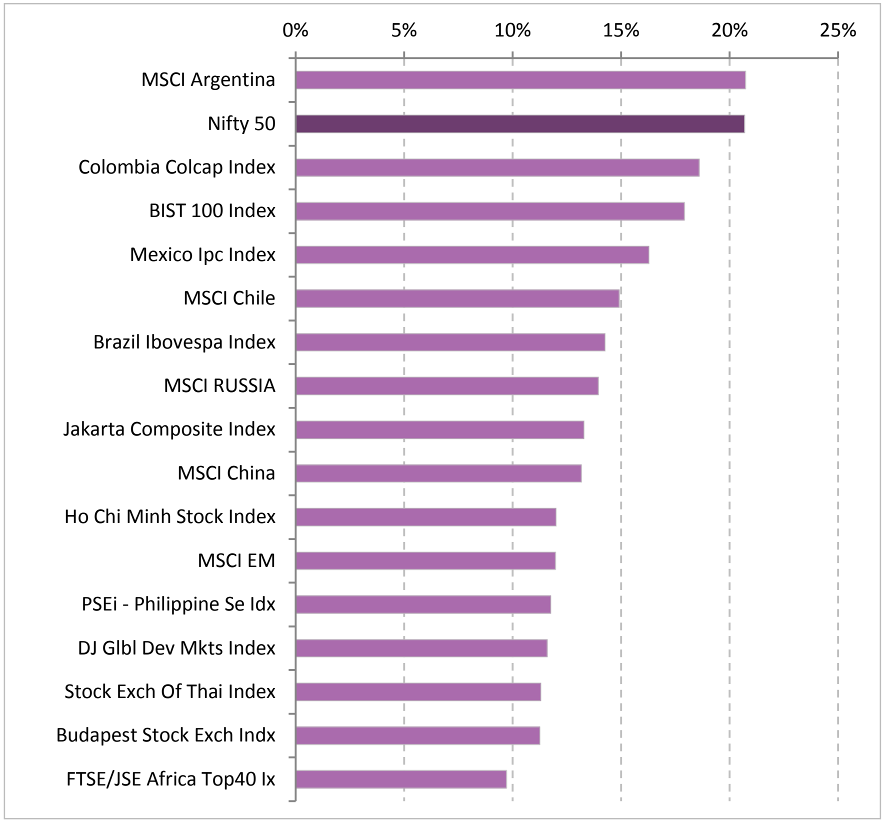


Source: Bloomberg; Data as of 14th March 2017

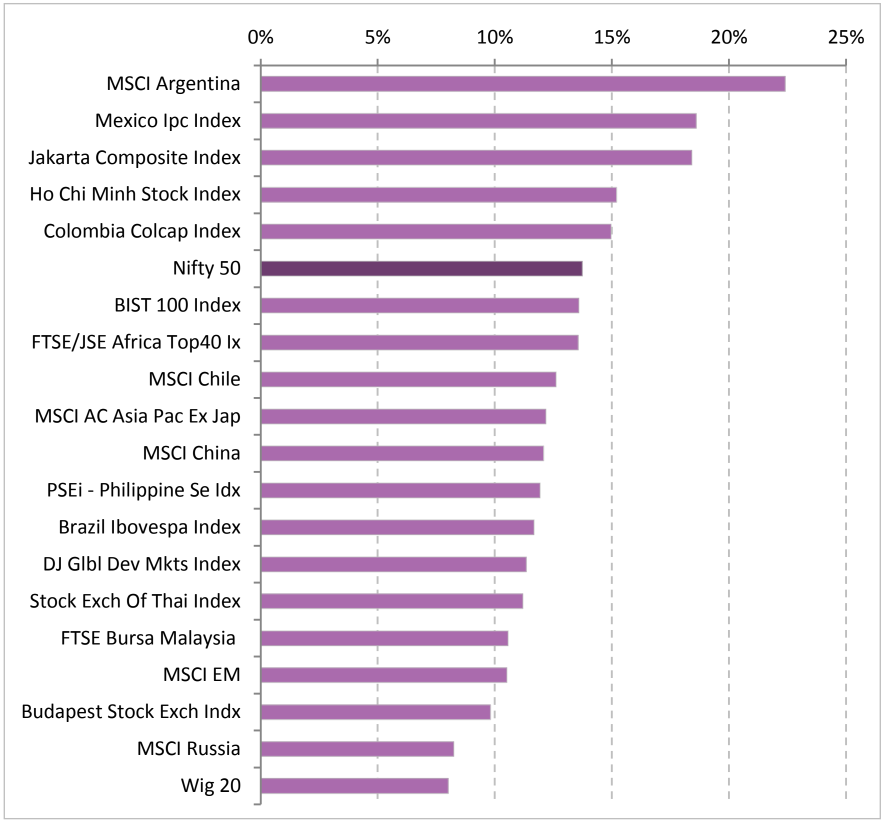
IDFC SECURITIES

2 India – Consensus CY18E earnings growth expectations at 21% (IDFC expectations at ~20%) and RoE at 14%

Emerging Markets CY18E earning growth expectations



Emerging Markets Earnings RoE, CY18E

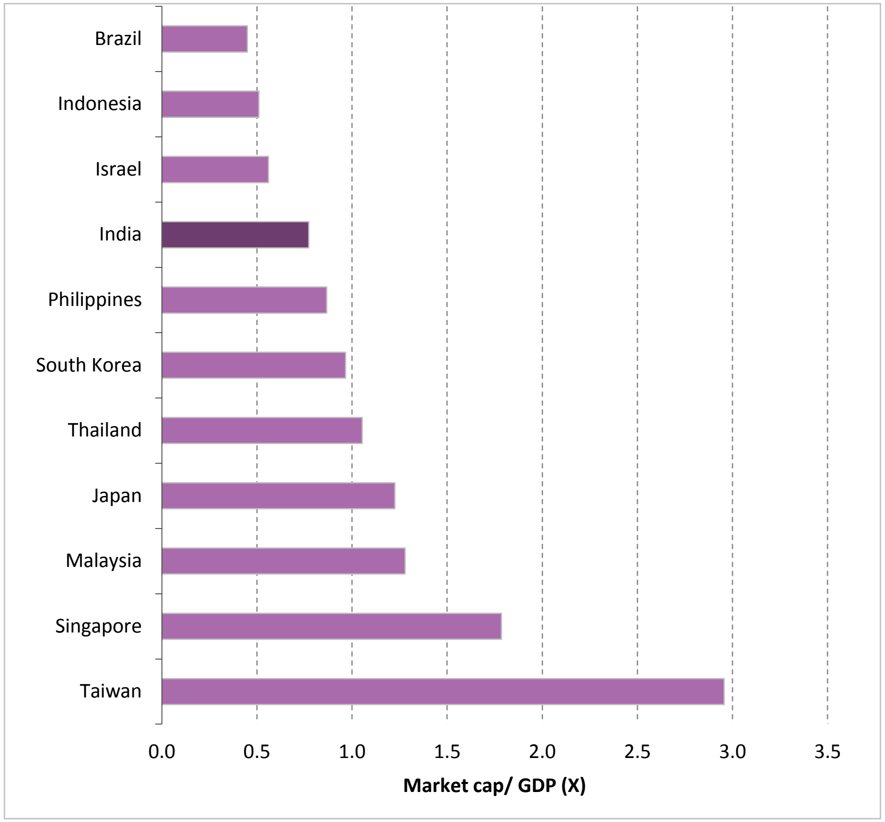


Source: Bloomberg; Data as of 14th March 2017

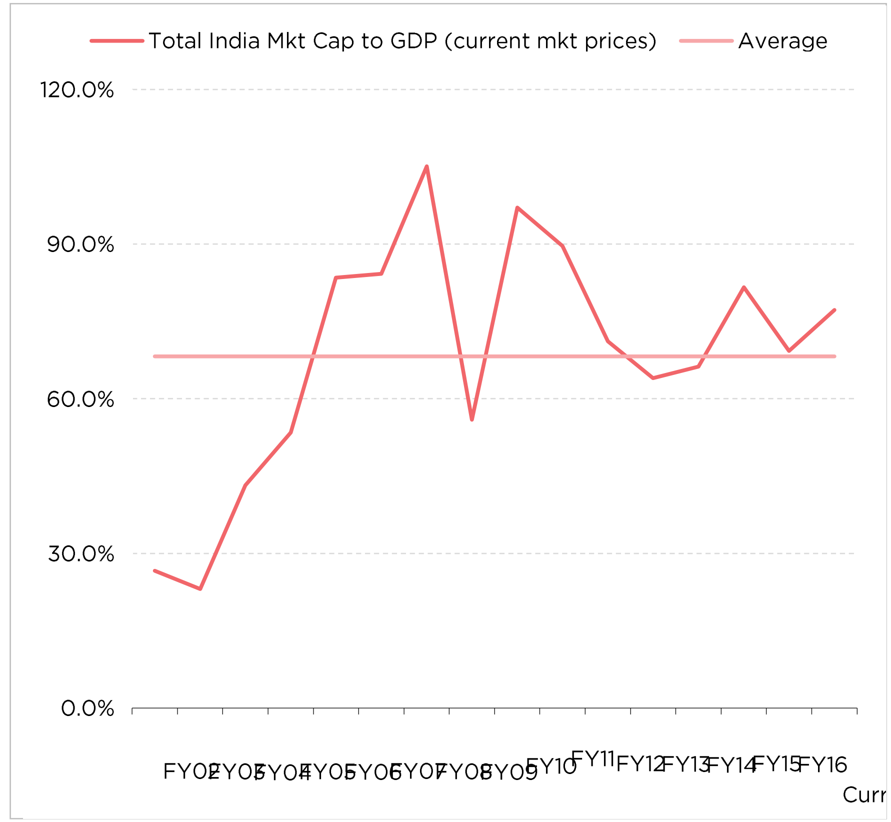
IDFC SECURITIES

2 India's market cap to GDP: Away from peak and relatively low amongst peers

Market Cap/GDP ratio of select economies – India relatively low amongst peers



India Market Cap/GDP ratio at 77%

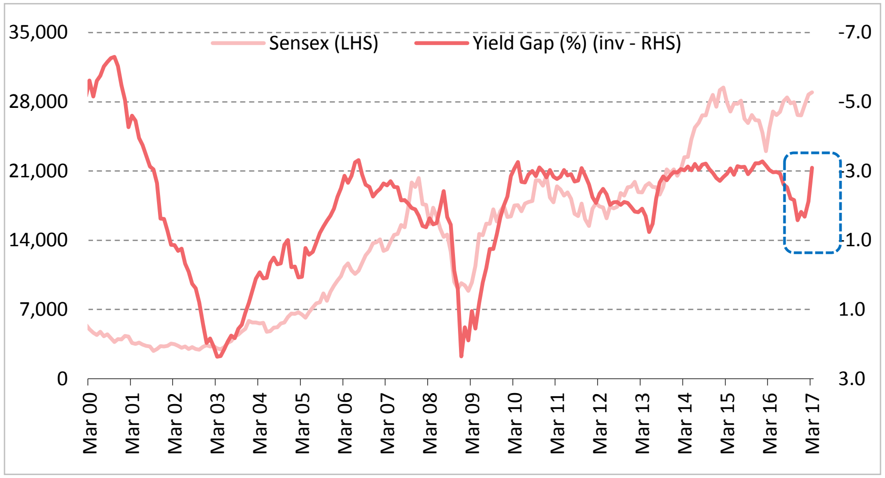


Source: IDFC Securities Research; Bloomberg

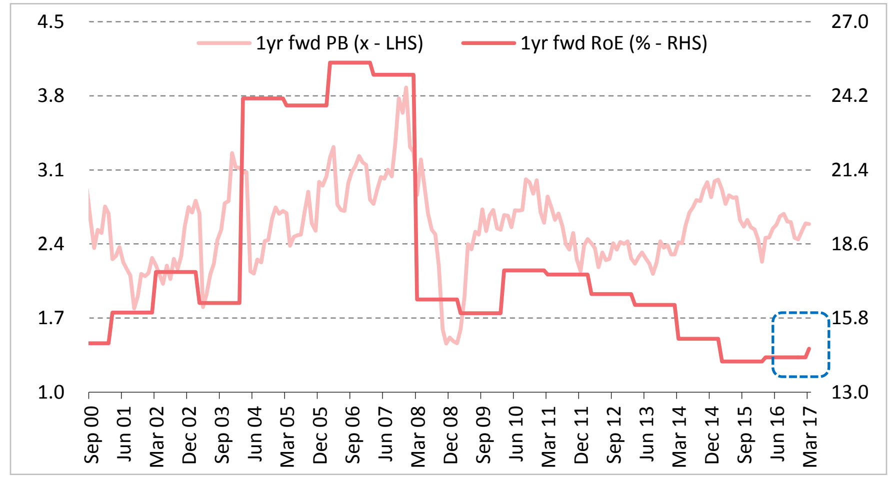
IDFC SECURITIES

As RBI changes it's stance to neutral from accommodative, yield gap has started widening…

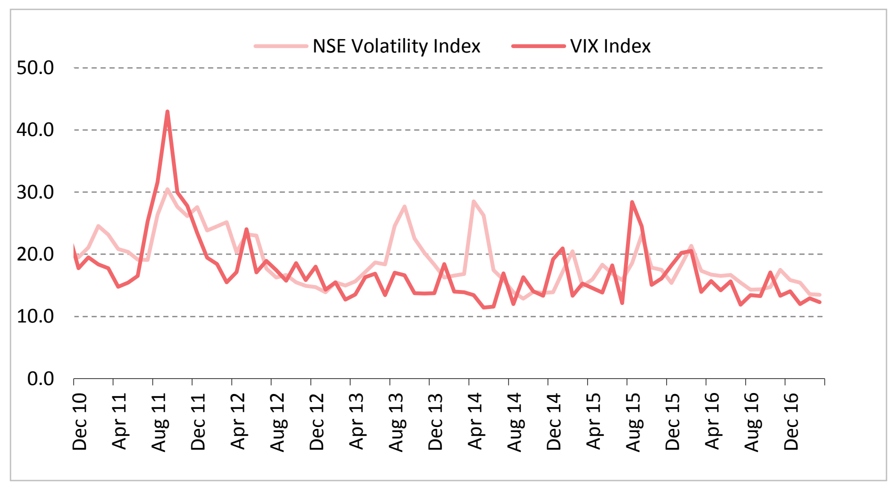
As RBI changes it's stance to neutral from accommodative, yield gap has started widening…



Sensex RoE inching up



NSE Volatility Index v/s VIX: Despite recent election, Volatility in Indian markets close to lows



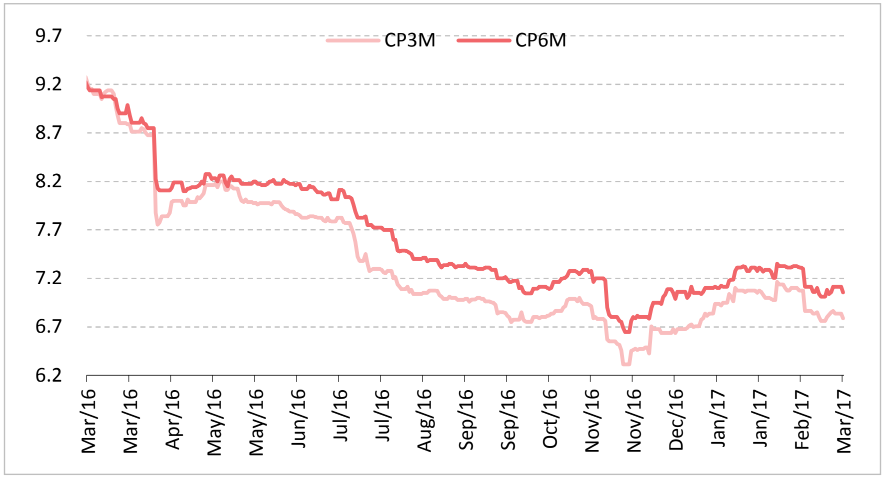
Widening yield gap makes debt more attractive

Source: IDFC Securities Research; Bloomberg; Data as of 14th March 2017

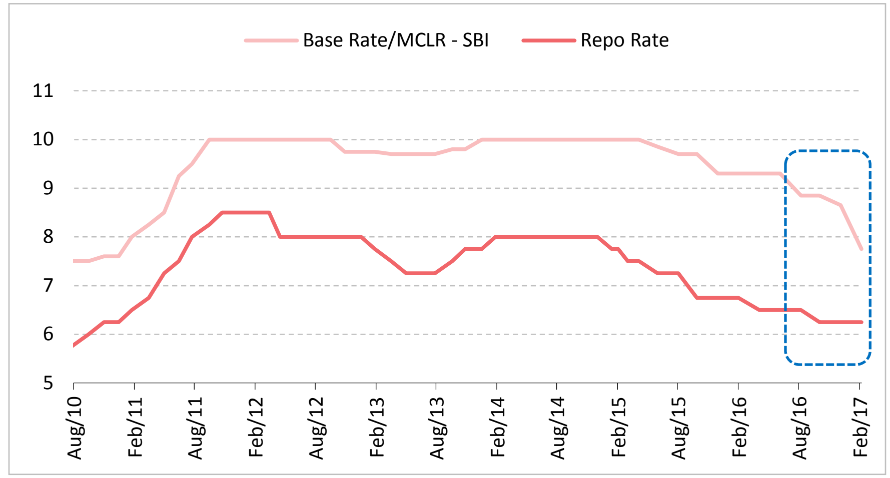
IDFC SECURITIES

2 With banks moving to MCLR post July-16, pace of transmission of rate cuts has picked up

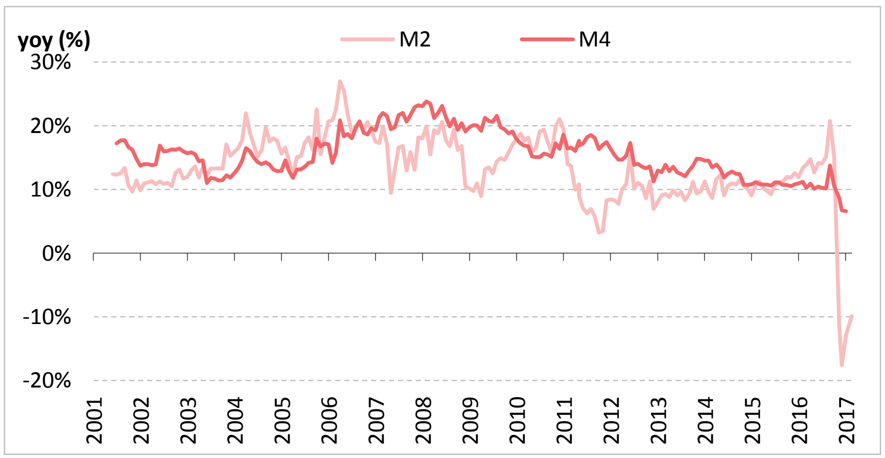
Commercial paper rates easing despite change in RBI's stance to neutral from accommodative



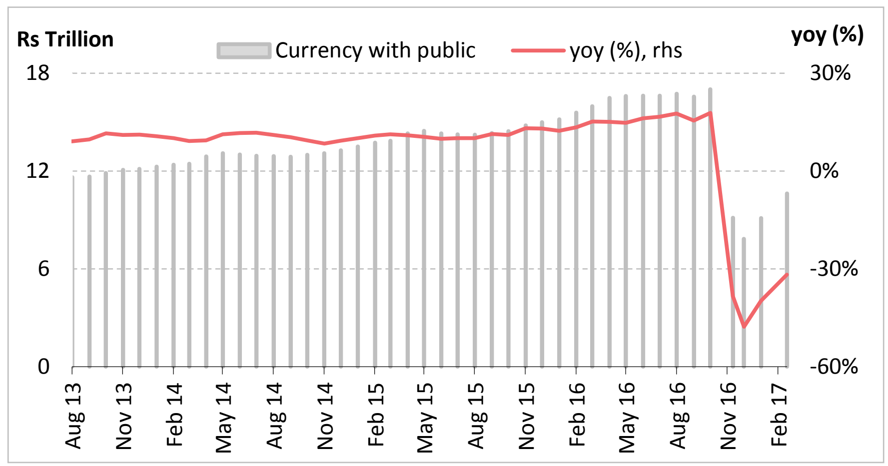
As banks moved MCLR in Jul-16, transmission of lower rates has been rather quick



M2 is down 10% yoy (given demonetisation), M4 growth has slowed down to 6.6% (supported by demonetised currency deposited in SB accounts)



Currency with public is down 32% yoy



Source: Bloomberg, CMIE

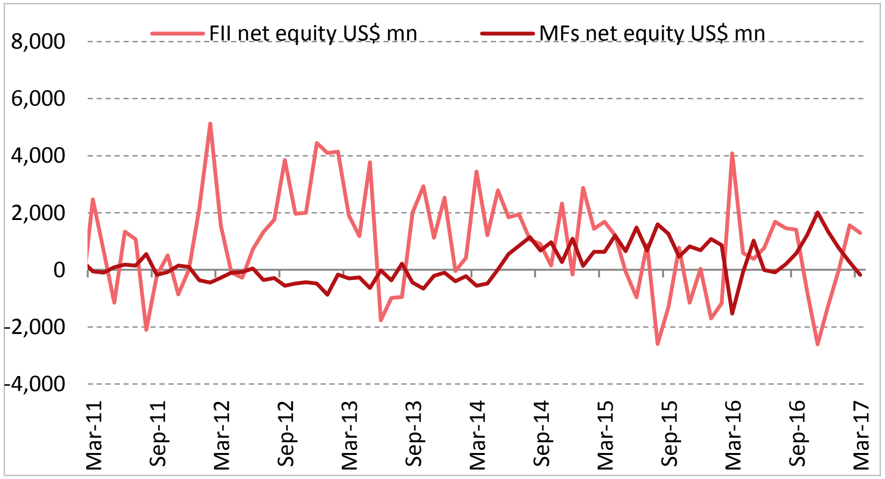
IDFC SECURITIES

PORTFOLIO AND FDI FLOWS

IDFC SECURITIES

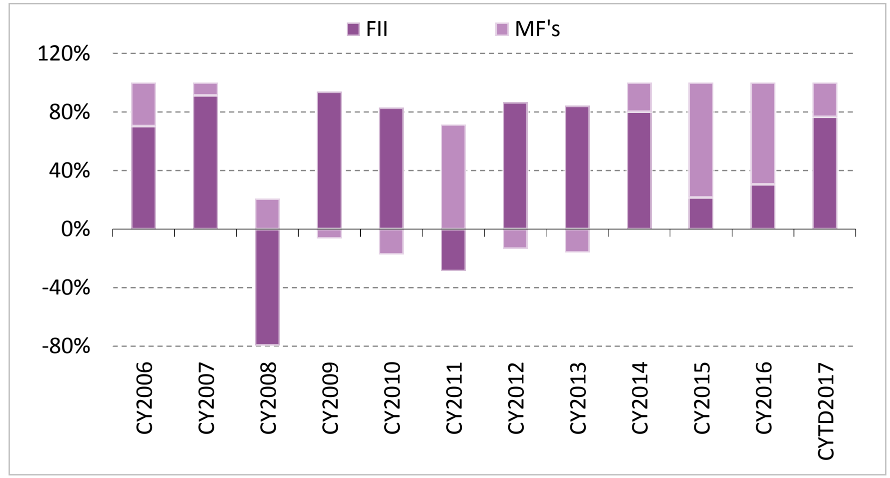
3 FII's have invested net USD2.8bn and DII's - net USD864m in Indian equities, CYTD17

In March 2017, FII's have invested US$1.3bn so far

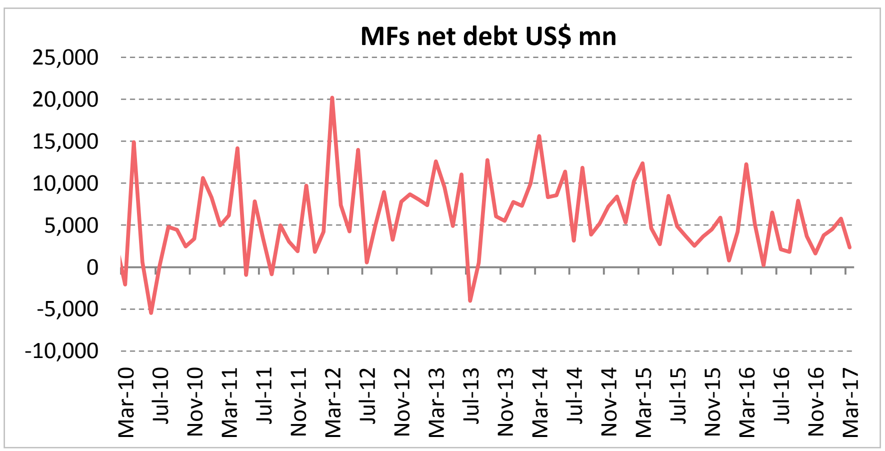


Source: IDFC Securities Research, Sebi

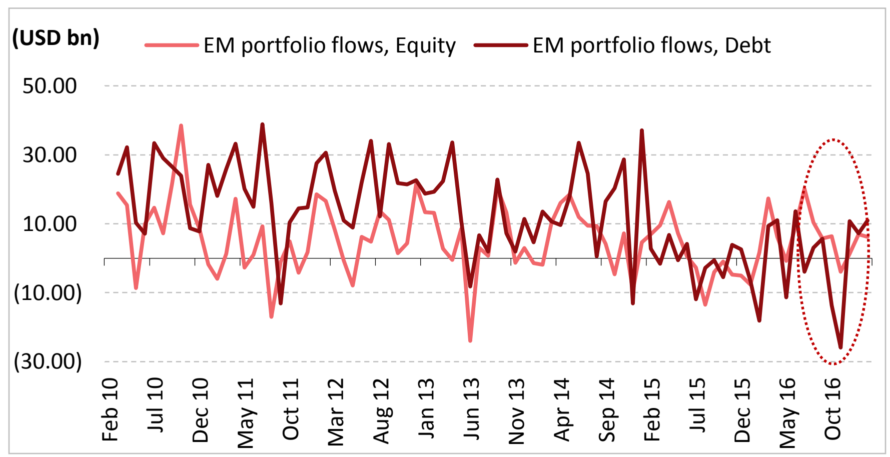
Post budget FII flows to Indian equities have continued to outshine domestic flows



Domestic MF's invested USD 12.6bn in Indian debt in CYTD17



After outflows in Nov, Dec-16, flows to emerging equities started on a positive note with US$13bnnet in flows in January, February-2017

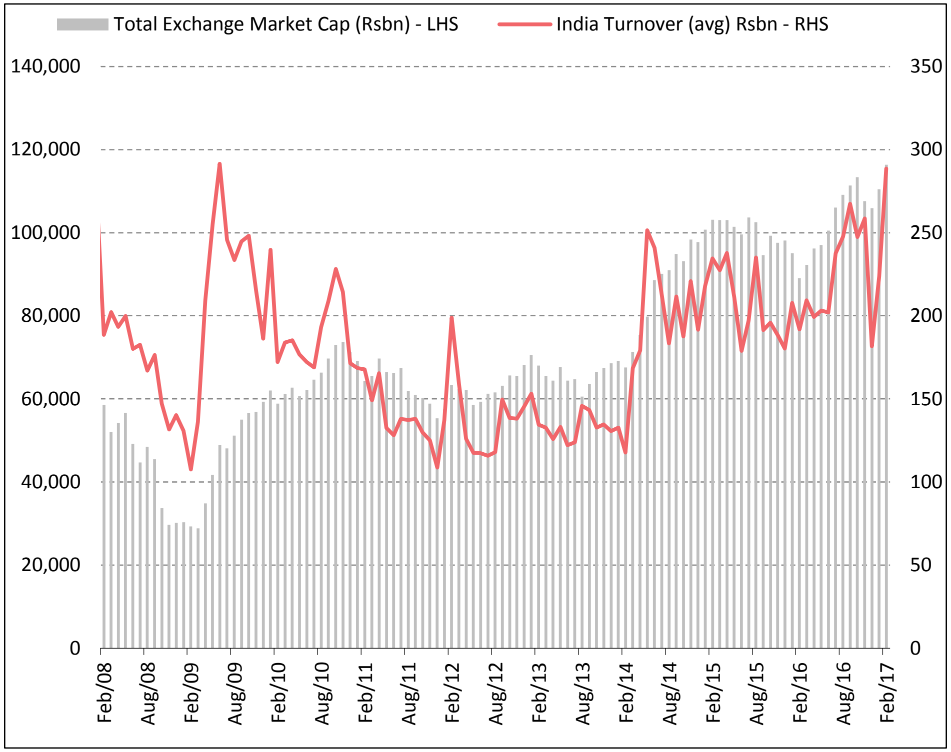


Source: IDFC Securities Research, SEBI, Bloomberg; Data as of 14th March 2017

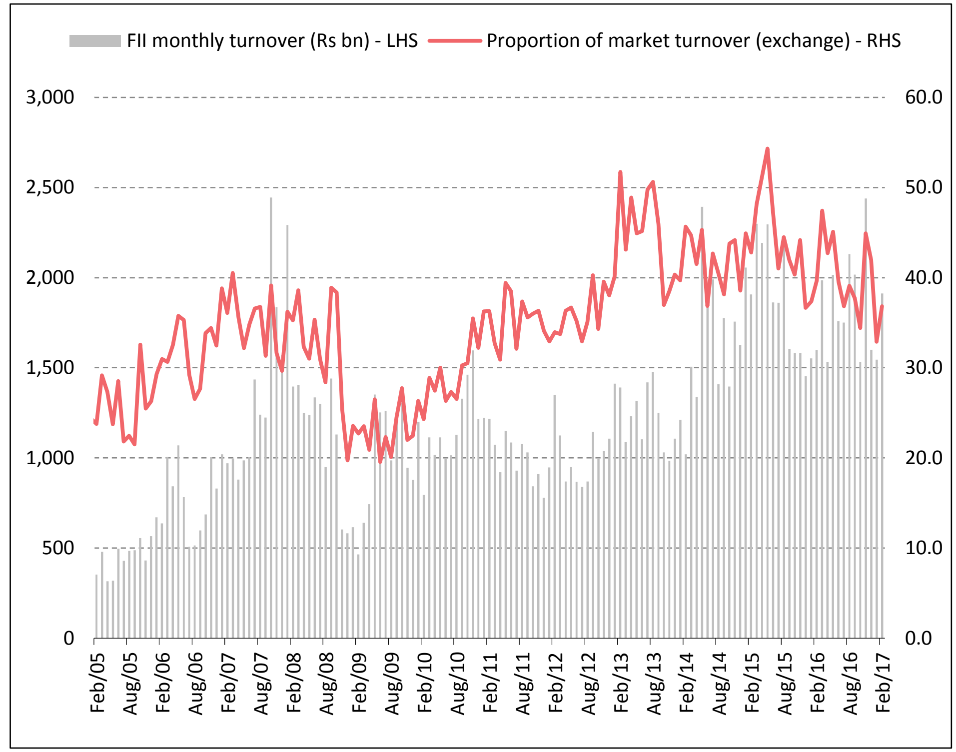
IDFC SECURITIES

3 India markets turnover going strong post budget

Exchange market cap and India turnover



FII monthly turnover and as a % of total market turnover

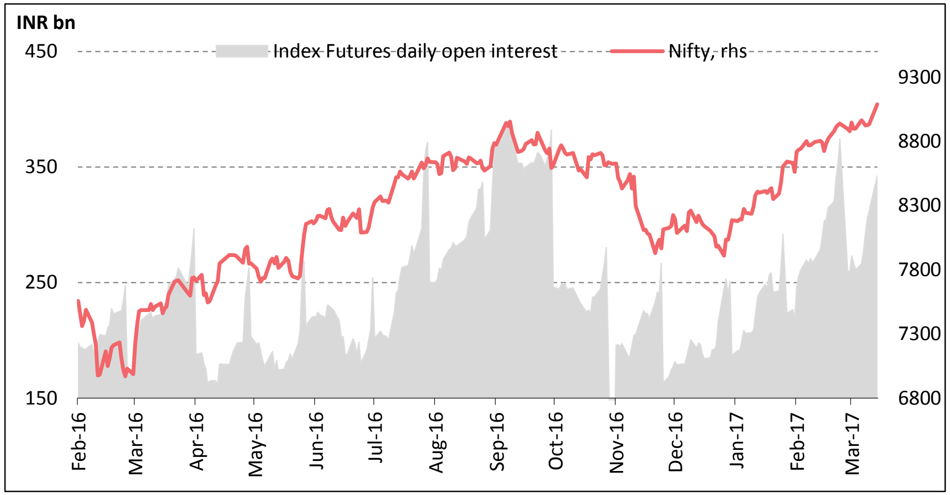


Source: IDFC Securities Research, SEBI, Bloomberg

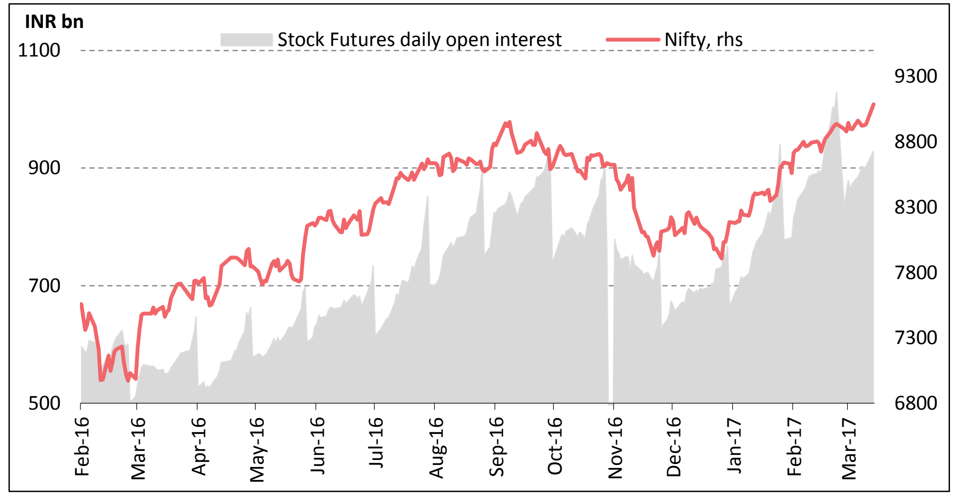
IDFC SECURITIES

3 Index and stock open interest has started building up; Away from highs though

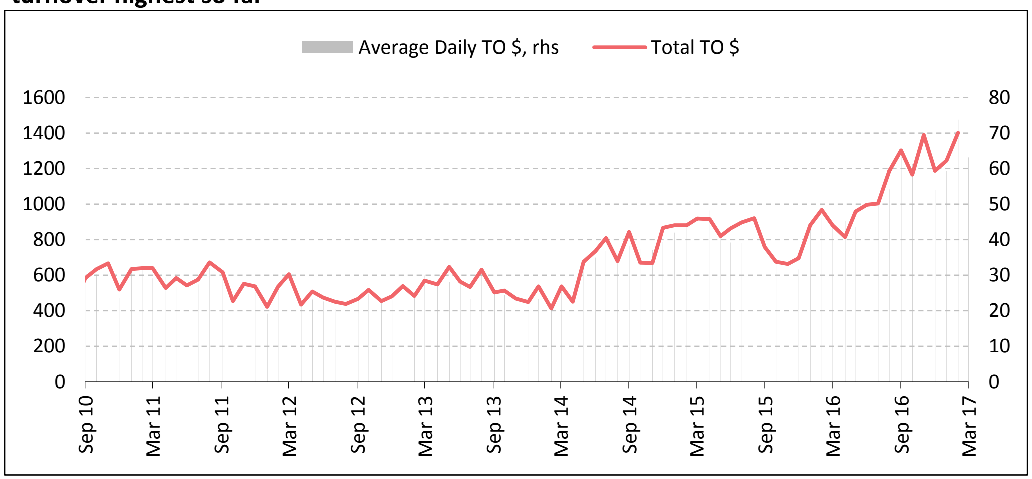
After seeing a correction in beginning of March-17, Index futures daily open interest is building up at a rather swift pace



Nifty corrects every time stock futures daily open interest reach a new peak – as it happened in March first week; Right now daily open interest is away form peak.



Derivatives (Total) - Average daily and total turnover (USD) – Mar-17 MTD average daily turnover highest so far

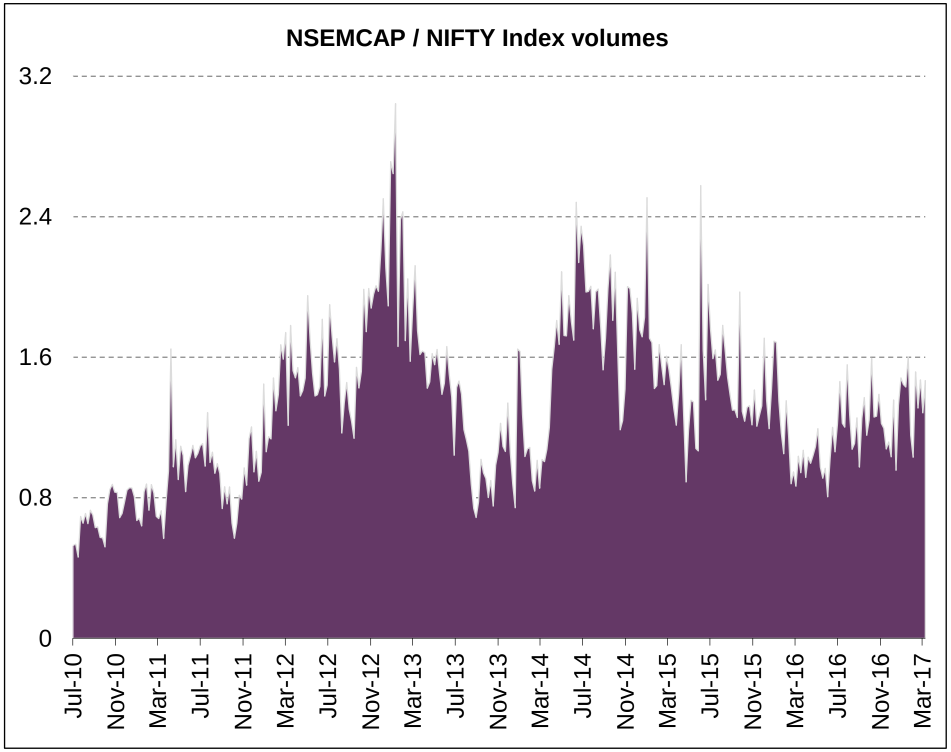


Source: IDFC Securities Research, SEBI, Bloomberg

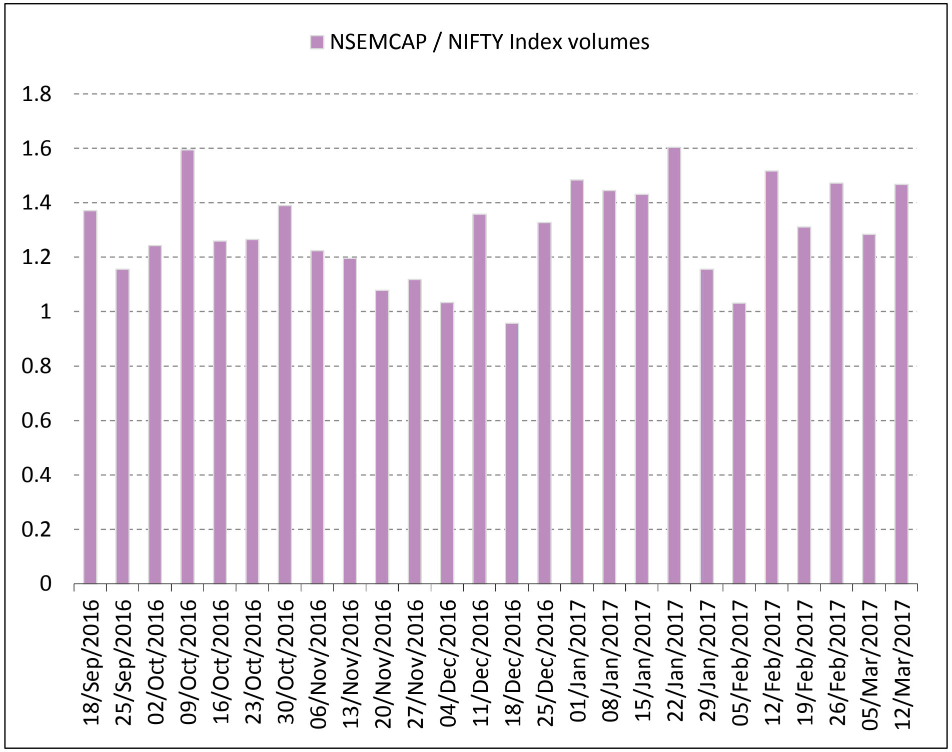
IDFC SECURITIES

3 After picking up in Mid-2016, interest in mid caps continues to maintain status quo

NSE mid cap to Nifty Volumes



A closer look at the series

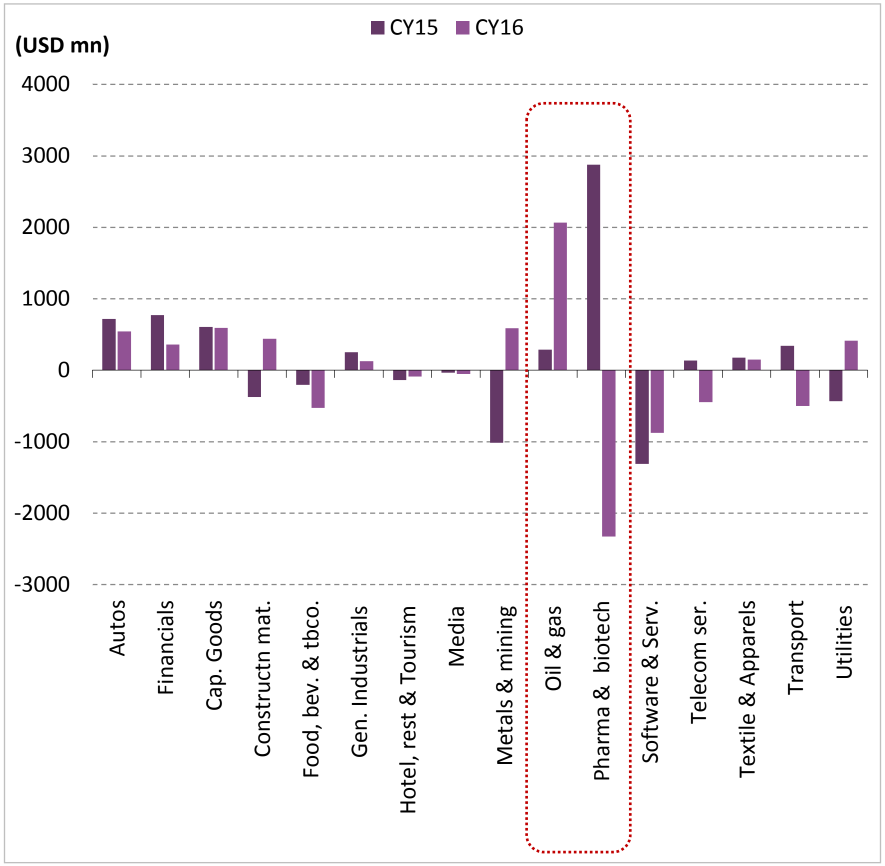


Source: IDFC Securities Research, SEBI, Bloomberg

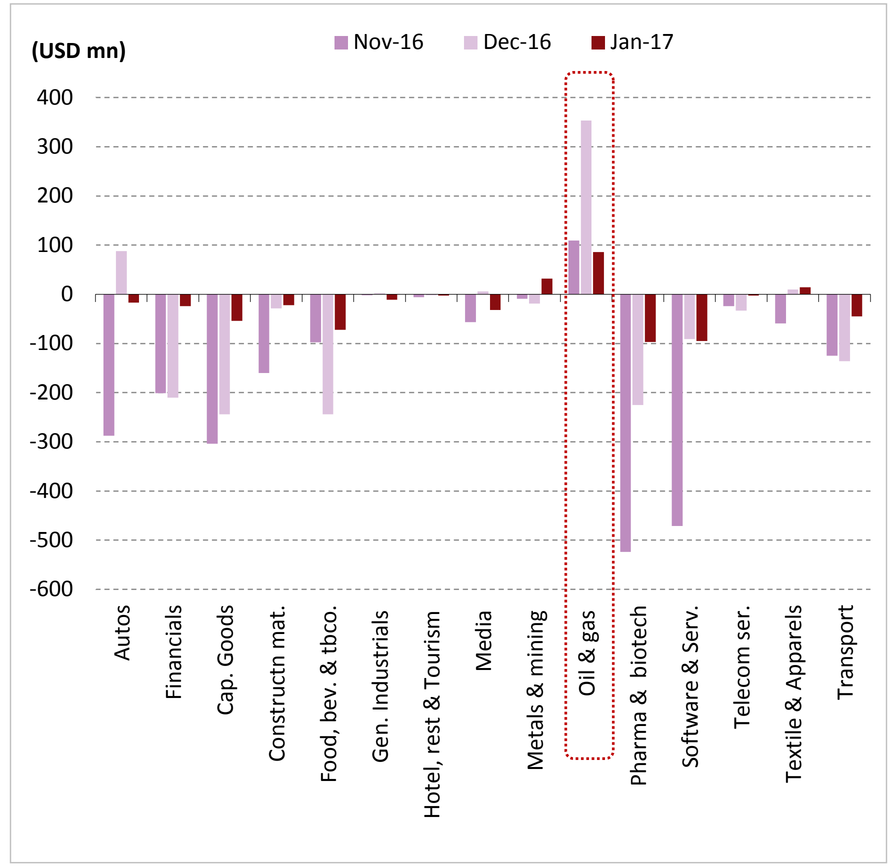
IDFC SECURITIES

3 Oil & gas continues to be FII's favourite while Pharma is seeing maximum net outflow

Annual flow to sectors – While Oil & Gas has been FII's favorite in CY16, Pharma and Biotech saw maximum net outflow



Oil & Gas continued to be FII's favorite in January-2017 too



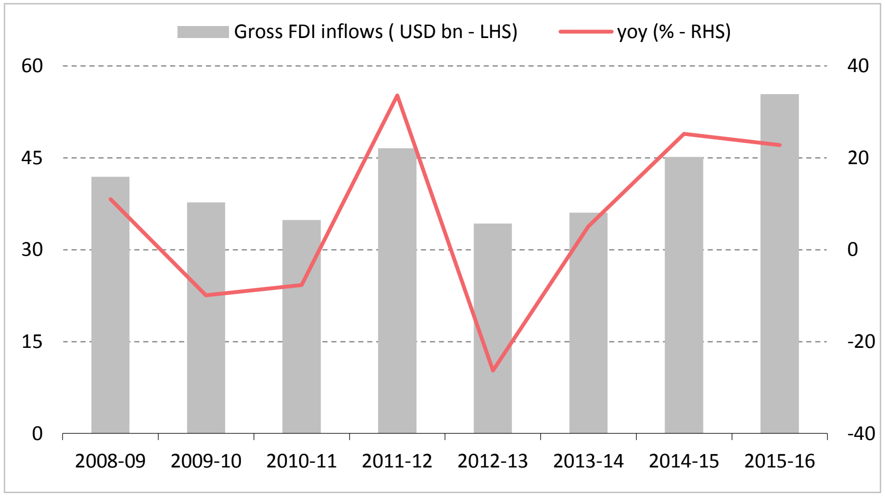
Source: CMIE

IDFC SECURITIES

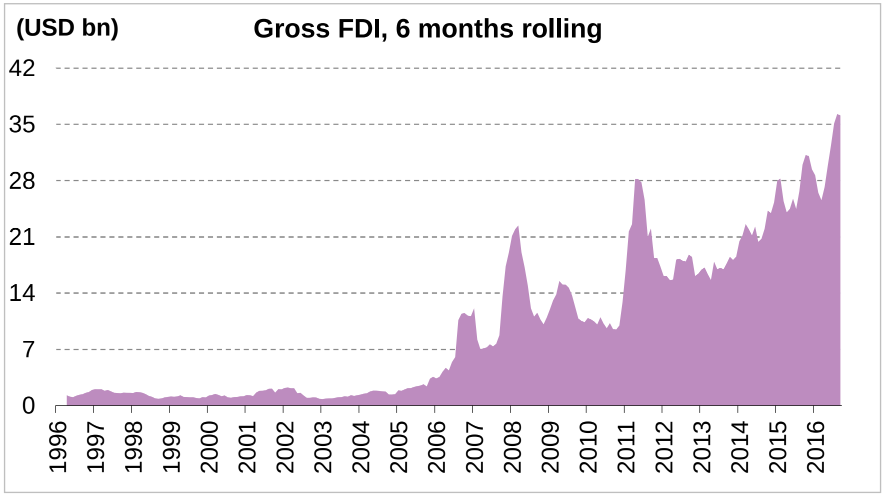
India receiving increasingly higher FDI as more policy support building up

3

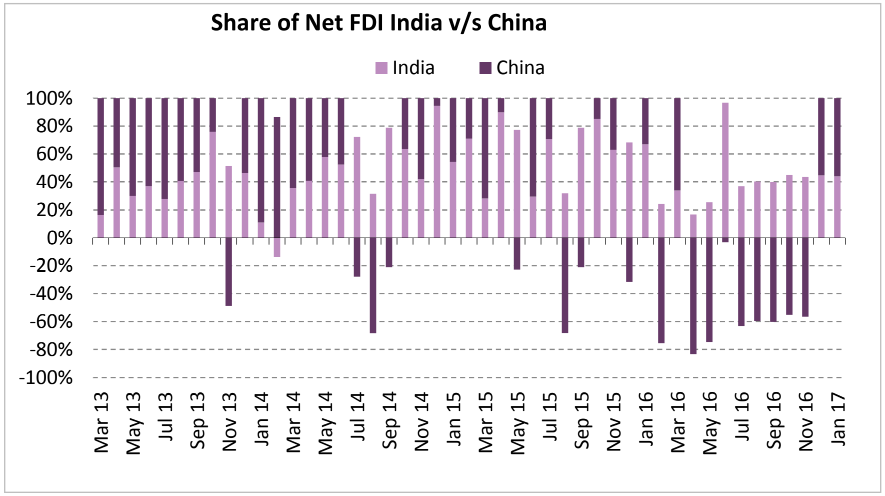
India attracting higher FDI as economy picks up



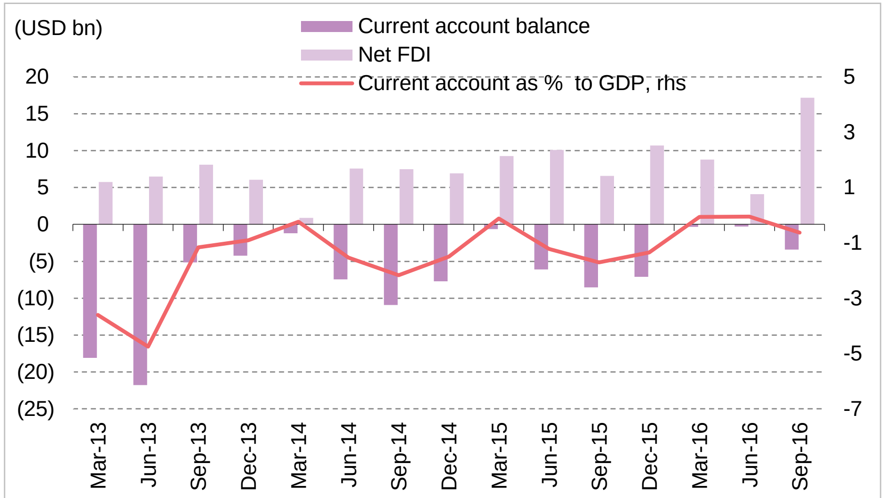
Gross FDI flow of US$53bn in FY17 till Jan-17; While FII flows have also been strong CYTD17 (US$2.4bn), FDI flows have continued to be robust too



While China saw net FDI inflows after eight months of outflow, India Net FDI is still going strong



CAD: 0.63% of GDP; in absolute amounts, much lower than net FDI (net flows of USD21.2bn in first two quarters of FY17



Source: CMIE, Bloomberg

IDFC SECURITIES

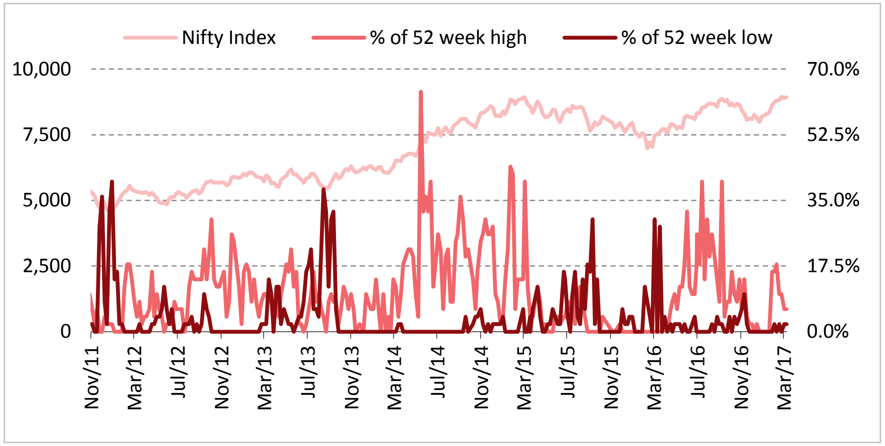
INDIAN MARKETS – MARKET CAPS AND SECTORS

IDFC SECURITIES

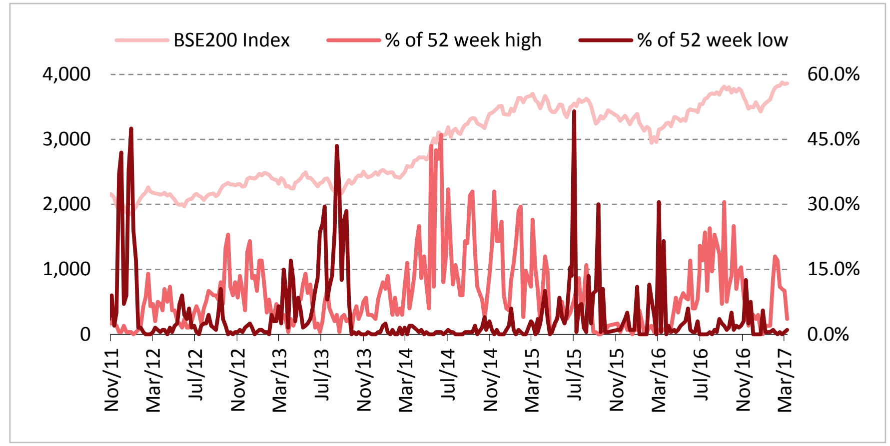
4 With the recent up move, 5-10% of the stocks across markets caps at their 52-weeks high

Major market cap indices and % of stocks at 52-week high and lows

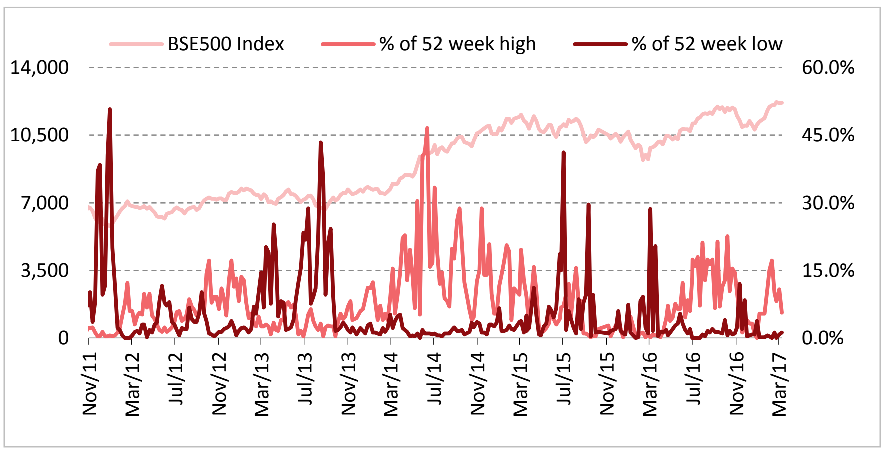
Nifty



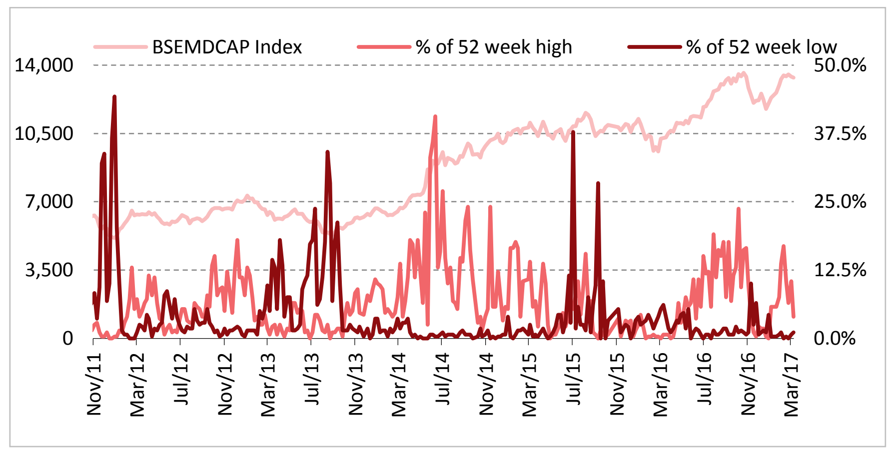
BSE 200



BSE 500



BSE Mid cap



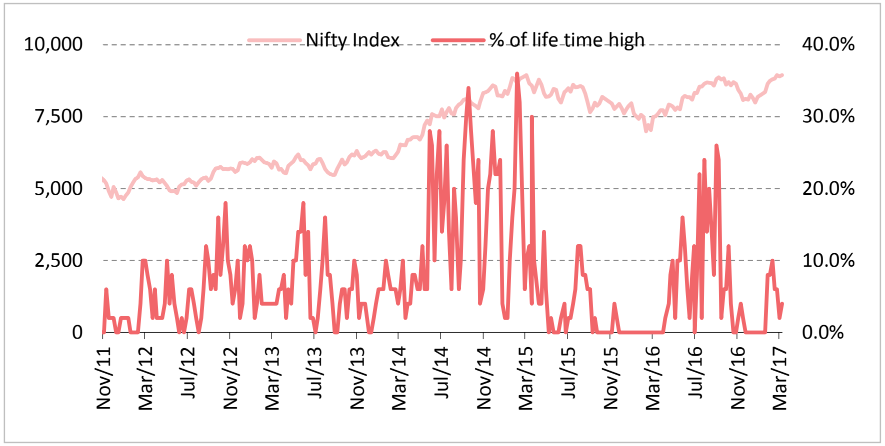
Source: Bloomberg, Data as on 10th March 2017

IDFC SECURITIES

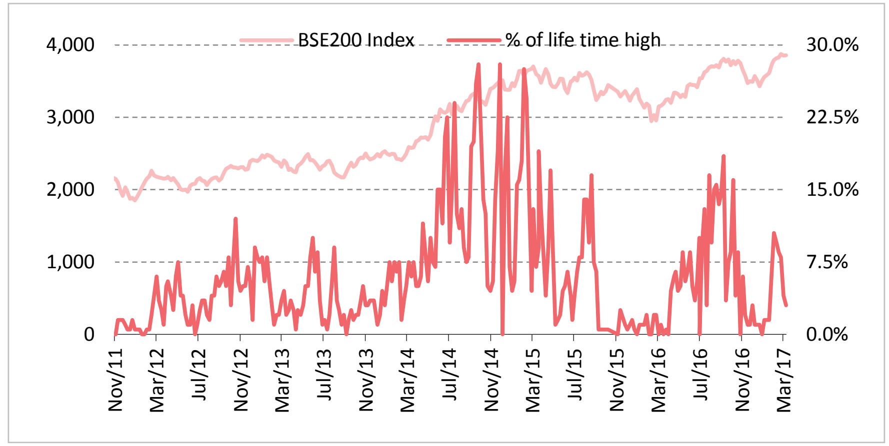
4 ~5% of the mid cap stocks at their life time high

Major market cap indices and % of stocks at life time high

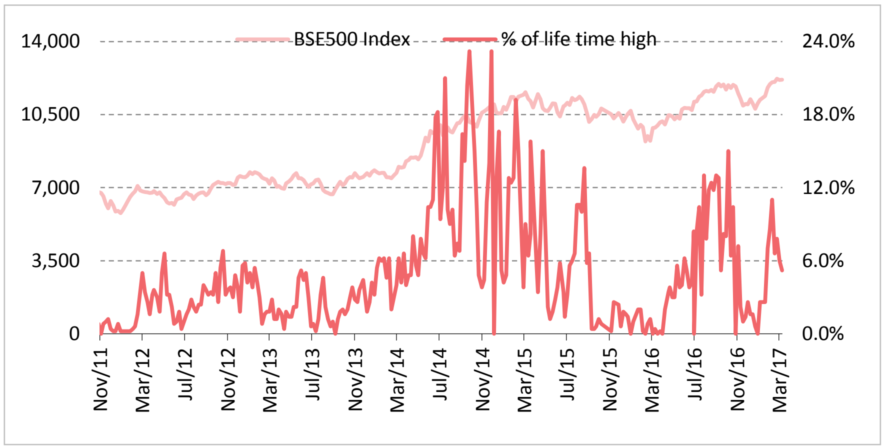
Nifty



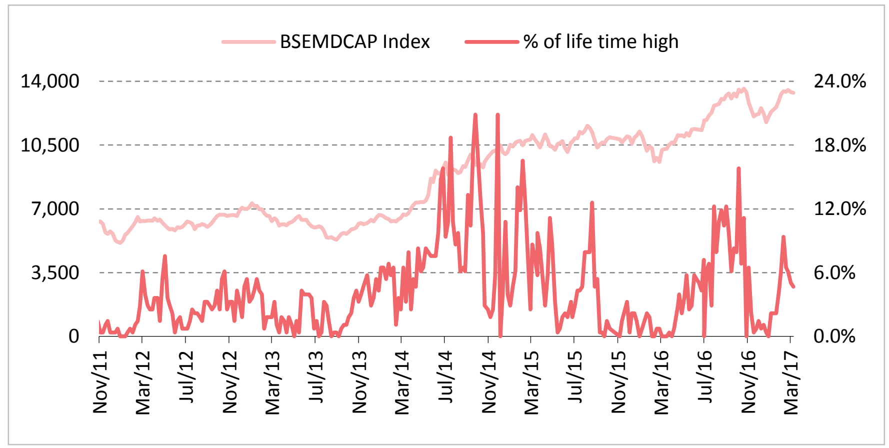
BSE 200



BSE 500



BSE Mid cap



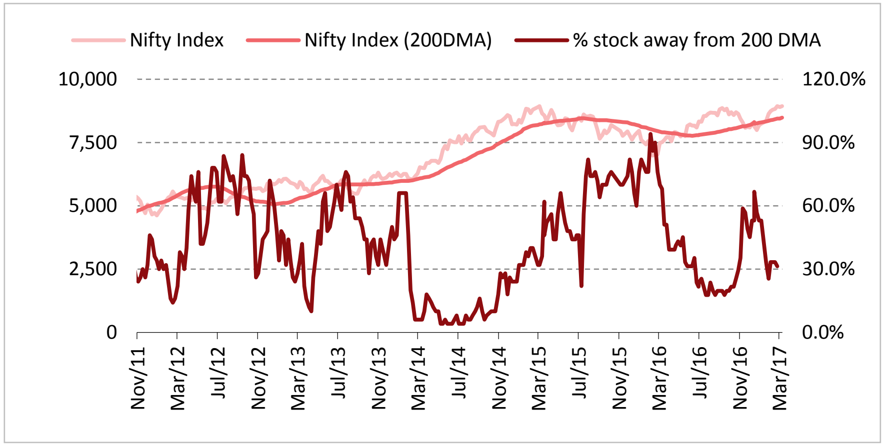
Source: Bloomberg, Data as of 10th March 2017

IDFC SECURITIES

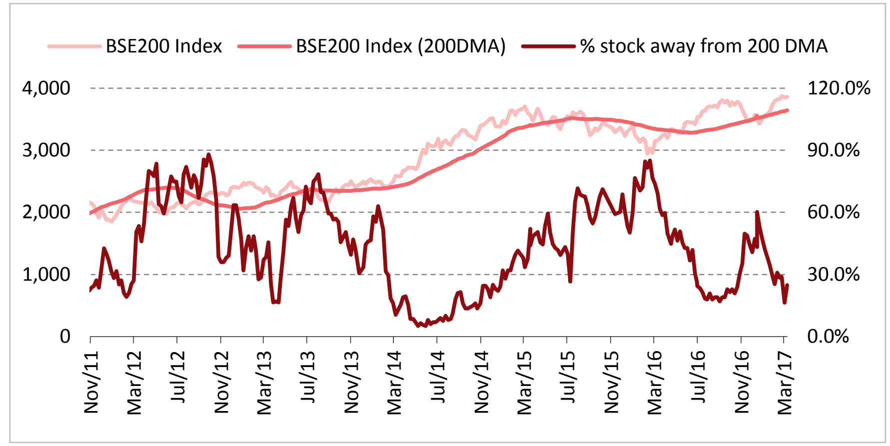
4 Indices across market caps, trading above their 200 day moving average (DMA); ~30% of the stocks away from their 200DMA

Major market cap indices and % of stocks away from 200 DMA

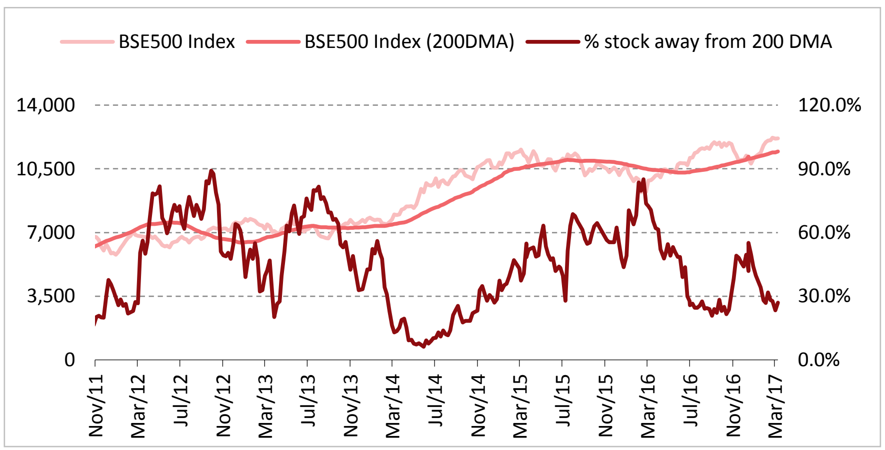
Nifty



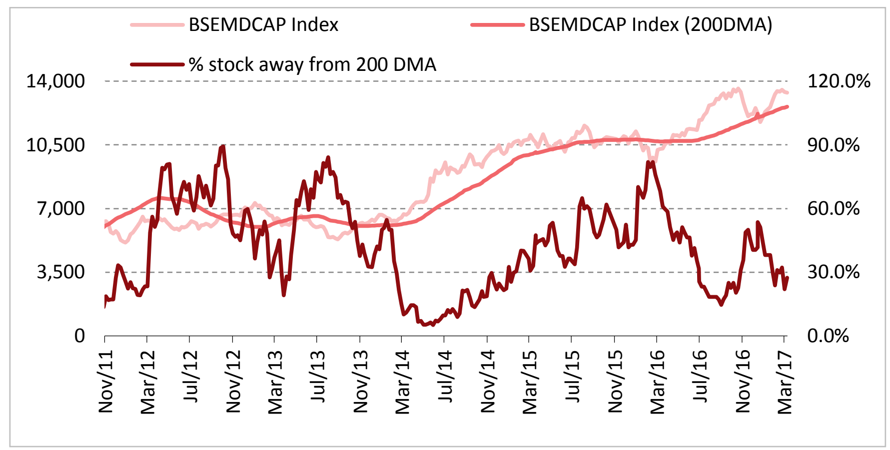
BSE 200



BSE 500



BSE Mid cap



Source: Bloomberg, Data as of 10th March 2017

IDFC SECURITIES

4 Oil & Gas, IT and Banks have been the best performers in last 30 days

	1 Week	1 Month	3 Months	6 Months	Post 8th Nov-16	YTD	1 Year	2 Years	5 Years
CNX Auto	1.6%	-0.8%	7.8%	-1.0%	-1.7%	8.4%	28.3%	13.6%	136.3%
CNX Energy	-1.2%	7.1%	12.7%	20.2%	16.4%	11.3%	41.0%	35.6%	41.0%
Banks Nifty	2.3%	4.4%	14.3%	6.6%	8.2%	16.1%	39.1%	12.4%	97.5%
CNX FMCG	1.6%	0.2%	11.0%	2.0%	3.8%	9.6%	17.5%	10.0%	112.7%
CNX Infrastructure	1.4%	0.4%	9.6%	7.3%	9.7%	12.4%	24.4%	-7.5%	15.3%
CNX IT	0.7%	4.7%	8.2%	4.9%	8.7%	4.6%	0.4%	-11.6%	66.2%
CNX Media	2.2%	2.5%	19.3%	8.9%	7.9%	18.2%	32.8%	39.8%	142.7%
CNX Metals	-3.2%	-1.4%	7.2%	22.0%	10.7%	14.3%	63.3%	26.8%	-5.7%
CNX Pharma	0.8%	2.0%	-2.7%	-8.4%	-0.2%	3.7%	-9.0%	-14.7%	117%
CNX Pub Sec. Enterprises	-1.9%	-3.7%	5.4%	13.8%	7.6%	7.0%	42.7%	12.6%	29.8%
CNX PSU Banks	1.7%	-3.1%	3.4%	5.6%	7.6%	10.9%	44.2%	-9.3%	-9.9%
CNX Realty	0.9%	3.7%	22.0%	-0.3%	2.6%	23.0%	36.3%	-10.0%	-20.2%
MSCI Telecom	-1.0%	-1.4%	6.0%	8.0%	10.8%	12.2%	-3.1%	-26.5%	-10.9%
BSE Power	0.2%	-1.4%	8.5%	6.3%	10.2%	10.2%	28.7%	-1.2%	-3.3%
CNX 500	1.3%	2.7%	11.2%	5.6%	6.4%	12.2%	25.2%	10.4%	81.5%
Nifty	1.6%	3.3%	10.5%	4.3%	6.4%	11.0%	21.0%	5.1%	67.4%

Source: Bloomberg Data as of 14th March 2017

IDFC SECURITIES

4 With a stellar performance Mar-17 MTD, Banks weight in BSE200 at it's highest in last 1 year

Sector weightages: BSE 200 (adj. FF)

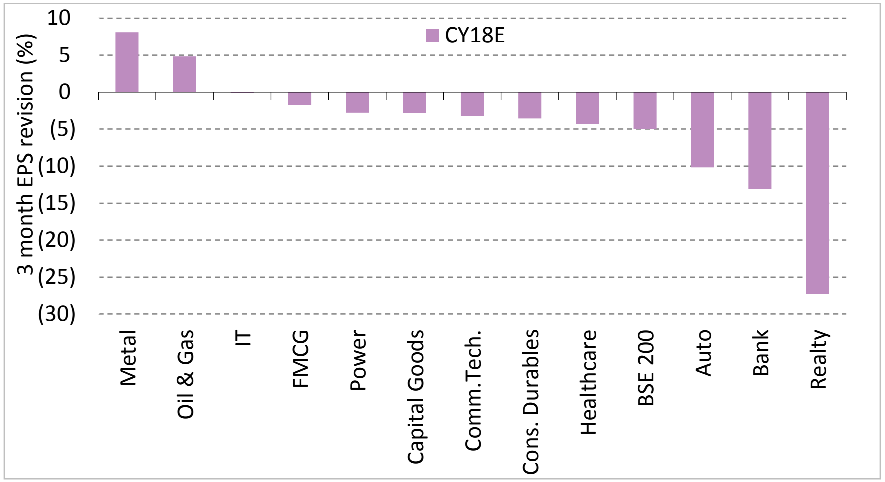
	Current	Feb-17	Jan-17	Dec-16	Nov-16	Oct-16	Sep-16	Aug-16	Jul-16	Jun-16	May-16	Apr-16	Mar-16
Automobiles & Components	13.0	12.8	14.1	13.6	13.4	14.1	14.2	13.9	13.5	13.3	13.4	12.7	12.9
Banking & Finance	28.2	28.0	27.5	26.9	27.3	27.6	27.4	27.5	26.9	26.2	26.2	25.9	25.2
Cement	2.8	2.8	2.8	2.7	2.8	2.9	3.0	3.0	2.9	2.8	2.7	2.7	2.7
Chemicals & Fertilizers	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.3	1.3	1.2
Construction	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Consumer Goods	10.4	10.4	10.4	10.6	10.5	10.4	10.6	10.9	11.0	11.1	10.8	10.9	10.8
Diversified	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Engineering & Capital Goods	4.4	4.3	4.3	4.2	4.2	4.3	4.2	4.4	4.6	4.6	4.4	4.2	4.1
IT Services	10.6	10.5	10.3	11.3	10.8	10.3	10.7	10.8	11.4	12.4	13.2	13.4	13.8
Media	0.9	0.9	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.8
Metals & Mining	3.7	3.9	3.9	3.6	3.8	3.5	3.3	3.3	3.2	3.1	2.9	2.9	3.0
Oil & Gas	9.0	9.2	8.7	9.0	8.5	8.3	8.1	7.8	7.6	7.7	7.6	7.8	8.3
Pharmaceuticals	6.6	6.7	6.7	7.0	7.4	7.2	7.3	7.2	7.4	7.3	7.4	7.8	7.8
Power	2.8	2.8	3.0	2.9	2.9	2.6	2.6	2.7	2.7	2.8	2.7	2.7	2.6
Real Estate	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.2
Telecom	1.9	1.9	1.8	1.8	1.9	1.8	1.8	1.9	2.1	2.2	2.2	2.3	2.3
Transportation	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Others	3.5	3.5	3.5	3.4	3.5	3.6	3.5	3.5	3.5	3.4	3.4	3.4	3.6
BSE200	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: IDFC Securities, Bloomberg

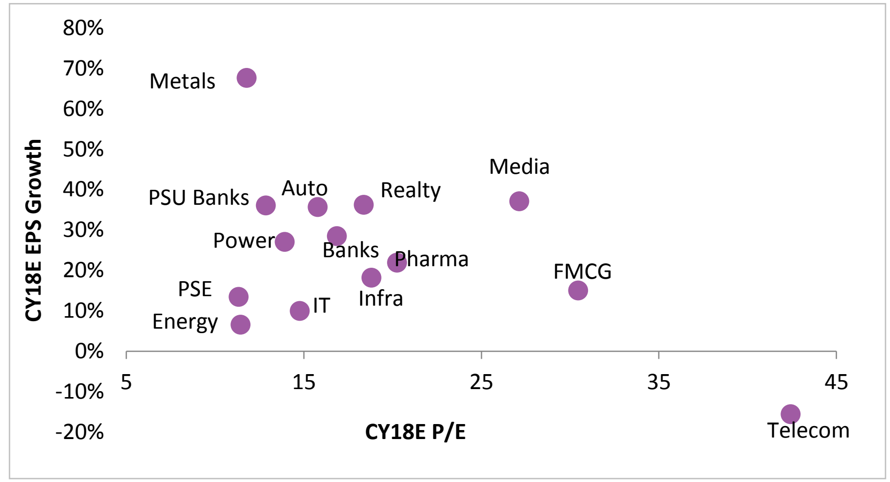
IDFC SECURITIES

4 Consensus bullish on Metals with highest 3 months earning revisions and bearish on telecom driven by disruption due to R-Jio entry

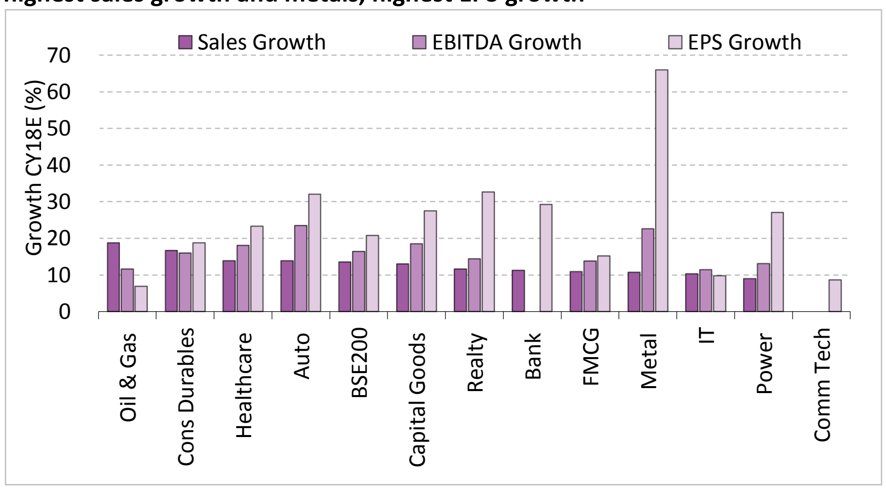
As commodities strengthen, Metals and Oil & Gas lead earnings revisions



CY18E PE vs Earnings growth for BSE sector Indices: Given double disruption in telecom, consensus expects telecom earnings to be decline



CY18E growth expectations for BSE sector indices: Oil &Gas expected to post highest sales growth and metals, highest EPS growth

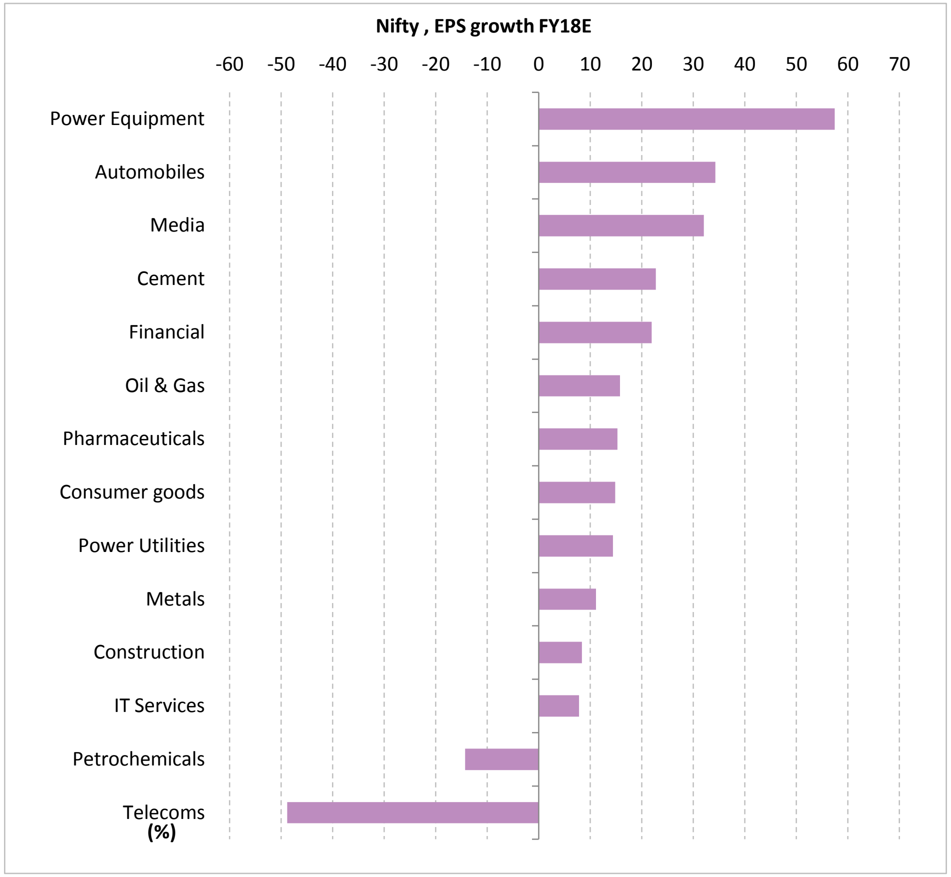


Source: Bloomberg

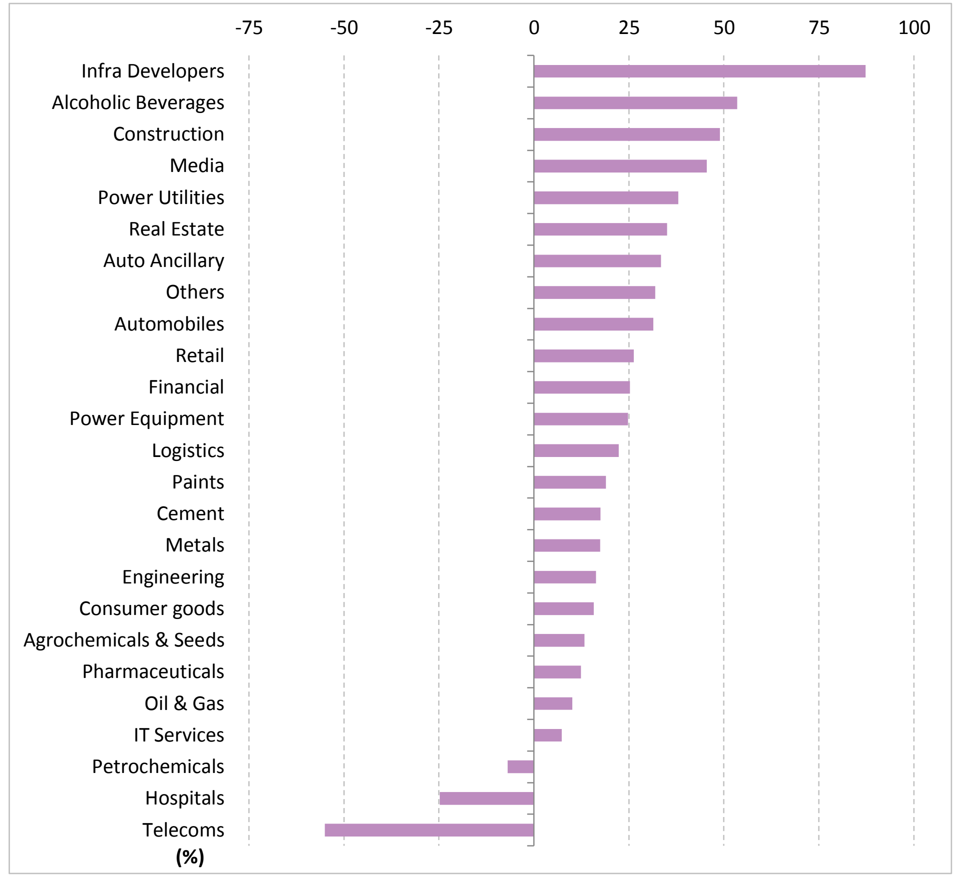
IDFC SECURITIES

4 FY18E earnings estimates – Nifty 50 and IDFC universe sectors

Nifty – Driven by disruption caused by Reliance Jio, we expect telecom stocks to post an earnings decline in FY18E



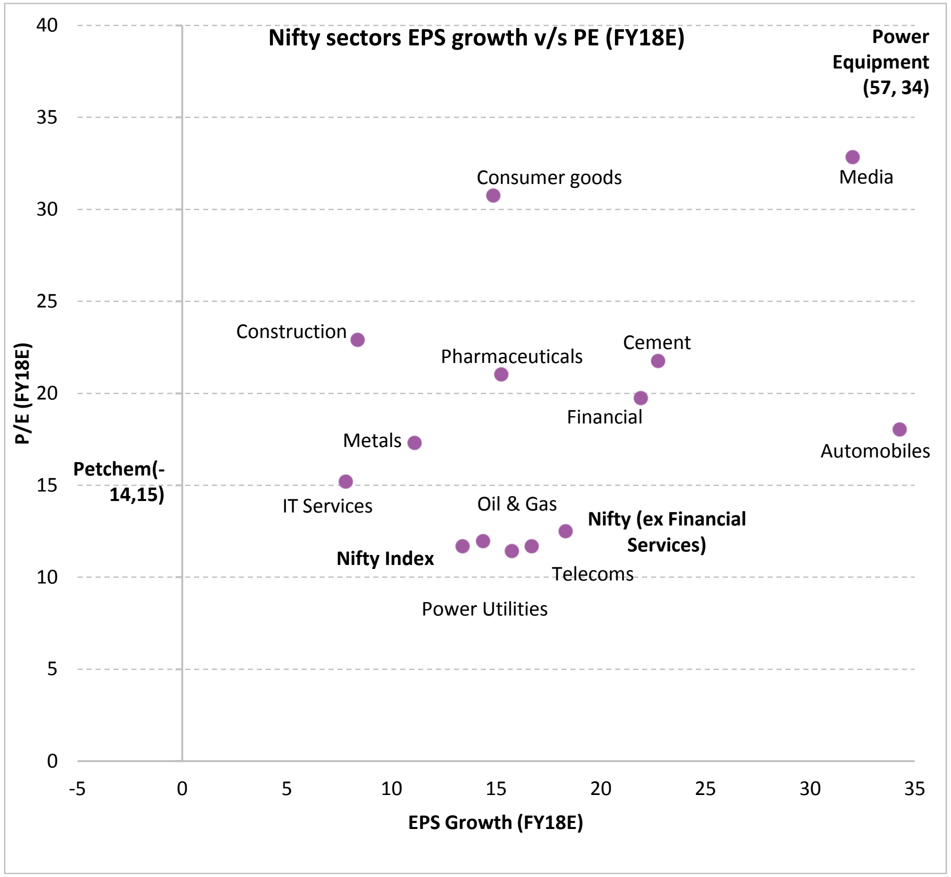
IDFC Universe FY18E earnings expectations



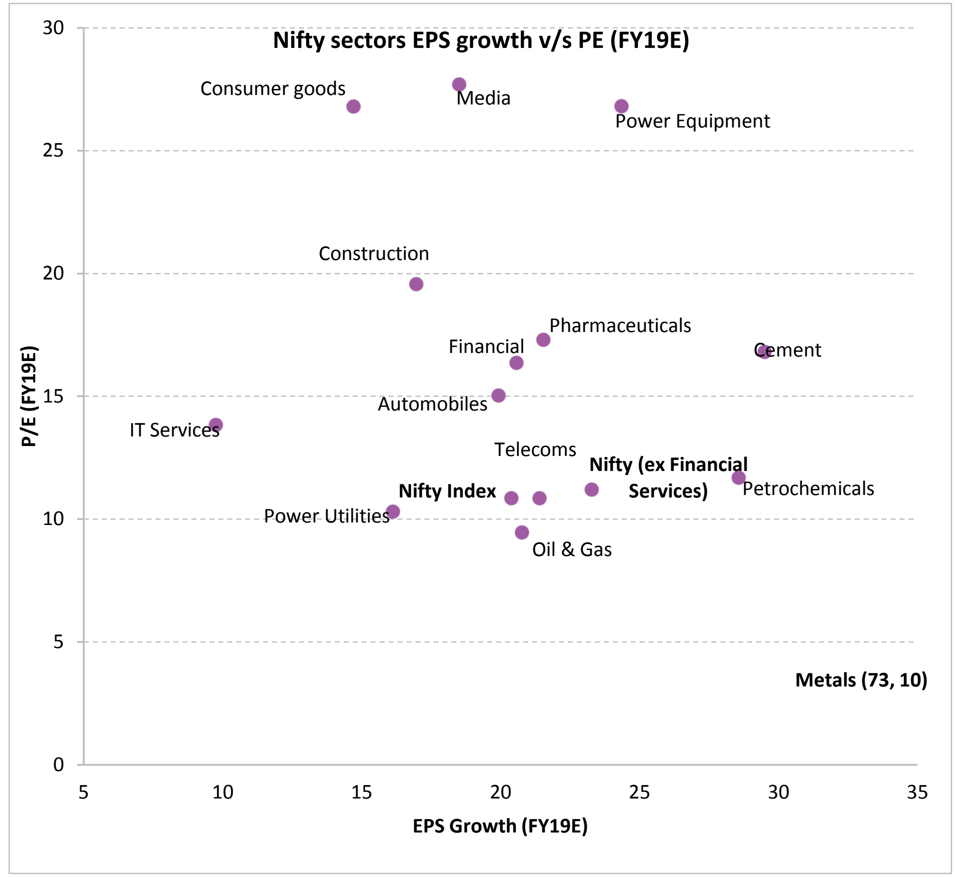
Source: IDFC Securities Research

4 Nifty sector earnings growth v/s valuation – Cement well placed on FY19 estimates

Nifty sectors EPS growth v/s PE (FY18E)



Nifty sectors EPS growth v/s PE (FY19E)

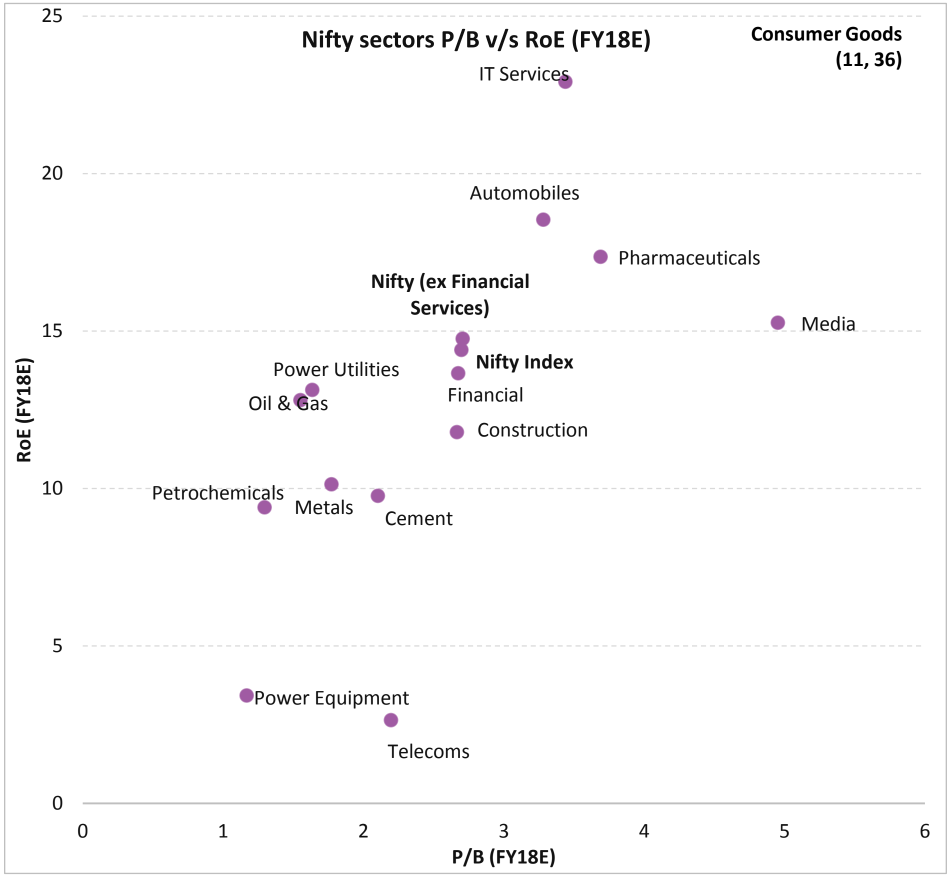


Source: IDFC Securities Research

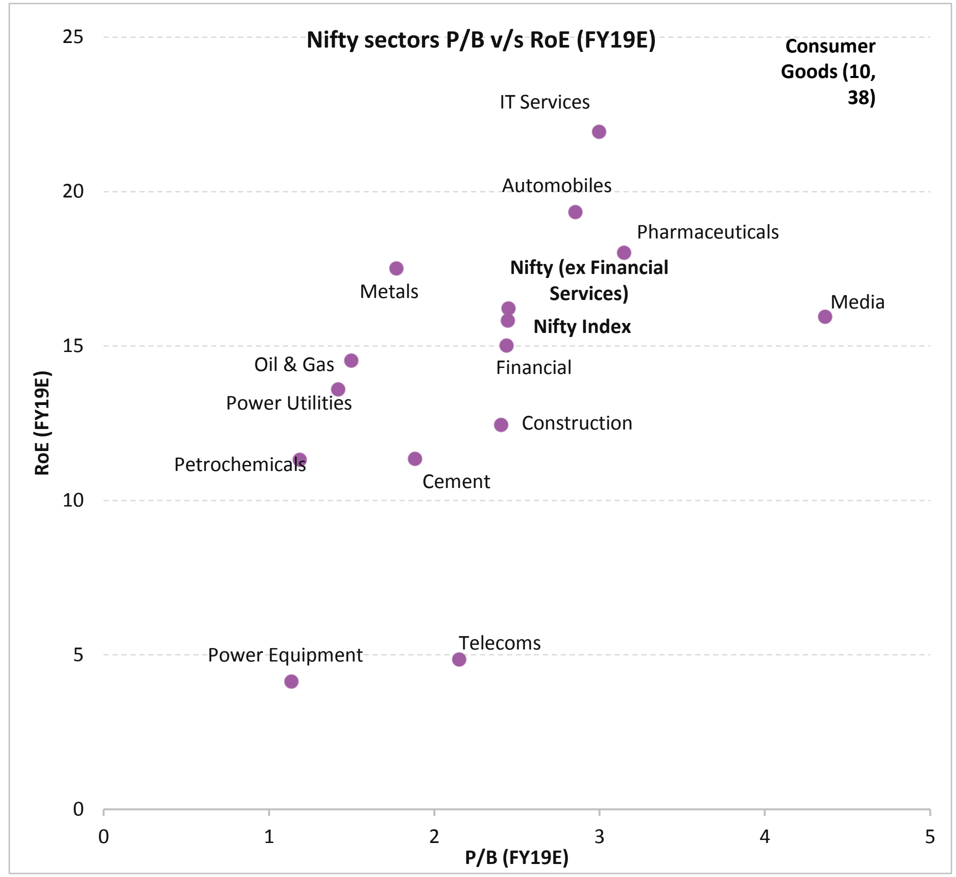
IDFC SECURITIES

Nifty sector P/B v/s RoE – FY17E and FY18E

Nifty sectors P/B v/s RoE (FY17E)



Nifty sectors P/B v/s RoE (FY18E)

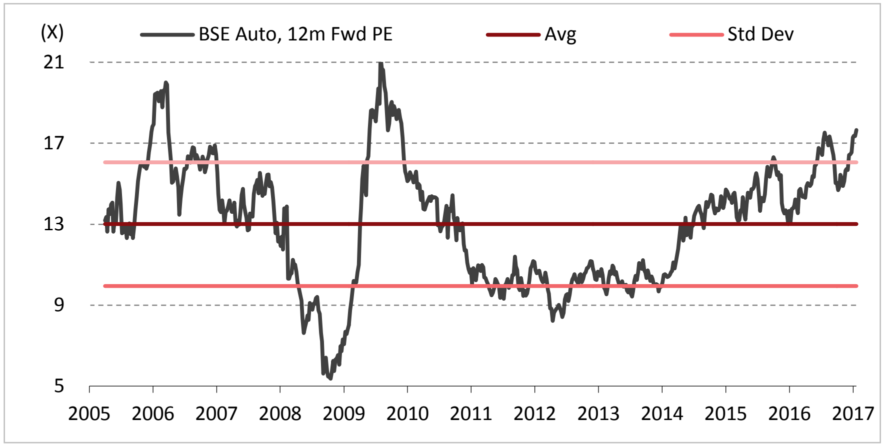


Source: IDFC Securities Research

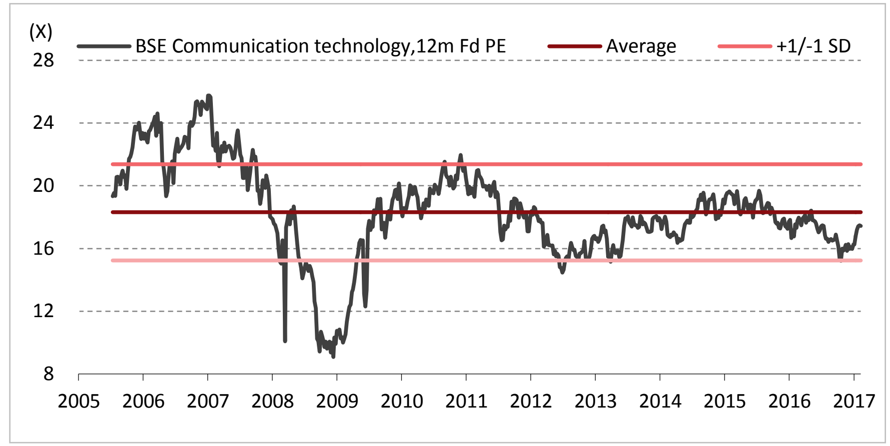
IDFC SECURITIES

4 Valuation of key Indian sectors

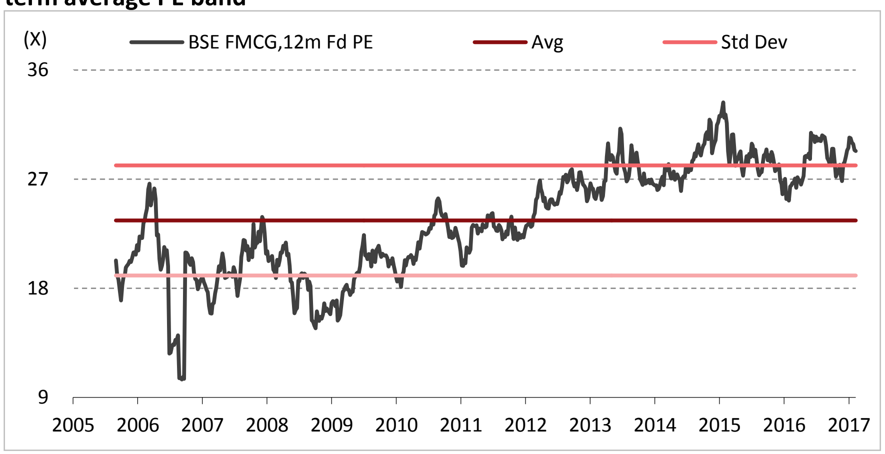
Autos –12 month forward PE upwards of +1 Standard deviation of long term average band



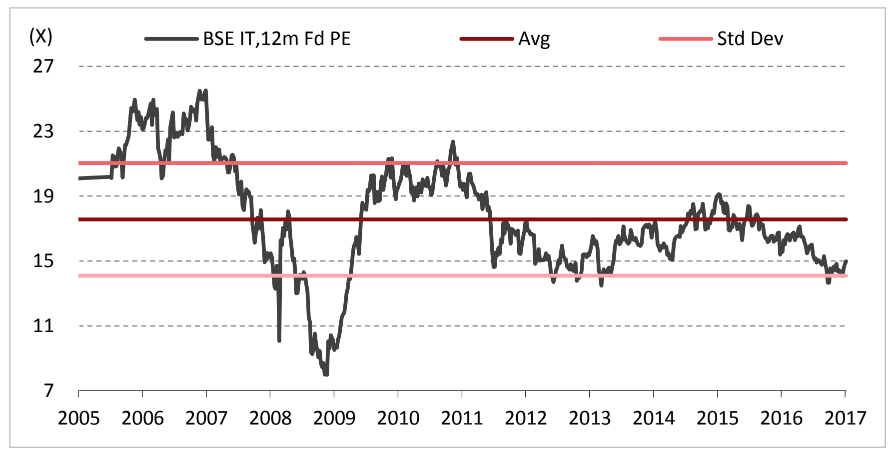
Communication technology –With recent telecom outperformance 12m fwd PE inching close to long term avg



BSE FMCG – 12month forward PE above one standard deviation and long term average PE band



BSE IT – Sector headwinds reflecting on valuations



Source: Bloomberg

IDFC SECURITIES

MOVERS AND SHAKERS
UPGRADES AND DOWNGRADES

5 Reliance (Petrochemicals) and BHEL (Power Equipment) added maximum points to Nifty in February-17

Sector	Incremental mkt cap (Rs bn)				Incremental point				Absolute price performance (%)			
	1m	3m	12m	CYTD	1m	3m	12m	CYTD	1m	3m	12m	CYTD
Automobiles	-184	375	1,903	340	-27	51	270	47	-3.1	5.2	36.7	4.7
Cement	59	153	633	264	9	22	75	34	3.3	8.2	41.0	13.3
Construction	39	131	586	181	7	25	117	35	1.8	6.8	39.6	9.6
Consumer goods	126	474	1,052	465	18	79	184	71	2.1	10.1	25.3	8.7
Financial	662	1,343	4,352	1,543	117	261	867	302	4.7	11.0	43.7	12.4
IT Services	820	583	432	265	97	59	16	22	8.8	5.2	1.3	1.8
Media	19	52	132	54	3	8	21	8	4.2	11.8	36.8	12.4
Metals	86	133	500	285	6	20	89	34	2.3	7.4	48.1	15.1
Oil & Gas	-70	167	1,505	177	-2	16	118	16	-0.7	5.6	60.8	5.7
Petrochemicals	626	806	885	505	87	111	126	70	18.5	25.1	28.3	14.4
Pharmaceuticals	92	-173	-527	94	9	-25	-67	9	1.8	-4.6	-11.6	1.8
Power Equipment	62	79	175	101	6	8	18	10	18.5	24.8	78.8	34.0
Power Utilities	-149	23	752	49	-14	4	81	7	-5.0	1.6	42.3	2.8
Telecoms	71	132	89	279	7	14	12	26	3.3	7.0	5.2	14.3
Nifty Index	**2,260**	**4,278**	**12,466**	**4,602**	**324**	**654**	**1,927**	**692**	**2.5**	**9.0**	**23.7**	**9.1**
Nifty (ex Financial Services)	1,598	2,935	8,115	3,059	207	393	1,060	390	3.5	7.0	20.9	6.9
Nifty (ex IT Services)	1,440	3,695	12,035	4,337	226	595	1,910	670	3.1	8.7	32.8	9.8
Nifty (ex Oil & Gas & Financials)	1,705	3,305	10,077	3,920	239	527	1,683	605	3.1	7.3	26.3	8.3

Source: Bloomberg; Data as of 14th March 2017

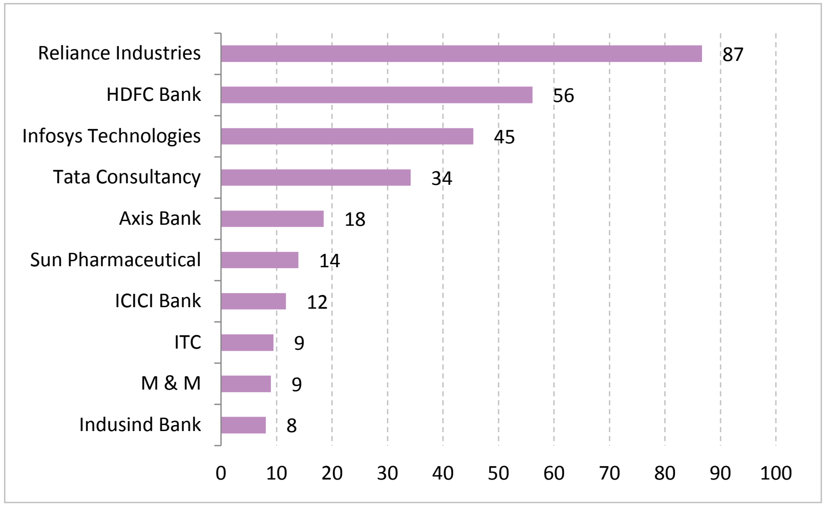
IDFC SECURITIES

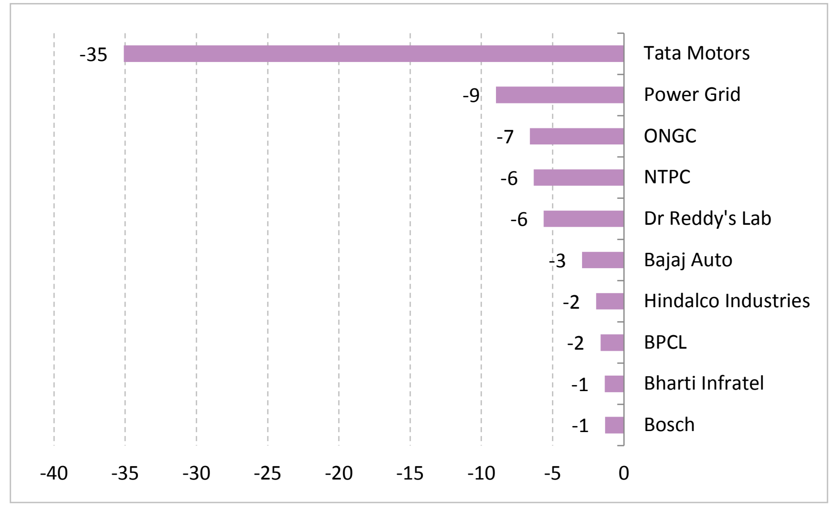
5 HDFC Bank have added maximum points to Nifty in last 12 months and Sun Pharma has taken out the maximum points

Stocks which added highest number of points to Nifty

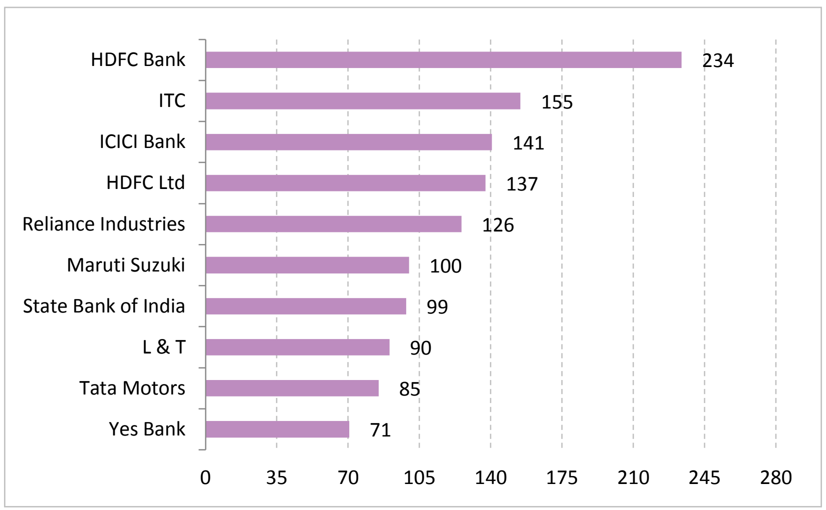
Stocks which took out maximum points from Nifty

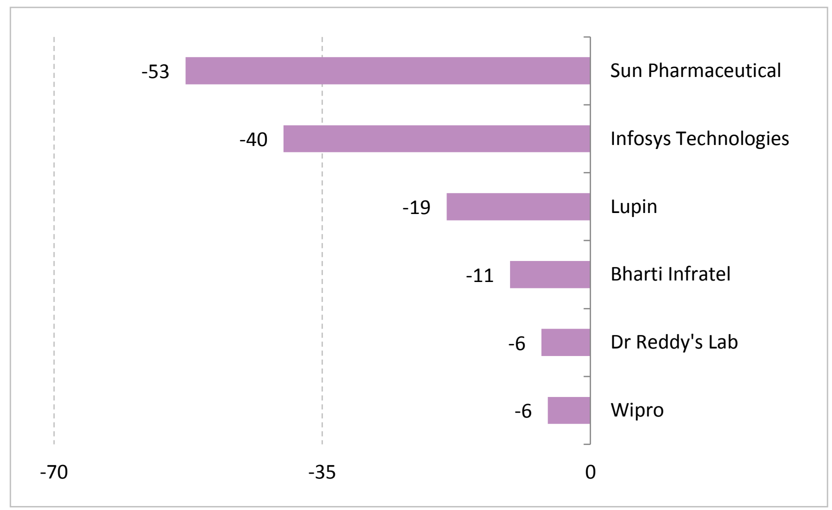
1 month





12 months





Source: Bloomberg; Data as of 28th February 2017

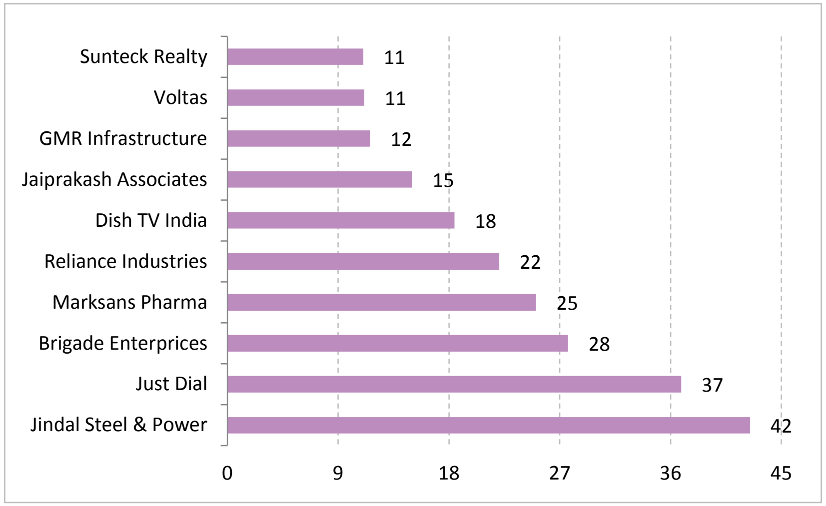
IDFC SECURITIES

5

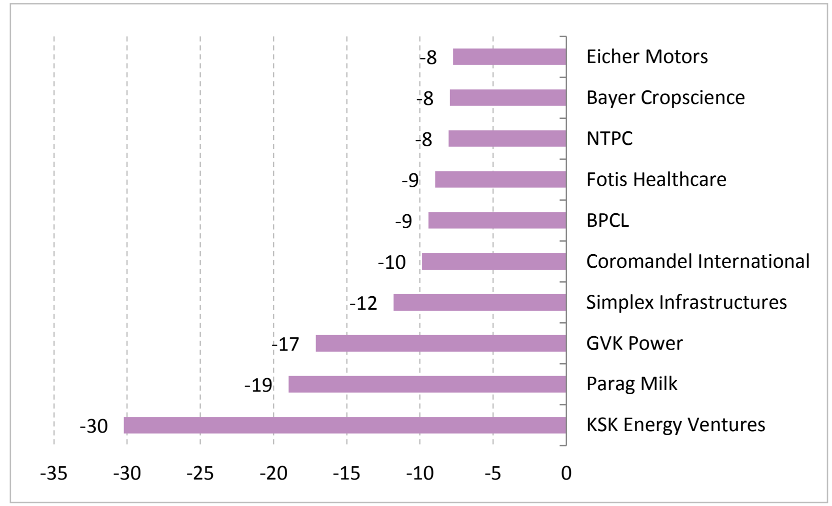
IDFC universe Movers and Shakers

1 month

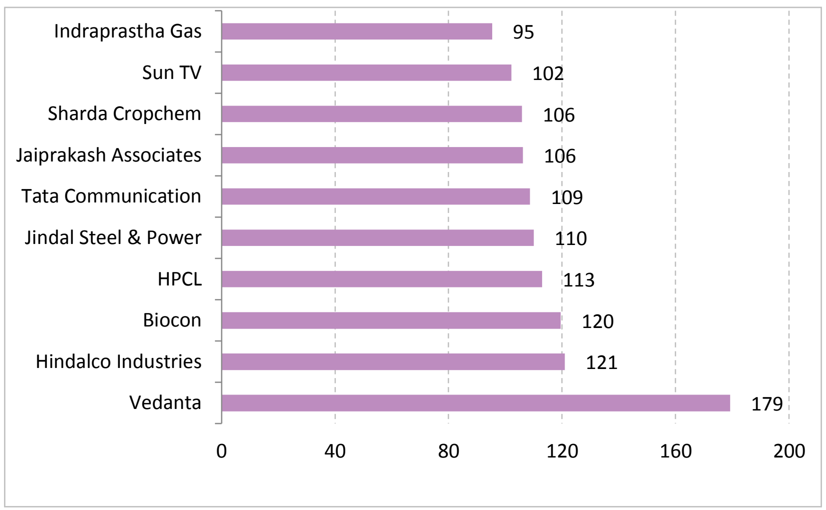
Stocks with highest returns

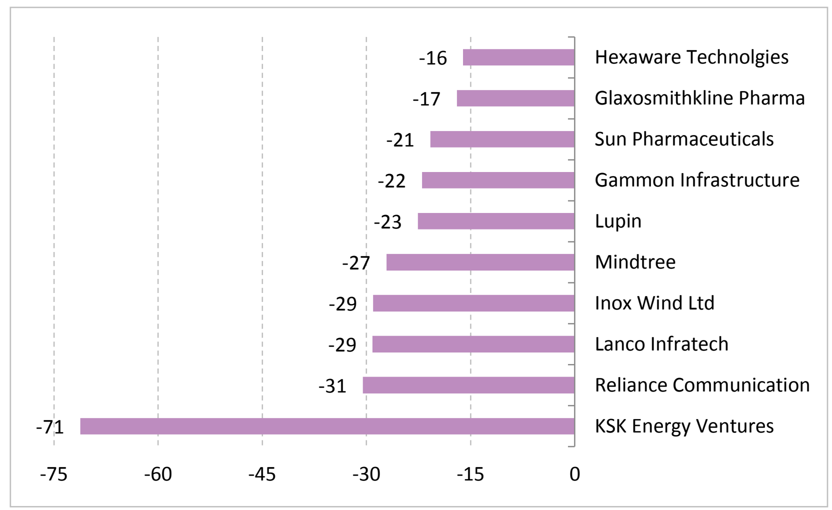


Stocks with lowest returns



12 months





Source: Bloomberg; Data as of 14th March 2017

IDFC SECURITIES

5 IDFC universe: Changes in rating, TP and PAT (FY17E) in Feb-17

Ratio of PAT downgrades/upgrades (#) at 1.7 (against 2.7 in Jan-17); Oil & Gas saw maximum upgrades and Pharma, maximum downgrades

	Total	Reco			Target Price			PAT		
	No. Of Cos.	Up	Down	no-chg	Up	Down	no-chg	Up	Down	no-chg
Agrochemicals & Seeds	9	1	-	8	4	1	4	1	1	7
Alcoholic Beverages	3	-	1	2	1	1	1	-	2	1
Auto Ancillary	2	-	-	2	2	-	-	-	2	-
Automobiles	8	-	-	8	1	3	4	-	5	3
Cement	6	-	-	6	1	1	4	1	3	2
Construction	7	-	-	7	3	-	4	2	3	2
Consumer goods	8	-	-	8	2	2	4	1	2	5
Engineering	7	-	-	7	2	1	4	2	2	3
Financials	15	1	3	11	2	3	10	1	6	8
Hospitals	4	-	-	4	2	1	1	1	2	1
Infra Developers	8	-	-	8	2	2	4	4	1	3
IT Services	14	-	-	14	-	2	12	1	1	12
Logistics	2	-	-	2	1	-	1	-	1	1
Media	10	1	-	9	4	-	6	1	3	6
Metals	9	-	-	9	-	-	9	-	-	9
Oil & Gas	14	3	-	11	9	1	4	7	4	3
Others	2	-	-	2	-	-	2	-	1	1
Paints	4	1	-	3	1	1	2	1	1	2
Petrochemicals	1	-	-	1	-	-	1	-	-	1
Pharmaceuticals	15	-	-	15	4	9	2	3	10	2
Power Equipment	6	-	-	6	3	1	2	4	1	1
Power Utilities	14	-	-	14	7	2	5	4	6	4
Real Estate	7	-	-	7	1	-	6	1	1	5
Retail	2	-	-	2	1	1	-	1	1	-
Telecoms	5	-	-	5	1	1	3	-	2	3
IDFC Universe	**182**	**7**	**4**	**171**	**54**	**33**	**95**	**36**	**61**	**85**

Source: IDFC Securities Research

IDFC SECURITIES

5 Stocks with earnings upgrade/downgrade in Feb-17

Company	EPS (Rs) - FY17E			EPS (Rs) - FY18E			Target price			
	% chg	From	To	% chg	From	To	% chg	From	To	Rating
Upgrade										
GMR Infrastructure	25.2	(2.3)	(2.9)	1,616.1	0.0	0.4	12.5	16.0	18.0	OP
Natco Pharma	146.2	10.5	25.7	123.9	12.5	28.1	16.4	690.0	803.0	OP
Crompton Greaves	44.2	1.9	2.7	60.4	3.0	4.8	20.4	54.0	65.0	UP
HCC	(32.1)	1.2	0.8	55.5	1.3	2.0	60.9	23.0	37.0	UP
Adani Transmissions	(54.7)	8.5	3.8	22.1	5.1	6.2	45.8	48.0	70.0	OP
Reliance Infrastructure	2.6	62.1	63.7	19.2	63.8	76.1	-	683.0	683.0	OP
ABB	3.4	17.2	17.8	13.0	21.9	24.7	17.0	940.0	1,100.0	UP
PTC	6.8	8.3	8.9	12.1	8.4	9.4	31.9	91.0	120.0	OP
Petronet LNG	1.5	20.9	21.2	11.4	22.5	25.0	15.4	390.0	450.0	OP
Kansai Nerolac Paints	11.4	8.1	9.0	11.1	9.1	10.2	17.6	336.0	395.0	OP
GAIL (India)	14.2	28.2	32.2	10.7	33.2	36.8	12.2	490.0	550.0	OP
Tata Power	12.1	4.7	5.3	9.6	5.6	6.1	17.1	70.0	82.0	N
DLF	(31.7)	5.0	3.4	9.4	3.9	4.2	-	159.0	159.0	UP
Monsanto India	-	73.5	73.5	9.2	85.8	93.7	42.2	2,205.0	3,135.0	OP
IOC	7.0	35.1	37.6	9.2	33.3	36.4	8.2	425.0	460.0	OP
Voltas	16.9	10.6	12.4	9.1	13.5	14.7	14.3	350.0	400.0	OP
PI Industries	8.9	28.6	31.1	6.9	32.7	34.9	6.8	915.0	977.0	OP
KEC International	5.4	10.0	10.6	5.8	11.7	12.3	9.7	155.0	170.0	OP
Sunteck Realty	62.3	18.5	30.1	5.2	22.4	23.6	-	299.0	299.0	OP
Narayana Hrudayalaya	(0.9)	4.4	4.3	5.0	5.9	6.2	10.0	340.0	374.0	OP
AIAE	2.6	47.1	48.3	4.6	54.4	56.9	12.1	1,360.0	1,525.0	OP
Mahanagar Gas	4.0	39.6	41.2	4.3	41.9	43.7	17.9	700.0	825.0	N

Source: IDFC Securities Research, Bloomberg

IDFC SECURITIES

5 Stocks with earnings upgrade/downgrade in Feb-17

Company	EPS (Rs) - FY17E			EPS (Rs) - FY18E			Target price			
	% chg	From	To	% chg	From	To	% chg	From	To	Rating
Downgrade										
Bank of Baroda	(16.0)	9.0	7.6	(35.9)	17.8	11.4	(10.8)	185	165	UP
Union Bank of India	(55.9)	17.7	7.8	(35.5)	20.9	13.5	-	120	120	UP
Ambuja Cement	(24.4)	7.0	5.3	(30.4)	7.9	5.5	-	245	245	N
Parag Milk	(88.4)	7.4	0.9	(29.6)	10.1	7.1	(35.5)	310	200	N
Tata Motors	(45.3)	33.2	18.2	(26.3)	47.0	34.6	(13.7)	490	423	N
Glaxosmithkline Pharma	(30.4)	49.9	34.7	(25.3)	67.2	50.2	(25.2)	2,686	2,008	UP
Marksans Pharma	(37.2)	1.1	0.7	(24.9)	3.3	2.5	(10.7)	56	50	OP
Fortis Healthcare	537.2	1.7	10.8	(23.4)	4.0	3.0	5.4	185	195	OP
PNC Infratech	(13.2)	6.1	5.3	(21.5)	9.5	7.4	4.8	126	132	OP
Punjab National Bank	(19.5)	9.4	7.5	(21.4)	13.6	10.7	(7.4)	135	125	UP
BHEL	(2.6)	3.1	3.0	(21.0)	6.0	4.7	(1.7)	120	118	UP
IPCA Laboratories	(9.6)	15.9	14.4	(18.4)	30.5	24.9	(8.7)	600	548	OP
Shree Cement	(15.1)	439.3	373.1	(17.0)	641.2	532.4	-	17,000	17,000	OP
Simplex Infrastructures	3.2	16.6	17.1	(16.9)	23.0	19.1	-	300	300	N
Sadbhav Engineering Ltd	4.1	10.8	11.3	(16.4)	14.3	11.9	-	322	322	OP
ACC	(16.5)	41.2	34.4	(15.0)	50.9	43.3	(9.4)	1,600	1,450	N
Bayer Cropscience	(16.5)	121.9	101.8	(14.9)	144.5	123.0	(6.1)	4,191	3,937	N
Sun Pharma	(6.0)	32.5	30.5	(13.5)	34.7	30.0	(17.0)	867	720	OP
M & M	(9.7)	64.2	58.0	(12.7)	73.8	64.4	(1.2)	1,433	1,416	OP
Torrent Pharma	(1.5)	56.8	55.9	(12.0)	75.3	66.3	(4.0)	1,658	1,592	OP
Sanofi India	(13.2)	148.8	129.2	(11.5)	176.6	156.4	(1.8)	5,305	5,209	OP
TeamLease Services	(0.7)	24.5	24.3	(10.4)	37.8	33.8	-	1,175	1,175	OP

Source: IDFC Securities Research, Bloomberg

IDFC SECURITIES

5 Stocks with earnings upgrade/downgrade in Feb-17

Company	EPS (Rs) - FY17E			EPS (Rs) - FY18E			Target price			
	% chg	From	To	% chg	From	To	% chg	From	To	Rating
Downgrade										
Lupin	(1.0)	63.6	62.9	(10.3)	72.7	65.1	(3.9)	1,694	1,628	OP
Adani Enterprises	6.8	6.6	7.0	(8.8)	11.1	10.1	23.8	84	104	OP
Bajaj Auto	(7.6)	146.4	135.3	(8.6)	162.1	148.1	3.5	2,430	2,515	UP
ENIL	(11.3)	15.1	13.4	(7.5)	19.0	17.6	9.7	773	848	OP
Eicher Motors	(6.0)	677.9	637.0	(6.5)	909.4	850.7	-	27,122	27,122	OP
NCC	(1.8)	4.6	4.5	(6.3)	5.3	5.0	3.2	94	97	OP
Strides Arcolab	(12.6)	40.2	35.2	(6.2)	55.6	52.1	5.2	1,220	1,284	OP
CarborundumUniversal	(6.5)	10.0	9.4	(6.2)	12.8	12.1	(7.9)	315	290	OP
Apollo Hospitals	(6.1)	21.3	20.0	(5.9)	28.1	26.4	(4.6)	1,408	1,343	N
Gateway Distripark	0.3	8.0	8.0	(5.6)	10.1	9.5	5.5	275	290	OP
eClerx Services	(3.9)	91.1	87.6	(5.5)	100.6	95.0	(5.3)	1,310	1,240	UP
Aurobindo Pharma	(0.8)	40.7	40.4	(5.4)	48.6	45.9	(10.6)	976	873	OP
Hero MotoCorp	(3.9)	178.0	171.1	(5.1)	197.9	187.8	(0.3)	3,110	3,100	N
Radico Khaitan	(0.8)	6.2	6.1	(5.0)	8.2	7.8	8.8	148	161	OP
Reliance Industries	3.4	96.4	99.6	(4.8)	89.7	85.4	12.0	1,080	1,210	OP
NTPC	(2.2)	11.9	11.6	(4.7)	13.6	12.9	7.7	155	167	UP
BPCL	6.4	45.0	47.9	(4.3)	49.6	47.4	1.8	825	840	OP
United Breweries	(2.4)	10.9	10.6	(4.2)	13.6	13.0	(6.6)	925	864	N
Thermax India	(2.0)	24.6	24.2	(3.8)	27.4	26.4	-	733	733	UP
Shriram Transport Finance	(12.9)	72.5	63.1	(3.6)	83.1	80.1	(7.1)	1,120	1,040	N
Colgate-Palmolive	(5.0)	21.5	20.5	(3.6)	24.4	23.5	(3.5)	851	821	UP
Dabur India	(0.4)	7.0	7.0	(3.2)	8.2	7.9	(3.1)	258	250	UP
Gujarat Gas	(21.2)	26.0	20.5	(2.8)	34.4	33.4	(2.7)	550	535	N

Source: IDFC Securities Research, Bloomberg

IDFC SECURITIES

5

BSE sector and stocks turnover in Feb-17

BSE 200 stocks with highest and lowest change in turnover in last 1 and 3 months

Compay	Feb-17	Chg 1m (%)		Company	Feb-17	Chg 3m (%)		Company	Feb-17	Chg 1m (%)		Company	Feb-17	Chg 3m (%)
Alkem Laboratories Ltd	64.6	619.7		Max Financial Services Ltd	275.4	152.4		Thermax India	7.7	(78.9)		PI Industries	26.4	(50.7)
Max Financial Services Ltd	273.4	516.6		HDFC Bank	2,889.2	132.9		PI Industries	26.4	(76.5)		Thermax India	7.7	(50.7)
HDFC Bank	2,869.1	326.3		Alkem Laboratories Ltd	65.1	120.4		Gruh Finance Ltd	23.0	(72.1)		Gruh Finance Ltd	23.0	(38.2)
Godrej Inds.	118.2	318.5		Jindal Steel & Power	895.9	116.5		Ajanta Pharma Ltd	86.4	(53.6)		Divi's Lab	347.8	(36.9)
Sun TV	959.7	312.8		Gillette India Ltd	28.8	112.3		Jubilant Life Sciences	156.1	(46.2)		Supreme Industries Ltd	13.4	(30.4)
Gillette India Ltd	28.6	304.4		Grasim Industries	904.5	109.9		Supreme Industries Ltd	13.4	(42.1)		UltraTech Cement	239.0	(28.9)
South Ind.Bank	98.2	240.8		Godrej Inds.	119.1	102.3		Info Edge India Ltd	7.1	(41.5)		Tata Elxsi Ltd	159.8	(27.4)
Jindal Steel & Power	889.7	233.6		GMR Infra	108.8	92.3		Divi's Lab	347.8	(40.7)		Natl. Aluminium	45.2	(27.1)
Grasim Industries	898.2	217.0		TV18 Broadcast	94.9	92.0		Biocon	172.1	(39.7)		Idfc Bank Ltd	161.2	(26.3)
Central Bank	9.9	208.7		South Ind.Bank	98.8	90.9		Pidilite Inds.	89.0	(38.7)		Info Edge India Ltd	7.1	(23.7)

BSE 200 sectors turnover in Feb-17

Sector	Feb-17	Chg 1m (%)		Sector	Feb-17	Chg 3m (%)
Media	1,541.0	145.9		Power Equipment	597.0	70.4
Petrochemicals	2,238.7	113.3		Telecoms	2,920.9	61.6
Retail	392.9	107.2		Media	1,551.8	57.5
Power Equipment	592.8	92.6		Petrochemicals	2,254.4	57.1
Logistics	141.5	82.0		Retail	395.6	45.3
Cement	1,565.2	76.3		Logistics	142.4	40.5
Telecoms	2,900.6	55.6		Cement	1,576.1	40.0
Pharmaceuticals	4,939.4	36.9		Auto Ancillary	263.1	39.3
Hospitals	77.9	35.9		Financials	18,271.6	28.2
Financials	18,144.4	34.8		Metals	4,442.6	25.4
Auto Ancillary	261.3	34.4		Real Estate	725.5	25.3
Infra Developers	704.6	29.5		Infra Developers	709.5	25.1
Consumer goods	2,682.7	27.0		Hospitals	78.5	22.4
Metals	4,411.7	24.8		Power Utilities	1,870.1	20.5
Auto Components	694.2	22.8		Consumer goods	2,701.5	20.5

Stocks with highest and lowest turnover change in Feb-17(YoY)

Top 15	T/O chg	Mkt cap chg		Bottom 15	T/O chg	Mkt cap chg
Company	yoy (%)	yoy (%)		Company	yoy (%)	yoy (%)
HDFC Bank	318.6	36.3		Info Edge India Ltd	(59.4)	18.6
Grasim Industries	273.8	42.2		Alembic Pharmaceuticals	(55.1)	(9.8)
Sun TV	257.0	113.3		Central Bank	(54.2)	74.2
Idea Cellular	233.9	4.6		Thermax India	(47.7)	10.3
Jindal Steel & Power	188.6	70.9		Kansai Nerolac Paints Ltd	(45.6)	32.5
Max Financial Services Ltd	170.8	77.8		Castrol India	(42.9)	13.9
Gillette India Ltd	165.0	-4.2		United Breweries	(41.1)	1.9
South Ind.Bank	158.1	34.4		Supreme Industries Ltd	(40.9)	44.1
Cadila Health.	157.3	15.8		Interglobe Aviation Ltd	(40.1)	6.2
Godrej Inds.	152.7	66.4		Bajaj Holdings	(35.4)	49.9
CESC	130.1	76.9		Wipro	(34.4)	(13.6)
Alkem Laboratories Ltd	108.8	42.8		Piramal Enterp	(31.5)	86.0
Procter & Gamble Hygiene	107.6	21.0		Biocon	(31.0)	125.5
Bharat Electronics	103.0	39.6		Glaxosmithkline Pharma	(31.0)	(14.5)
Adani Enterprises	102.9	60.3		Pidilite Inds.	(29.0)	14.8

Source: Bloomberg; Data as of 28th February 2017

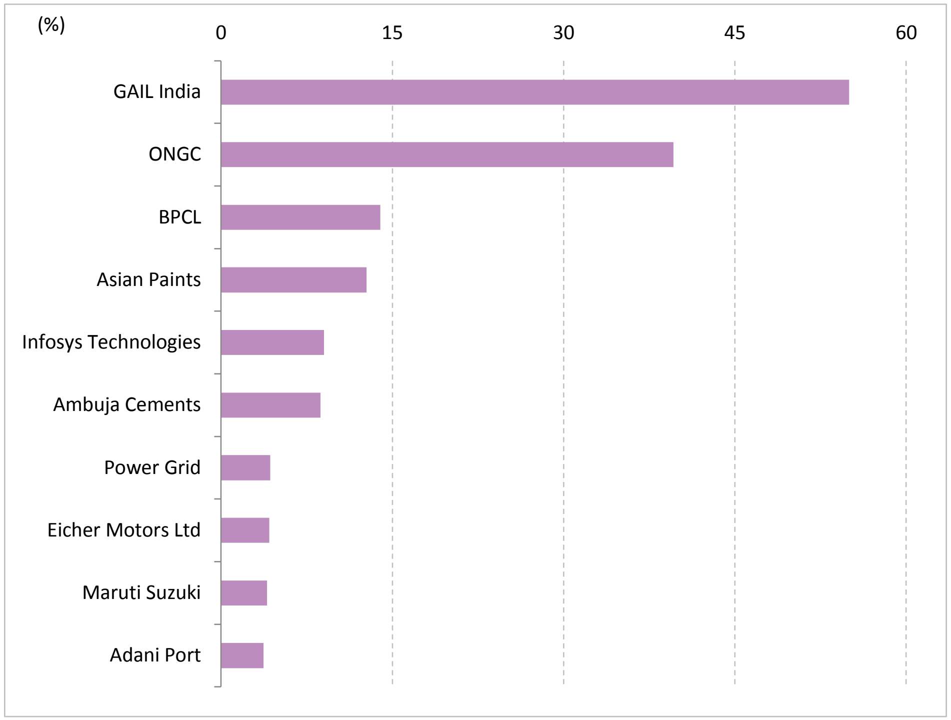
IDFC SECURITIES

IDFC V/S CONSENSUS

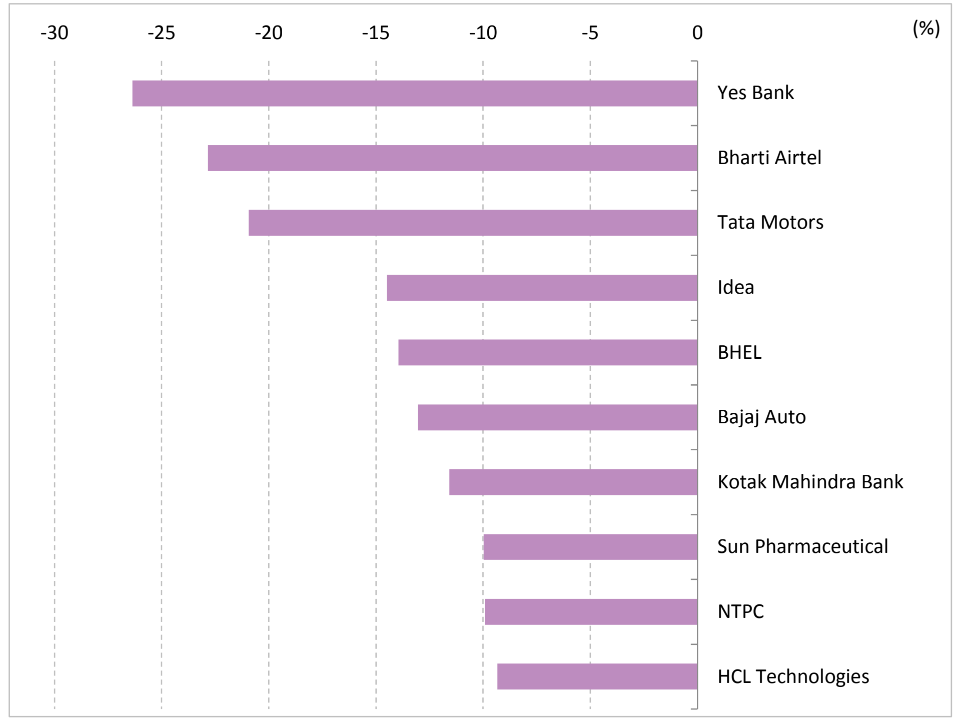
5 Nifty Stocks– IDFC v/s Consensus on Target Price

IDFC Nifty target @ 9825

Stocks where IDFC is bullish against consensus - TP



Stocks where IDFC is bearish against consensus – TP



Source: IDFC Securities Research, Bloomberg

IDFC SECURITIES

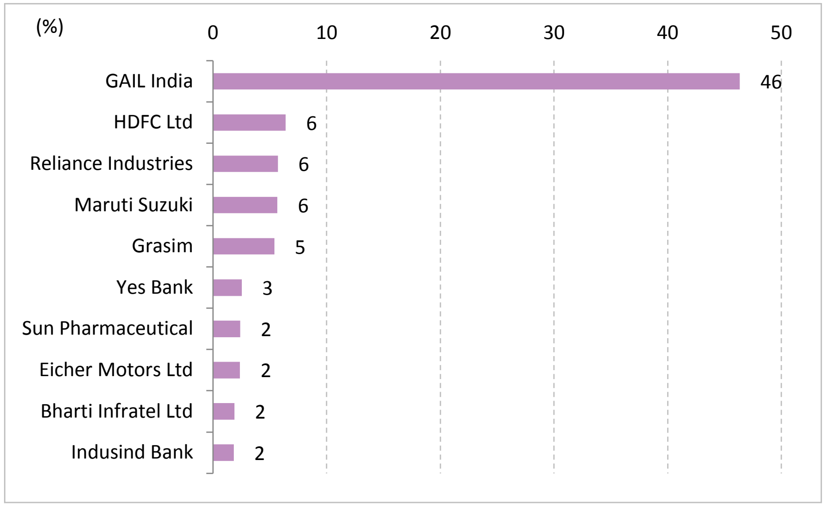
5

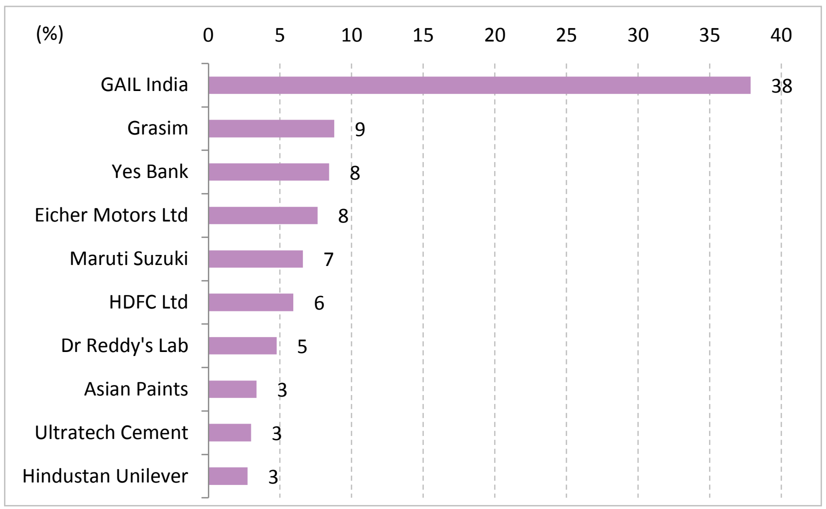
Nifty Stocks - IDFC v/s consensus on EPS

FY17E

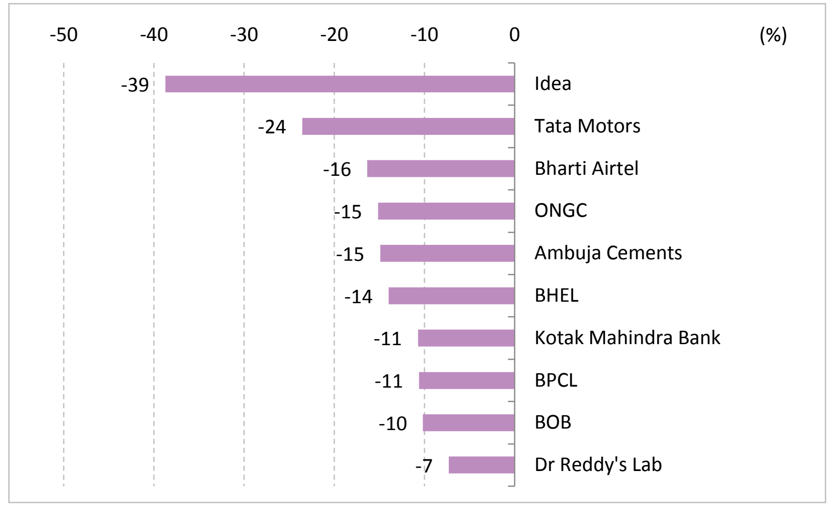
FY18E

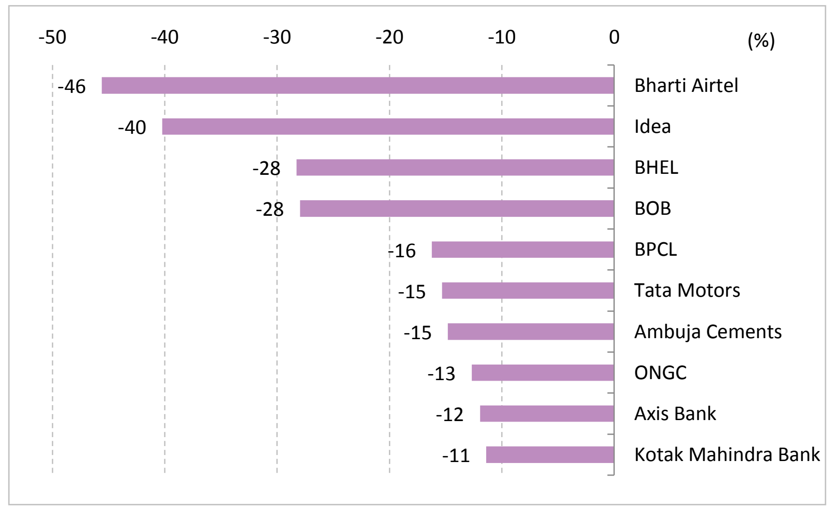
Stocks where IDFC is bullish v/s consensus





Stocks where IDFC is bearish v/s consensus





Source: IDFC Securities Research, Bloomberg

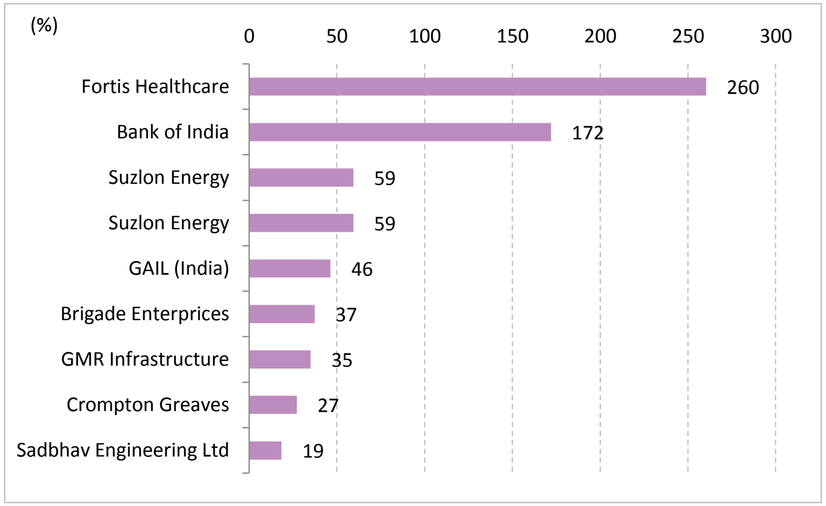
IDFC SECURITIES

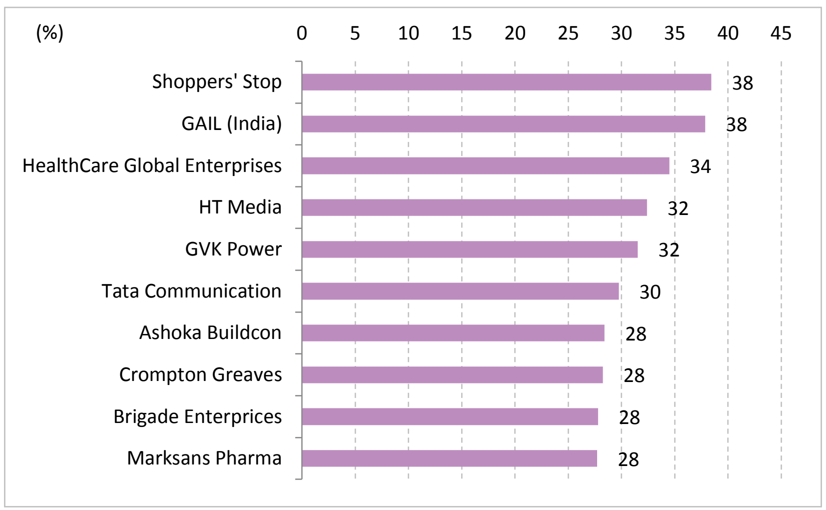
IDFC v/s consensus – Bullish and Bearish stance on EPS

FY17E

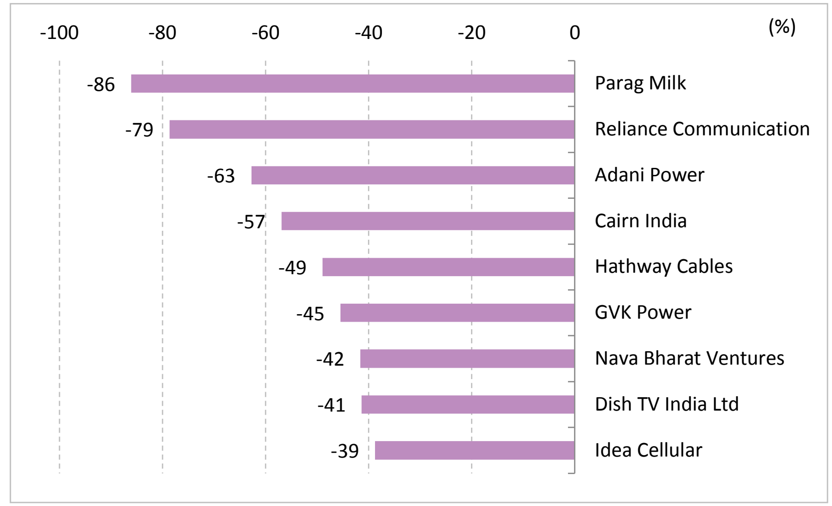
FY18E

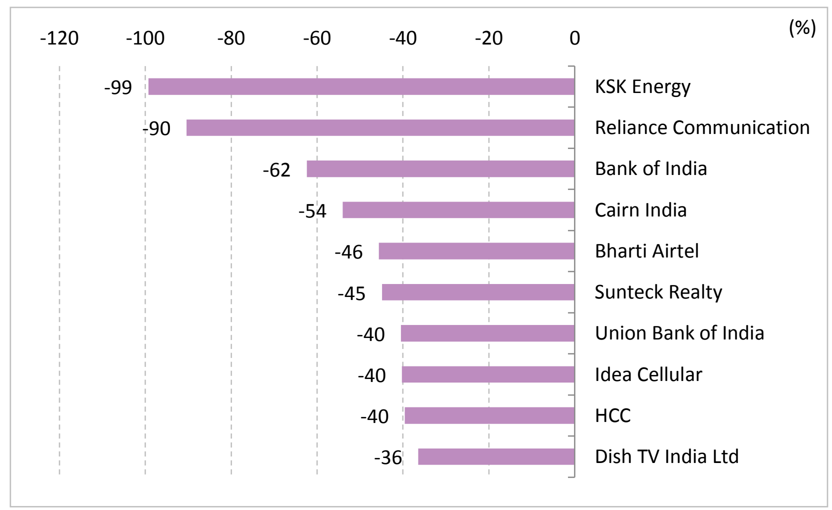
Stocks where IDFC is bullish against consensus





Stocks where IDFC is bearish against consensus





Source: IDFC Securities Research, Bloomberg

IDFC SECURITIES

TOP PICKS – COMPANY-WISE SUMMARY

IDFC SECURITIES

TOP BUYS - LARGE CAPS

IDFC SECURITIES

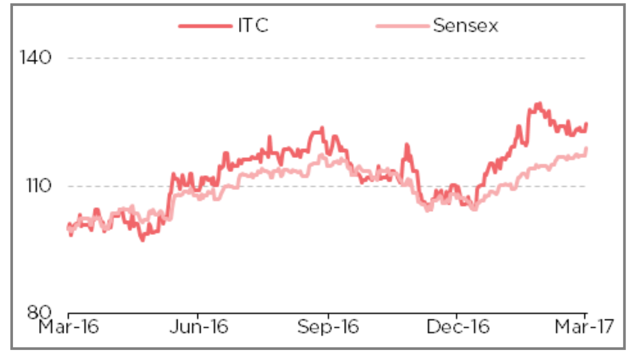
ITC

(Outperformer)

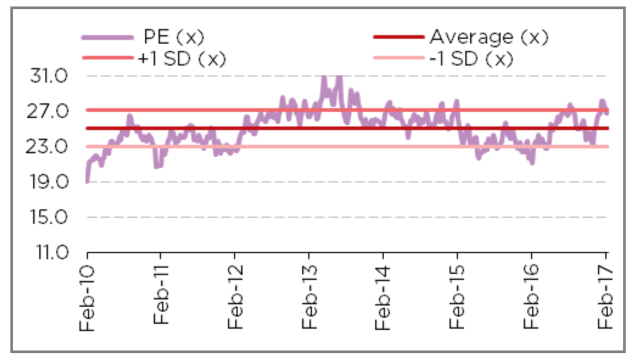
CMP: Rs267; TP: Rs303;
Mkt cap: Rs3,242bn; US$49.1bn

ITC's strategy of passing on a lower price increase is working, which is visible from cigarette volume growth. We believe volume growth will only improve in the quarters to come given the positive trend and initial signs of a clamp down on the illicit segment. After two years of single-digit profit growth (6% CAGR over FY14-16), we expect a return to double-digit growth and factor in 10% earnings CAGR over FY16-19E. This coupled with strong free cash flows and a ~27% discount to HUL's valuations make ITC an attractive play despite overhangs of GST and SUUTI stake sale. Maintain Outperformer.

- **Despite challenging environment, volume growth remained flat:** Cigarette revenues increased 2.2% with likely flat volume growth during Q3FY17. After the disruption post demonetisation, cigarette volumes have improved gradually and in January were back to normal levels. Moreover, given the staples nature and inelastic demand for this category, the overall impact of demonetisation on cigarette volumes has been lower compared to other FMCG categories. We believe volume growth should return in Q4, and aided by price increases, margin expansion is also likely to come through.
- **Mixed performance in other segments:** FMCG segment growth was impacted by lower consumer offtake and reduction in trade pipelines. This division reported an EBIT loss (Rs197m) due to a sharp escalation in input costs (wheat, sugar, palm oil, cashew), heavy discounting in lifestyle retailing, gestation cost of new categories and sustained investment in brand building in new categories such as juices and dairy chocolates. However, the hotel division reported a strong performance (revenue: +7.3%; margin: +390bp) led by improved ARR and strong growth in Food & Beverage revenue.
- **Q3FY17 results:** Lower-than-expected impact on cigarette volumes. Cigarette EBIT grew 1.7% with an EBIT margin contraction of 20bp, mainly due to a weaker mix. FMCG revenues increased at a moderate pace (3.4% yoy) impacted by weakness in discretionary categories. Hotel and Agri revenues were up 7.3% and 13%, respectively, while the paper division reported flat sales.



(%)	3-mth	6-mth	1-yr
ITC IN	16.8	4.8	27.8
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

ITC

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**365,074**	**365,827**	**389,765**	**435,518**	**486,039**
Adj. net profit (Rs m)	96,077	93,113	100,991	115,041	130,817
Shares in issue (m)	12,023	12,071	12,080	12,080	12,080
Adj. EPS (Rs)	8.0	7.7	8.4	9.5	10.8
% change	8.5	(3.5)	8.4	13.9	13.7
PE (x)	33.6	34.8	32.1	28.2	24.8
Price/ Book (x)	10.5	10.0	9.4	8.8	8.3
EV/ EBITDA (x)	23.4	23.2	21.7	19.2	17.1
RoE (%)	33.7	29.5	30.2	32.3	34.7
RoCE (%)	41.7	38.1	38.5	41.1	43.8

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	36.9	37.5	37.7	38.2	38.6
EBIT margin (%)	34.3	34.7	35.0	35.6	36.1
PAT margin (%)	26.3	25.5	25.9	26.4	26.9
RoE (%)	33.7	29.5	30.2	32.3	34.7
RoCE (%)	41.7	38.1	38.5	41.1	43.8
Gearing (x)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Net debt/ EBITDA (x)	(0.6)	(0.4)	(0.3)	(0.2)	(0.2)
FCF yield (%)	2.9	3.3	3.1	3.3	3.9
Dividend yield (%)	1.6	2.2	2.1	2.5	2.9

IDFC SECURITIES

HDFC Bank

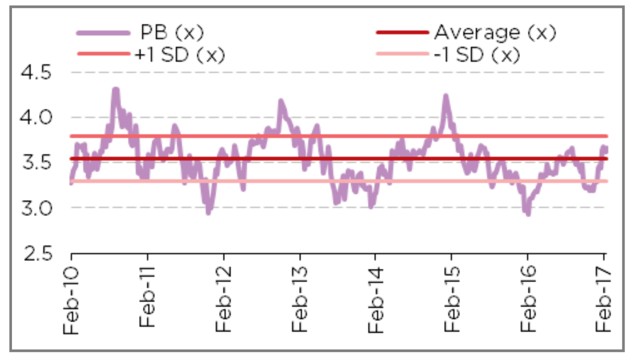
(Outperformer)

CMP: Rs1,411; TP: Rs1,455;
Mkt cap: Rs3,612bn; US$54.7bn

HDFC Bank's robust liability franchise, better-than-industry loan growth, resilient earnings in a tough environment and leadership in key retail products make it our preferred pick. Further, the bank's high capital adequacy and low exposure to risky corporates in an environment of rising corporate stress add to its attractiveness. Going forward, retail lending is likely to remain healthy with rapid expansion in branch network. With new branches maturing along with investment in technology, we see improvement in key productivity metrics with FY19E cost/income ratio at 42% (44% in FY16). Given the high earnings visibility (20% CAGR over FY16-19E), HDFC Bank is our top pick with an Outperformer rating and a price target of Rs1,455 (on 3.75x FY18E P/BV).

- **Strong retail loan growth continues:** In Q3FY17, retail loans grew 18% yoy (3% qoq), led by unsecured loans (PL & credit cards), LAS, home loans, auto and two-wheelers while growth in business banking and gold loans saw moderation. Focus on market share gains from increased penetration in rural/semi urban areas and improvement in turnaround time (TAT) give the bank a competitive advantage. As new branches scale up, we expect HDFC Bank to post a loan CAGR of 22% over FY16-19E.
- **Well-positioned in the current interest rate environment:** HDFC Bank's NIM is likely to remain largely resilient in the falling interest rate environment, as it has a high proportion of long-tenor, fixed-rate loans in its portfolio (<30% of the loans are linked to the base rate against 65-75% for other banks). In Q3FY17, NIMs fell 10bp (down 20bp yoy) due to a decline in the loan deposit ratio post demonetisation.
- **Stable asset quality:** Asset quality remained stable qoq with gross NPA at 1.1% and net NPA at 0.3% at the end of Q3FY17. Provision coverage ratio has also remained stable at 70%, healthy in our view.
- **Q3FY17 results:** HDFCB reported strong earnings in a tough macro environment. PAT (Rs39bn grew 15% yoy, 3% higher than consensus estimates. Loan growth and fees were higher than expected, while opex was lower than expected.

(%)	3-mth	6-mth	1-yr
HDFCB IN	20.4	10.7	38.0
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PB ratio is 1 Year forward; Stock price as on March 14, 2017

HDFC Bank

Valuation metrics

Year to 31 March	FY15	FY16	FY17E	FY18E	FY19E
Net Profit	102,159	122,962	145,238	175,105	213,398
EPS (Rs)	40.8	48.6	57.4	69.3	84.4
EPS growth (%)	15.3	19.3	18.1	20.6	21.9
PE (x)	34.6	29.0	24.5	20.4	16.7
P/BV (x)	5.7	4.9	4.2	3.7	3.1
P/PPOP (x)	20.3	16.7	14.0	11.5	9.5
RoA (%)	1.9	1.9	1.8	1.8	1.8
RoE (%)	19.4	18.3	18.6	19.4	20.3
Dividend Yield (%)	0.6	0.7	0.8	1.0	1.2

Operating ratios

Year to 31 March (%)	FY15	FY16	FY17E	FY18E	FY19E
Net Interest Margin	4.4	4.6	4.5	4.5	4.4
Non Interest Income / Operating Income	28.7	28.0	27.1	26.1	25.2
Cost/Income	44.6	44.3	43.7	42.7	42.1
Operating Expense/Avg assets	2.6	2.6	2.5	2.4	2.4
Credit Costs / Avg Loans	0.6	0.6	0.6	0.7	0.7
Effective Tax Rate	33.4	34.0	34.9	35.0	35.0
Loan Deposit Ratio	81.1	85.0	83.0	81.6	80.3

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key financial ratios

Year to 31 March (%)	FY15	FY16	FY17E	FY18E	FY19E
RoA	1.9	1.9	1.8	1.8	1.8
RoE	19.4	18.3	18.6	19.4	20.3
Tier I Capital adequacy	13.7	13.2	12.3	11.8	11.2
Gross NPL	0.9	0.9	1.0	1.0	1.1
Net NPL	0.2	0.3	0.4	0.4	0.5
Loan Loss Coverage	73.9	67.6	63.0	58.4	53.4
CASA ratio	44.0	43.2	42.7	42.2	41.9
Assets / Equity	9.5	9.8	10.3	10.8	11.4
Dividend Payout	19.6	19.5	20.0	20.0	20.0

IDFC SECURITIES

Infosys

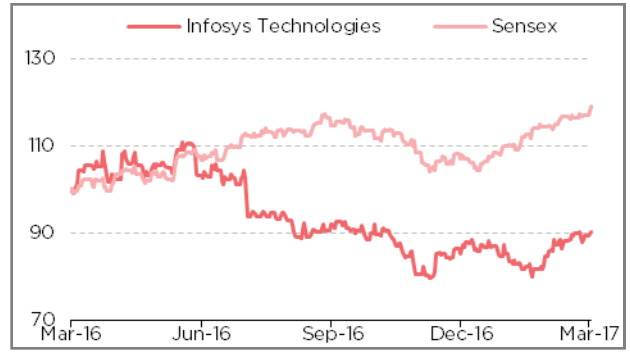
(Outperformer)

CMP: Rs1,035; TP: Rs1,245

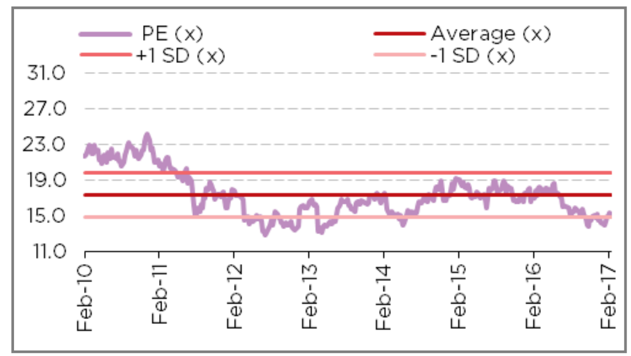
Mkt cap: Rs2,377bn; US$36.0bn

Dilution of Dodd-Frank regulations along with improvement in US financial services have raised the hope of higher IT spending, positive for Indian IT companies. In our view, Infosys is likely to deliver industry-leading growth during FY17-19. Infosys' new initiatives for client mining, large deals, automation, and design thinking are slowly gaining momentum, but volatility remains. The focus on execution has led to a better-than-expected operating performance. Despite strong client specific headwinds in FY17, Infosys has delivered top quartile organic revenue growth and stable margins. We believe a stated strategy on capital allocation like consistent share buyback policy, would boost RoEs and earnings growth, triggering a re-rating in a moderate growth environment. Reiterate Infosys as the preferred pick with an Outperformer rating with a target price of Rs1,245 (18x FY18E EPS).

- **Improving client satisfaction to drive industry-leading growth:** Key strategic initiatives – improving client engagement, client mining and deal wins – have started yielding results. According to management, the CXO satisfaction index is at an all-time high, while the customer satisfaction index is at a 10-year high. We believe improving large deal wins are a manifestation of the success of the same strategy and therefore we expect Infosys to deliver industry leading growth.
- **Healthy operational metrics:** Infosys continues to deliver healthy performances across the operational metrics – (i) Despite ramp-down of RBS, BFSI revenue growth for the quarter was +0.2% qoq in cc terms, (ii) stable margin despite weak revenue growth, (iii) client satisfaction at the highest level in the past decade, and (iv) OCF/PAT: 100%. The focus on execution has led to a better-than-expected operating performance. Despite strong client specific headwinds in FY17, Infosys has delivered top quartile organic revenue growth and stable margin.
- **Client mining continues to be healthy:** Although client mining metrics appear soft in Q3FY17, on a LTM basis the top 10 clients' revenue growth has been a touch softer than the company's average till Q2FY17. Infosys has performed better than its peers in the higher valued client buckets (US$100m+ and US$10-50m) over the past two years. We believe initiatives taken to improve productivity and margin are yet to be captured.



(%)	3-mth	6-mth	1-yr
INFO IN	2.0	(2.9)	(10.8)
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Infosys

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**533,190**	**624,410**	**688,825**	**750,675**	**819,966**
Adj. net profit (Rs m)	123,290	134,900	144,647	158,156	175,845
Shares in issue (m)	2,286	2,286	2,286	2,286	2,286
Adj. EPS (Rs)	53.9	59.0	63.3	69.2	76.9
% change	13.5	9.4	7.2	9.3	11.2
PE (x)	18.8	17.1	16.0	14.6	13.2
Price/ Book (x)	4.2	3.7	3.5	3.1	2.7
EV/ EBITDA (x)	13.3	11.5	10.4	9.1	7.9
RoE (%)	24.1	23.2	22.6	22.3	21.6
RoCE (%)	26.9	26.7	26.5	26.3	25.1

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	27.9	27.4	27.2	27.3	27.2
EBIT margin (%)	25.9	25.0	24.8	25.0	25.0
PAT margin (%)	23.1	21.6	21.0	21.1	21.4
RoE (%)	24.1	23.2	22.6	22.3	21.6
RoCE (%)	26.9	26.7	26.5	26.3	25.1
Gearing (x)	(0.6)	(0.6)	(0.5)	(0.6)	(0.6)
Net debt/ EBITDA (x)	(2.2)	(2.0)	(1.9)	(2.2)	(2.5)
FCF yield (%)	3.2	3.6	5.1	6.6	7.0
Dividend yield (%)	2.2	2.4	2.5	2.7	2.7

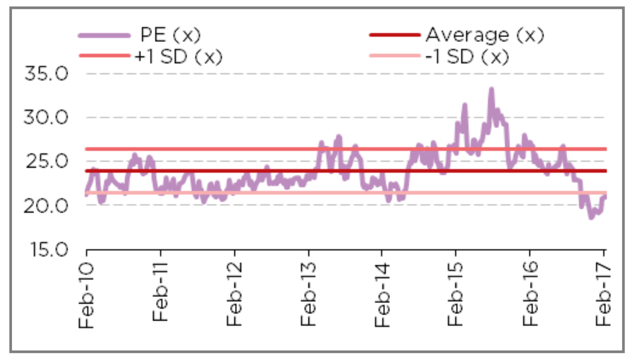
SUN Pharma

(Outperformer)

CMP: Rs708; TP: Rs720;
Mkt cap: Rs1,699bn; US$25.7bn

The delay in the resolution of the FDA issues at the Halol plant has added to the near-term challenges arising from the heightened price erosion in Taro's derma franchise. However, we believe that the worst is behind as we anticipate a pick-up in US generics business with the likely resolution of FDA issues in Halol by H1FY18 and limited risk of any meaningful reduction in base sales from current levels. Recovery in US sales will be supported by the stabilisation of India formulations (highly profitable) and EM business (+17% yoy growth in 9mFY17) and benefits of continued cost optimisation. With the launch of Bromsite, Odomzo and filing of Tildra BLA over the next few months, Sun's specialty strategy will also take material strides forward. Sun Pharma is one of the better-placed Indian pharma companies, which is transitioning from being a pure generic to a speciality player.

(%)	3-mth	6-mth	1-yr
SUNP IN	8.6	(10.2)	(16.3)
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

- **Halol plant regulatory status remains the key monitorable:** Post Halol's re-inspection, the company has submitted the responses to the USFDA observations and is in the process of implementing the corrective measures and awaiting the USFDA reply. However, the decision to site transfer key drugs out of Halol indicates a level of uncertainty around resolution timelines and hence slightly disappointing. Given that most of Sun's complex ANDA filings are from the Halol facility, the regulatory status of this plant remains the key monitorable factor. However, removal of import alert on Mohali plant is sentimentally positive (albeit limited financial impact).
- **Strong ANDA pipeline:** Although the pace of filings has been impacted by the Halol remediation efforts as also focus on more complex drugs, management has been indicating continued focus on developing differentiated generics and speciality drugs. During Q3FY17, Sun filed ANDAs for eight products while it received one approval. To date, Sun has 149 ANDAs awaiting approval.
- **US base business:** Given the continued challenges related to the Halol unit, which limits the new ANDA approvals/launches for Sun, the base US business will continue to stay under pressure in the near term. Taro's profitability has been impacted by lower revenues and margins, indicating increased competitive pressure in the base business.

Sun Pharma

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**273,920**	**282,663**	**320,357**	**336,230**	**380,356**
Adj. net profit (Rs m)	47,772	53,979	73,386	72,146	84,543
Shares in issue (m)	2,406	2,406	2,406	2,406	2,406
Adj. EPS (Rs)	19.9	22.4	30.5	30.0	35.1
% change	(27.3)	13.0	36.0	(1.7)	17.2
PE (x)	35.6	31.5	23.1	23.5	20.1
Price/ Book (x)	6.0	4.8	4.0	3.4	2.9
EV/ EBITDA (x)	21.1	19.7	14.7	14.7	12.1
RoE (%)	19.5	16.9	18.8	15.6	15.8
RoCE (%)	19.6	16.6	19.0	16.1	16.9

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	29.1	30.0	34.2	31.7	32.9
EBIT margin (%)	24.7	26.4	30.3	27.7	29.1
PAT margin (%)	17.4	19.1	22.9	21.5	22.2
RoE (%)	19.5	16.9	18.8	15.6	15.8
RoCE (%)	19.6	16.6	19.0	16.1	16.9
Gearing (x)	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)
Net debt/ EBITDA (x)	(0.6)	(0.8)	(1.2)	(1.8)	(2.1)
FCF yield (%)	(3.4)	0.8	4.9	4.5	4.9
Dividend yield (%)	0.5	0.2	0.7	0.9	1.0

IDFC SECURITIES

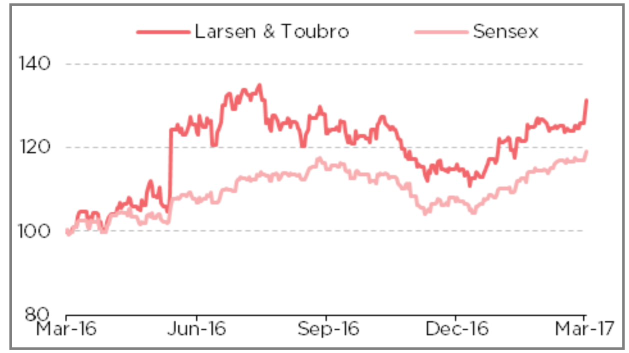
Larsen & Toubro

(Outperformer)

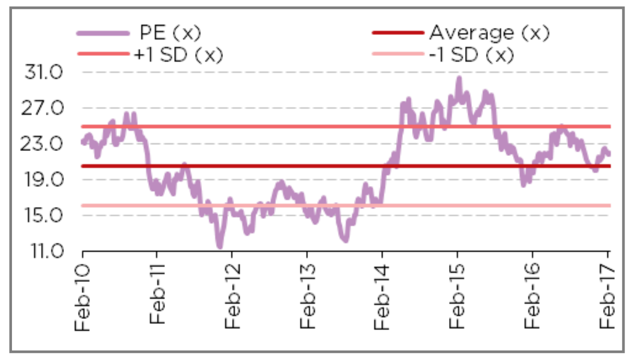
CMP: Rs1,558; TP: Rs1,631;
Mkt cap: Rs1,454bn; US$22.0bn

While L&T's domestic execution growth was weak, there have been some pockets of improvement in individual segments. Margins in the Heavy Engineering, Hydro Carbons and E&A segments have steadily improved and working capital intensity continues to decline. With a strong order backlog and sustained government efforts at resolving execution bottlenecks in the infrastructure sector, we expect execution growth too to pick-up. The stock trades at 25.0x FY18E earnings and valuation offers room for upside. Improved prospects of large-ticket order wins in the infrastructure and defence sectors are the key triggers. We maintain Outperformer with a price target of Rs1,631.

- **Moderate traction in order inflows due to slowdown in the domestic market**: L&T's consolidated order inflow declined by 9.5% yoy to Rs349bn due to muted domestic capex and delay in order awards. Domestic orders accounted for 66% of the order inflow (Rs230bn, -16% yoy), while international markets contributed 34%. The order inflow was mainly from the Infrastructure and Power T&D segments. Its order backlog stood at Rs2.6trn (+0.8% yoy), which is 2.4x TTM related revenues (ex of Services & IDPL). International orders comprise 29.0% of the total order backlog.
- **Lowers FY17 revenue guidance; however, maintains 50bp EBITDA margin expansion:** Delay in customer clearances and a slowdown in work due to the liquidity constraints post demonetisation impacted the execution of a few projects resulting in subdued growth in infrastructure revenues. Domestic revenues declined 2.4% yoy while overseas revenue grew 8.7% yoy. EBITDA margin grew 140bp yoy to 9.6% aided by cost reduction initiatives and closing out of legacy projects. L&T has lowered its FY17 revenue and order inflow growth guidance to 10% (12-15% earlier), while maintaining its guidance of 50bp expansion in EBITDA margin (ex-services & IDPL).
- **Q3FY17 results:** Consolidated PAT of Rs9.7bn (up 38.3% yoy) was sharply below estimate of Rs12bn led by lower revenue and margins. Domestic execution has been slower while execution in the international projects (mainly the Middle East) has been progressing well, particularly in case of orders in the metro and hydrocarbons segments.



(%)	3-mth	6-mth	1-yr
LT IN	14.2	5.3	31.2
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Larsen & Toubro

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**920,046**	**1,019,641**	**1,103,014**	**1,230,321**	**1,396,797**
Adj. net profit (Rs m)	44,171	41,848	50,948	57,791	67,539
Shares in issue (m)	928	931	932	932	932
Adj. EPS (Rs)	47.6	45.0	54.7	62.0	72.5
% change	(6.2)	(5.5)	21.6	13.4	16.9
PE (x)	32.5	34.4	28.3	25.0	21.4
Price/ Book (x)	3.1	3.1	2.8	2.6	2.4
EV/ EBITDA (x)	19.8	21.2	19.3	17.5	15.6
RoE (%)	10.2	9.0	10.4	10.8	11.6
RoCE (%)	6.6	6.2	6.9	7.3	7.7

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	12.3	10.2	10.8	11.2	11.4
EBIT margin (%)	9.5	8.4	8.9	9.3	9.5
PAT margin (%)	4.8	4.1	4.6	4.7	4.8
RoE (%)	10.2	9.0	10.4	10.8	11.6
RoCE (%)	6.6	6.2	6.9	7.3	7.7
Gearing (x)	1.8	1.7	1.8	1.8	1.8
Net debt/ EBITDA (x)	7.2	7.7	7.6	7.3	6.8
FCF yield (%)	(5.4)	6.2	(6.9)	(5.5)	(4.7)
Dividend yield (%)	1.1	1.2	1.2	1.2	1.2

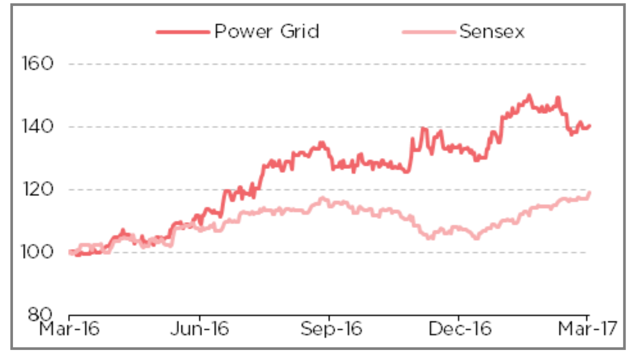
IDFC SECURITIES

Power Grid
(Outperformer)

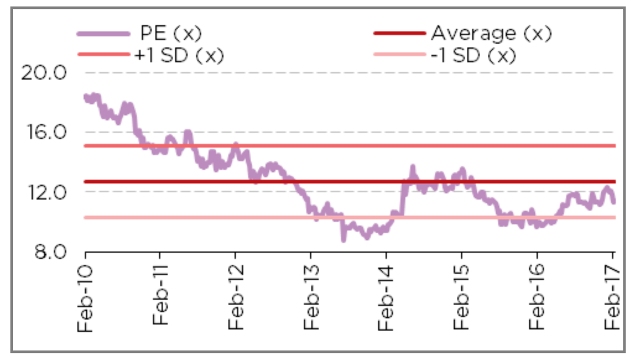
CMP: Rs194; TP: Rs231;
Mkt cap: Rs1,013bn; US$15.3bn

Power Grid (PGCIL) is the best regulated pure utility play in India. Transmission expenditure is expected to remain buoyant over the next 10 years. We prefer its business model with a visibility of capital investment over the next five years. We expect PGCIL's earnings to register 19% CAGR over FY16-19E, led by 21% CAGR in regulated (invested) equity in the transmission business. We believe the current valuation is attractive (10.0x FY19E P/E; 1.6x FY19 P/BV) with ~17% RoE forecast during FY18/19E. We prefer Power Grid with a good track record of meeting its targets, long-term earnings visibility and stable return profile and hence reiterate Outperformer rating with a DCF-based target price of Rs231 (12x FY19 earnings).

- **Near-term commissioning of several large projects:** PGCIL has front-loaded asset capitalisation with 88% of FY17 target achieved for transmission lines (ckm) and 83% of the target achieved for substations (MVA) in last 10 months. Additionally, This commissioning of HVDC projects such as Champa-Kurukshetra transmission line (2,574 ckm) and some large projects will lead to strong FY18 in terms of commissioning. We expect commissioning of Rs230bn in FY19 and FY20 each.
- **Strong pipeline of projects:** Investment approvals translates into Rs.1.2trn of total portfolio of approved projects, 88% of the incremental plan of Rs1.4trn of asset addition outlined in recent analyst meet. Moreover, the total order awarded in 9MFY17 was Rs202bn indicating a strong pipeline of projects to be built over next four – five years. We expect some moderation in approvals as well as ordering activity. Ordering activity has been completed for Rs963bn (69% of plan) for the current plan period
- **Q3FY17 results:** Commissioning till Jan 17 was Rs260bn. As a result, PGCIL is expected to commission Rs280-300bn in FY18, in line with market and our expectations. EBITDA and PAT grew by 20% each for the quarter came ahead of expectations



(%)	3-mth	6-mth	1-yr
PWGR IN	5.2	10.4	38.9
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

Power Grid

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**171,064**	**207,348**	**253,151**	**298,692**	**334,119**
Adj. net profit (Rs m)	50,263	59,620	76,018	88,726	101,375
Shares in issue (m)	5,232	5,232	5,232	5,232	5,232
Adj. EPS (Rs)	9.6	11.4	14.5	17.0	19.4
% change	11.3	18.6	27.5	16.7	14.3
PE (x)	20.1	16.9	13.3	11.4	10.0
Price/ Book (x)	2.6	2.4	2.1	1.8	1.6
EV/ EBITDA (x)	12.9	11.1	9.3	8.1	7.3
RoE (%)	13.8	14.7	16.6	16.9	17.0
RoCE (%)	7.4	8.3	9.3	10.3	10.9

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	86.1	87.8	89.3	90.2	90.6
EBIT margin (%)	56.4	58.0	60.1	61.5	61.6
PAT margin (%)	29.4	28.8	30.0	29.7	30.3
RoE (%)	13.8	14.7	16.6	16.9	17.0
RoCE (%)	7.4	8.3	9.3	10.3	10.9
Gearing (x)	2.3	2.4	2.3	2.1	1.9
Net debt/ EBITDA (x)	6.1	5.6	4.9	4.4	4.0
FCF yield (%)	(11.9)	(10.1)	(8.0)	(6.0)	1.6
Dividend yield (%)	1.0	1.2	1.2	1.2	3.0

IDFC SECURITIES

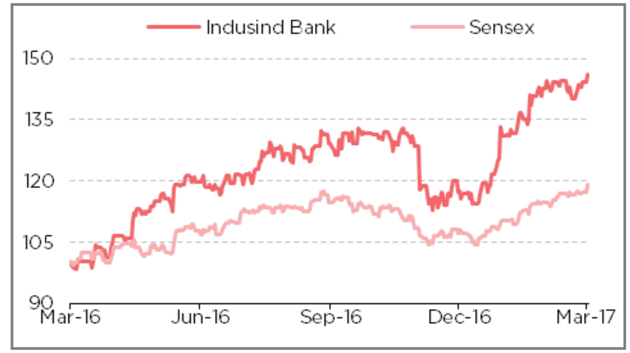
IndusInd Bank

(Outperformer)

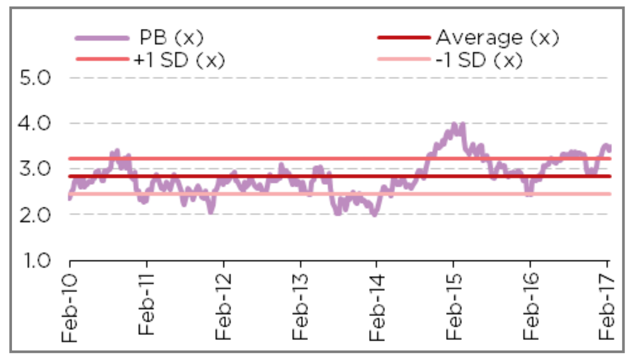
CMP: Rs1,354; TP: Rs1,415;
Mkt cap: Rs810bn; US$12.3bn

IndusInd Bank (IIB) is well-poised to deliver higher-than-sector earnings growth (27% CAGR over FY16-18E), driven by strong growth in retail loans and fee income, and stable asset quality. We expect outperformance to continue on the back of robust retail lending franchise, strong capitalisation, healthy asset quality, strong return ratios, superior execution, and scalability of the business given the size and opportunities in the market. Its total stressed assets is one of the lowest (~1.6%) in the industry due to lower exposure to sensitive sectors like infra and steel. We reiterate our Outperformer rating.

- **NPLs amongst the lowest in the industry:** IIB has low exposure to stressed sectors like infra and steel, which is likely to help contain overall stress in the corporate segment. Total stress loans including GNPLs, restructured loans and SR stand at ~1.6% of loans, among the lowest in the sector. Corporate slippage rose qoq while retail slippage declined even though the bank did not use the 90-day dispensation. However, in retail portfolio, cars & LAP saw sequential uptick in GNPA while delinquencies in 2W, which were expected to come down after a one-off rise in 2Q, did not materialise due to demonetisation.
- **Well capitalised; retail business consistent performance:** A strong capital adequacy ratio (CET-I: 14.7%) can support healthy loan growth over the next 2-3 years without any equity dilution. Recovery in the retail business provides comfort through favorable margin dynamics (retail yield is 450bp higher) as well as far greater granularity to the loan book.
- **Healthy NIM:** NIM held up well at ~4% due to the sharp correction in bulk deposits and higher average CASA. The excess liquidity post demonetisation was offset by the buyback funds leaving the balance sheet (B/S growth was lower than expectation) and as a result it supported NIM.
- **Q3FY17 Results:** IIB delivered strong loan as well as earnings growth in a quarter that saw a sharp deceleration in loan growth and fees for the sector. Although investors had concerns about slowing the CV, 2W, LAP and MFI book, IIB did not witness a slowdown in these segments.



(%)	3-mth	6-mth	1-yr
IIB IN	24.7	14.2	46.8
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PB ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

IndusInd Bank

Valuation metrics

Year to 31 March	FY14	FY15	FY16	FY17E	FY18E
Net Profit	14,080	17,937	22,864	29,559	36,950
EPS (Rs)	26.8	33.4	39.3	49.6	61.9
EPS growth (%)	25.2	24.7	17.5	26.4	24.7
PE (x)	50.5	40.5	34.5	27.3	21.9
P/BV (x)	7.9	6.8	4.5	4.1	3.5
P/PPOP (x)	27.4	23.2	19.5	15.3	12.4
RoA (%)	1.8	1.8	1.8	1.9	1.9
RoE (%)	16.9	18.2	16.1	15.7	17.2
Dividend Yield (%)	0.3	0.3	0.4	0.7	0.8

Operating ratios

Year to 31 March (%)	FY14	FY15	FY16	FY17E	FY18E
Net Interest Margin	3.7	3.7	3.9	4.1	4.1
Non Interest Income / Operating Income	39.5	42.7	42.2	40.1	39.8
Cost/Income	45.7	48.1	47.0	47.6	47.2
Operating Expense/Avg assets	2.7	2.9	2.9	3.1	3.1
Credit Costs / Avg Loans	0.8	0.7	0.8	0.7	0.7
Effective Tax Rate	33.8	33.8	34.1	35.1	35.1
Net Interest Margin (AUM)	91.1	92.8	95.1	95.8	97.4

Key financial ratios

Year to 31 March (%)	FY14	FY15	FY16	FY17E	FY18E
RoA	1.8	1.8	1.8	1.9	1.9
RoE	16.9	18.2	16.1	15.7	17.2
Tier I Capital adequacy	12.7	11.2	14.9	14.3	13.5
Gross NPL	1.1	0.8	0.9	1.0	1.0
Net NPL	0.3	0.3	0.4	0.4	0.4
Loan Loss Coverage	70.4	62.6	58.6	61.1	61.2
AUM/Equity	32.5	34.1	35.2	36.0	35.8
Assets / Equity	9.6	10.5	7.9	8.7	9.2
Dividend Payout	13.1	11.8	12.8	18.0	18.0

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

IDFC SECURITIES

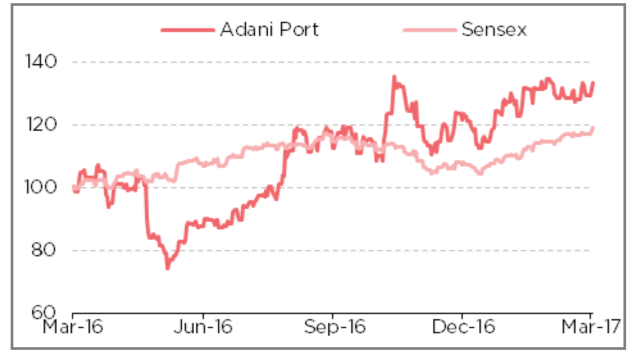
Adani Ports & SEZ

CMP: Rs308; TP: Rs344;
Mkt cap: Rs638bn; US$9.7bn

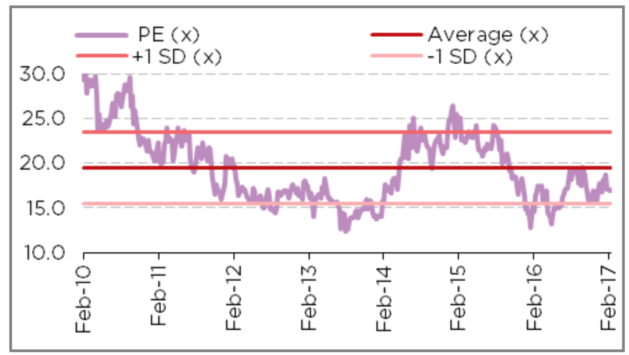
(Outperformer)

Adani Ports & SEZ (ADSEZ), with its diversified cargo base and presence on both the coasts, is well placed to benefit from multiple growth triggers. Even as EXIM growth remains muted, APSEZ's key ports have outperformed most public/private ports and gained market share. ADSEZ's newer assets are gaining scale and we estimate them to contribute 32% of FY18E consolidated cargo (28% in FY16). We estimate 13% CAGR in cargo handled for ADSEZ (193mt/218mt in FY18/19E) and 13% earnings CAGR over FY16-19E. Management's effort at unwinding of related party L&A is a big positive and the targeted complete unwinding by Mar-17 will be a huge re-rating trigger. The stock trades at 19.3x FY18E earnings. Reiterate Outperformer with a SOTP-based target price of Rs344.

- **Strategic tie-ups with shipping lines to help container volumes:** ADSEZ continues to witness above-industry container volume growth vis-à-vis 6-7% market growth, led by its tie-ups with leading shipping lines. The company continued to report sharp growth in container cargo (+26% yoy) and liquid/other cargo (+19% yoy) in Q3FY17 while 9MFY17 volumes handled stood at 126mt, up 11% yoy (containers up 28%, liquids/other up 14% yoy). Although the company has been indicating its stated goal of handling more non-coal bulk volumes such as rock phosphate, it is yet to be reflected.
- **Incremental investments largely in container assets:** ADSEZ's recent investments have largely been in container handling capacities, away from coal capacities. Acquisition of Kattupalli Port (likely Rs20bn), greenfield development of Vizhinjam (Rs24bn, ex of grant), CT-3 expansion (Rs18-20bn), Ennore (Rs12bn) are all for container cargo. ADSEZ has deferred most of its expansion plans in coal cargo – the only exception being the ongoing expansion in Dhamra (~Rs20bn) for a coal export berth.
- **Preferred infra pick; stock offers multiple upside triggers:** Notwithstanding the current sluggishness in coal cargo, ADSEZ offers strong growth in operating profits (21% earnings CAGR over FY16-19E). Leverage at D/E of 1.6x and net debt/EBITDA of 4.6x remain comfortable and would likely decline thanks to strong cash generation in the ports business. A pick-up in land monetisation through transfer of waterfront rights for CT-4 and the upcoming LNG terminal are near-term triggers. Also, management's intent of bringing the balance related-party loans of Rs15bn down to nil by Mar-17 is a step in the right direction and can potentially be a huge re-rating trigger.



(%)	3-mth	6-mth	1-yr
ADSEZ IN	9.2	16.0	35.9
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Adani Ports

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**61,520**	**72,557**	**84,168**	**99,245**	**113,816**
Adj. net profit (Rs m)	22,452	27,422	35,767	33,318	39,113
Shares in issue (m)	2,070	2,071	2,071	2,071	2,071
Adj. EPS (Rs)	10.8	13.2	17.3	16.1	18.9
% change	23.0	22.1	30.4	(6.8)	17.4
PE (x)	28.6	23.4	18.0	19.3	16.4
Price/ Book (x)	5.9	4.8	3.8	3.1	2.6
EV/ EBITDA (x)	20.8	18.4	15.5	12.8	10.7
RoE (%)	22.6	22.6	23.5	17.7	17.1
RoCE (%)	11.2	10.5	10.6	11.8	12.8

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	63.4	64.1	63.6	63.5	64.6
EBIT margin (%)	48.6	49.2	49.8	50.2	52.0
PAT margin (%)	36.5	37.8	42.5	33.6	34.4
RoE (%)	22.6	22.6	23.5	17.7	17.1
RoCE (%)	11.2	10.5	10.6	11.8	12.8
Gearing (x)	1.6	1.6	1.1	0.8	0.6
Net debt/ EBITDA (x)	4.4	4.6	3.6	2.7	1.9
FCF yield (%)	(6.7)	(6.4)	4.0	3.4	3.1
Dividend yield (%)	0.4	0.4	0.4	0.4	0.5

IDFC SECURITIES

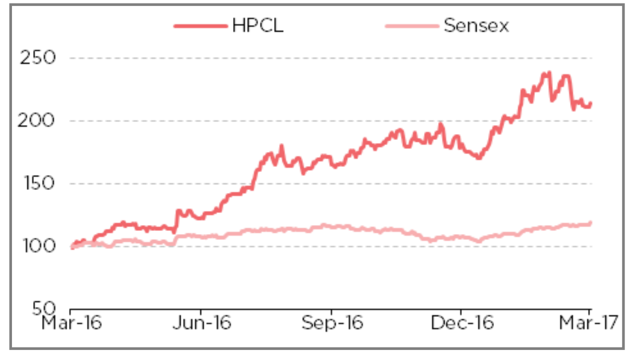
HPCL

(Outperformer)

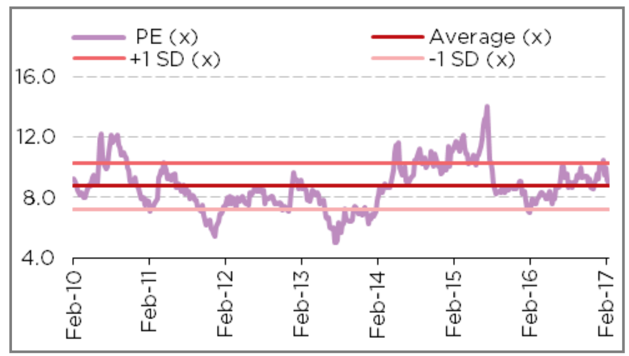
CMP: Rs519; TP: Rs650;
Mkt cap: Rs527bn; US$8.0bn

We expect HPCL to continue to show robust earnings momentum over FY17-19E on the back of stronger refining performance, increased marketing volumes (market share gains from peers and growth in higher-margin Lubes segment) and healthy marketing margins. The change in mix with LPG, having a higher margin, replacing kerosene (low margin) coupled with the growing share of non-domestic LPG and non-subsidised LPG is likely to support higher profitability of the marketing segment. Valuations of 8.1x FY19E consol EPS remain highly attractive given average RoCE of ~14% over FY17-19E. Reiterate Outperformer with a target price of Rs650.

- **Steady marketing margins:** HPCL's adjusted marketing margins (net of inventory) saw some weakness largely impacted by the removal of SSC recovery from May 2016 and weaker product margins especially in the bulk/industrial segment. However, the weakness in margins was offset somewhat by strong product volume growth in Q3. The mix of higher margin LPG replacing lower margin kerosene, coupled with the growing share of non-domestic LPG (which earns higher margins) and also non-subsidised LPG (via "give it up") is likely to support higher profitability of the marketing segment for the OMCs.
- **Refining environment remain on the uptrend:** Reported GRM came at US$6.4/bbl for Q3FY17, in line with estimates, but was marginally below the benchmark margins (US$6.6/bbl). We note that the margins for the quarter have been helped by inventory gains of ~US$2/bbl. Refining thruput at 4.7mt for the quarter and 13.2mt for 9MFY17 showed 2/5% growth, supporting refining earnings. Nonetheless, refining margins remain on the uptrend, with benchmark margins for Q4FY17E to date at higher levels than Q3, with higher gasoline spreads/steady diesel spreads to support HPCL's GRMs.
- **Q3FY17 results:** It reported robust volume growth in both refining and marketing segments. Marketing margins of Rs3,980/ton, 19% lower yoy, with higher mix of industrial products, likely impacted blended margins. Refining margins have been helped by inventory gains of ~US$2/bbl.



(%)	3-mth	6-mth	1-yr
HPCL IN	20.7	29.9	108.8
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

HPCL

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**2,028,768**	**1,793,938**	**1,866,953**	**2,282,536**	**2,496,034**
Adj. net profit (Rs m)	19,713	36,628	53,797	49,939	53,755
Shares in issue (m)	1,016	1,016	1,016	1,016	1,016
Adj. EPS (Rs)	19.4	36.1	53.0	49.2	52.9
% change	6.4	85.8	46.9	(7.2)	7.6
PE (x)	26.6	14.3	9.7	10.5	9.7
Price/ Book (x)	3.3	2.9	2.4	2.1	1.9
EV/ EBITDA (x)	15.1	8.7	6.8	7.1	6.5
RoE (%)	12.7	21.3	26.8	21.4	20.2
RoCE (%)	5.2	11.2	13.8	11.7	12.2

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	2.4	4.7	5.4	4.1	4.0
EBIT margin (%)	1.4	3.2	4.1	2.9	2.9
PAT margin (%)	1.0	2.0	2.9	2.2	2.2
RoE (%)	12.7	21.3	26.8	21.4	20.2
RoCE (%)	5.2	11.2	13.8	11.7	12.2
Gearing (x)	1.3	1.2	0.8	0.6	0.4
Net debt/ EBITDA (x)	4.2	2.5	1.7	1.5	1.2
FCF yield (%)	25.4	0.6	12.1	9.0	7.5
Dividend yield (%)	1.5	2.1	3.6	3.2	3.4

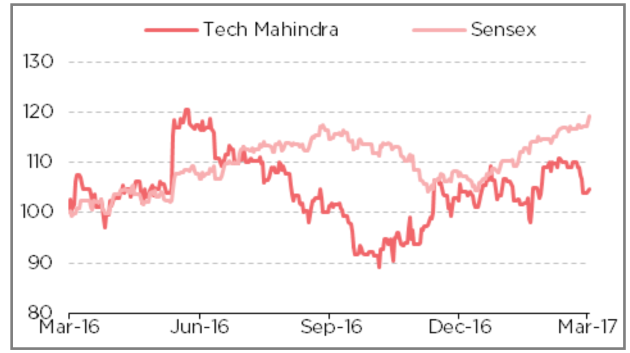
Tech Mahindra

(Outperformer)

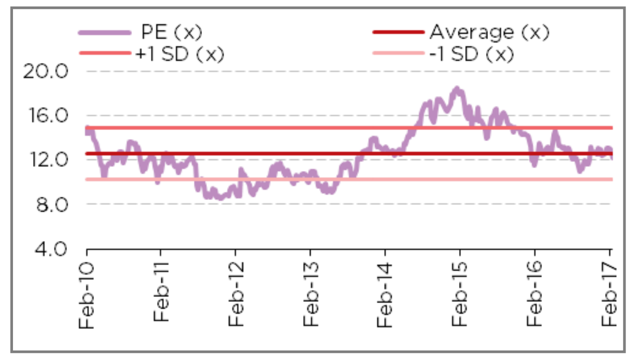
CMP: Rs480; TP: Rs550;
Mkt cap: Rs467bn; US$7.1bn

Tech Mahindra has delivered a third consecutive quarter of positive growth led by improved outlook in Telecom. We expect inorganic contribution from Pininfarina, Bio Agency, Target and CJS, along with organic revenue growth, to yield mid-teens revenue growth in the Enterprise vertical over FY17-19E. We see reversal in revenue trajectory with limited wage pressure to yield healthy exit margin implying ~13% earnings CAGR over FY17-19E. Moreover, industry leading growth with strong cash conversion would drive steady valuation re-rating from ~12.3x FY18E EPS. Maintain Outperformer, with a target price of Rs550 (14x FY18E EPS).

- **Telecom momentum to improve, Enterprise growth to sustain:** The outlook for Telecom is likely to improve on the back of improved client spending, restructured network services business and deal wins. We expect deal closure and an improved pipeline to drive steady revenue growth in the vertical. This vertical has seen improvement for three quarters in a row. Enterprise (+6.3% qoq) grew ahead of peers accelerated by inorganic contribution (Target: ~US$13m). Management expects organic revenue growth to be in-line with peers. We expect inorganic contribution from Pininfarina, Bio Agency and Target, along with organic revenue growth to yield mid-teens revenue growth in the vertical over FY16-19E.
- **Margin improvement initiatives yielding results:** Margin improvement initiatives in Q3 yielded an in line performance. Despite headwinds in Q4FY17 due to wage hikes, we expect limited impact due to: (i) TechM would follow the bell-curve model for the wage hikes, (ii) Comviva growth would offset some pressure, (iii) utilisation uptick including trainees to improve pyramid, and (iv) gradual realisation of automation benefits.
- **Improving growth visibility; Maintain Outperformer:** TechM has delivered consistent operating performance in past few quarters led by improved visibility in Telecom and sustained execution in Enterprise vertical. Acquisition is an integral part of TechM's strategy to fill gaps in its armour (Target, BIO, CJS). Industry leading growth with strong cash conversion would drive steady re-rating.



(%)	3-mth	6-mth	1-yr
TECHM IN	0.5	3.7	5.5
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Tech Mahindra

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**224,779**	**264,941**	**294,271**	**330,092**	**361,826**
Adj. net profit (Rs m)	26,278	30,633	30,340	34,749	38,982
Shares in issue (m)	878	887	889	889	889
Adj. EPS (Rs)	29.9	34.5	34.1	39.1	43.9
% change	0.7	15.3	(1.1)	14.5	12.2
PE (x)	16.0	13.9	14.1	12.3	10.9
Price/ Book (x)	3.4	2.9	2.5	2.2	1.9
EV/ EBITDA (x)	9.3	8.8	8.3	6.8	5.7
RoE (%)	24.2	22.5	19.1	18.9	18.4
RoCE (%)	26.8	21.7	18.6	19.2	19.3

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	18.3	16.1	15.1	15.7	15.9
EBIT margin (%)	15.6	13.3	11.9	12.5	13.0
PAT margin (%)	11.7	11.6	10.3	10.5	10.8
RoE (%)	24.2	22.5	19.1	18.9	18.4
RoCE (%)	26.8	21.7	18.6	19.2	19.3
Gearing (x)	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
Net debt/ EBITDA (x)	(0.6)	(1.0)	(1.1)	(1.4)	(1.6)
FCF yield (%)	(3.3)	7.0	3.9	7.4	6.8
Dividend yield (%)	1.2	2.4	1.6	1.8	2.0

IDFC SECURITIES

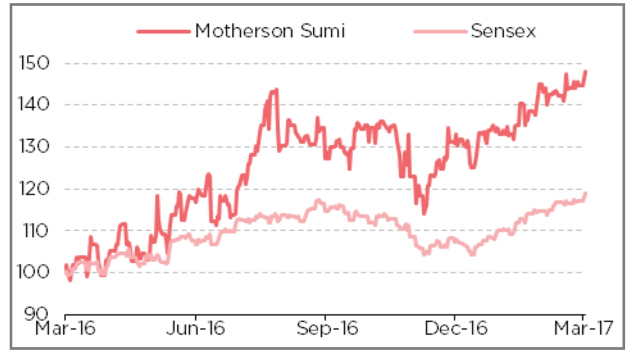
Motherson Sumi

(Outperformer)

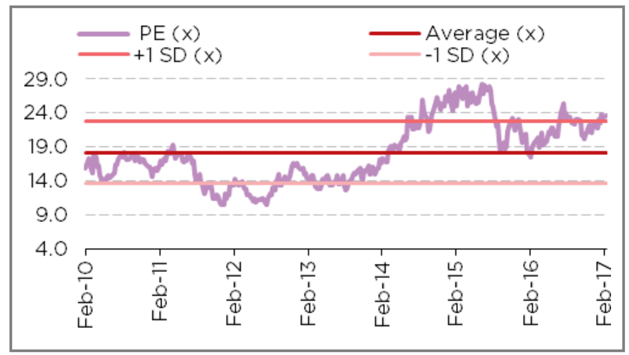
CMP: Rs363; TP: Rs400

Mkt cap: Rs509bn; US$7.7bn

Motherson Sumi Systems (MSSL) enjoys a diversified geographical/product portfolio (spread across 25 countries) with a strong track record in execution and turning around acquired entities. While concerns around the Volkswagen (VW) 'diesel gate' are fair, we believe that despite potential near-term issues, the longer-term impact on VW's volumes maybe limited with no significant change in MSSL's product launches. Also, revenue growth at SMR/SMP has shown an uptick as the order conversion cycle picks up. The domestic business seems to be well placed with MSS supplying to models with strong volume growth. We believe the stock with its high earnings growth (26% over FY16-19E) and inherent strengths (scale, deep relationships with OEMs) offer a favorable risk return ratio. Furthermore, MSSL seems increasingly ready to take over another "distressed" assets. Maintain Outperformer with a target price of Rs400.



(%)	3-mth	6-mth	1-yr
MSS IN	13.4	16.7	48.5
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; Stock price as on March 14, 2017

- **Strategic steps to drive margin expansion:** MSSL's key strategy is to increase its global footprint (and revenues) through 'sensible' organic means as also focus on product innovation, particularly at SMR/SMP. Moreover, increasing wallet share with consumers (to drive above-industry growth) should boost long-term profitability. Global trends such as vendor consolidation and increasing premiumisation should also help revenue/volume growth. These trends along with MSSL's robust track record make the company's high five-year targets (32% revenue CAGR to US$18bn; RoCE of >40%) seem achievable.
- **Leaving VW concerns behind**: While concerns around VW 'diesel gate' are fair, they may have been overdone. Moreover, we do not see any long-term impact on VW's volumes, given that historically, volumes of OEMs that had major recalls had recovered quickly. Furthermore, we do not expect VW to substantially alter its product pipeline – any cut in R&D will impact new futuristic technologies rather than the product launch schedule.
- **PKC acquisition:** The acquisition is likely to help the company in gaining access to the commercial vehicle players particularly in NA where PKC has a 62% market share in the CV wiring harness business.
- **Q3FY17 results:** PAT was ~12% ahead of our estimates on account of stronger-than-anticipated other income and stronger revenue growth in the standalone business.

Motherson Sumi

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**350,224**	**386,795**	**441,049**	**505,123**	**579,059**
Adj. net profit (Rs m)	**8,625**	**12,737**	**15,893**	**21,395**	**25,499**
Shares in issue (m)	882	1,323	1,323	1,323	1,323
Adj. EPS (Rs)	9.8	9.6	11.3	15.2	18.2
% change	12.7	(2.0)	17.7	34.5	19.7
PE (x)	36.9	37.7	32.0	23.8	19.9
Price/ Book (x)	9.5	11.2	6.6	5.5	4.6
EV/ EBITDA (x)	1.0	1.3	1.2	1.0	0.9
RoE (%)	10.5	13.5	11.5	9.4	7.6
RoCE (%)	3.5	4.2	3.6	3.4	3.1

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	9.5	9.9	10.4	11.1	11.8
EBIT margin (%)	6.9	7	7.5	8.3	9
PAT margin (%)	2.5	3.3	3.6	4.2	4.4
RoE (%)	27.5	33.7	26.6	25.4	25.6
RoCE (%)	26.1	24.3	24.5	27.6	32.2
Gearing (x)	0.7	0.7	0.2	0	-0.1
Net debt/ EBITDA (x)	0.9	1.1	0.4	0.1	-0.2
FCF yield (%)	2.8	-1	1	3.9	5.4
Dividend yield (%)	0.9	0.9	1	1.3	1.4

IDFC SECURITIES

TOP BUYS – MID-CAPS

IDFC SECURITIES

Aurobindo Pharma

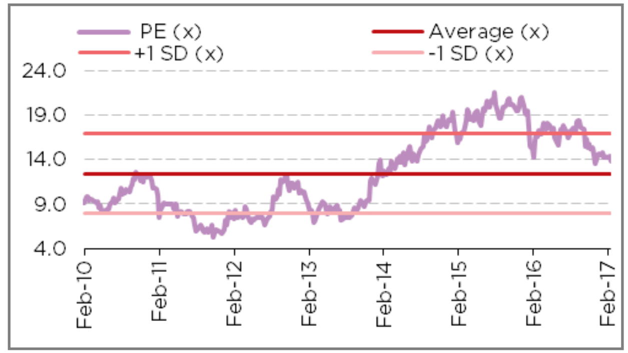
(Outperformer)

CMP: Rs662; TP: Rs873;
Mkt cap: Rs387bn; US$5.9bn

Aurobindo Pharma is comparable with large-cap peers in terms of scale of operations and profitability profile, along with a much better execution track record in the recent past. We expect the prevailing discount to large-cap peers to gradually shrink with Aurobindo's sustained earnings delivery in the next few quarters. Its 9MFY17 performance has lagged estimates as the ANDA approval momentum hasn't quite translated into revenue growth. With the expected pickup in launches from Q4 onwards combined with expectations of another 40-45 new ANDA approvals in FY18, we expect a steady pickup in US revenues in coming quarters. This combined with a pick-up in EU profitability and pick-up in ARV sales from FY19 onwards are likely to drive 15% earnings CAGR over FY17-19E with healthy return ratios (~25% RoCE / RoE). Maintain Outperformer.

- **Strong approval to help mitigate pricing pressure:** US revenue was flat qoq during Q3FY17 on the back of pricing pressure especially in the orals solid US business. Although the tough pricing environment is likely to continue in the US, new product launches/approvals are likely to help mitigate the pain. In Q3FY17, Auro received 19 approvals (15 approvals in Q2FY17 and 13 in Q1FY17) and another 3 tentative approvals. While they received 47 approvals during 9MFY17, only 29 ANDAs were launched and hence it plans to launch several during Q4. With the expected pick-up in launches from Q4 onwards combined with expectations of another 40-45 new ANDA approvals in FY18, we expect a steady pickup in US revenues in coming quarters.
- **Margin under pressure:** Aurobindo's gross and EBITDA margins contracted 180bp and 170bp qoq, respectively, on the back of a steady increase in price erosion in the US and operating leverage. However, adjusted for the couple of one-offs, adjusted EBITDA was broadly in line with estimates.
- **Acquisition of Generis:** Generis is the second-largest generics company by value in Portugal with very strong brand loyalty, and a 227-strong product portfolio addressing 95% of the generics market by value. Post this acquisition, Aurobindo will become the largest generics company in the 3.4bn Euro Portuguese pharma market. This acquisition is line with Aurobindo's strategy to create a strong EU business (~22% of FY16 consolidated revenues) to reduce dependence on US generics.

(%)	3-mth	6-mth	1-yr
ARBP IN	(2.3)	(13.4)	(4.5)
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Aurobindo Pharma

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**121,205**	**138,964**	**154,592**	**176,560**	**200,872**
Adj. net profit (Rs m)	15,758	19,820	23,627	26,890	31,377
Shares in issue (m)	585	585	585	585	585
Adj. EPS (Rs)	26.9	33.9	40.4	45.9	53.6
% change	34.4	25.8	19.2	13.8	16.7
PE (x)	25.2	20.0	16.8	14.8	12.6
Price/ Book (x)	7.7	5.6	4.3	3.4	2.7
EV/ EBITDA (x)	17.0	13.6	12.1	10.3	8.7
RoE (%)	35.2	32.2	28.8	25.6	23.8
RoCE (%)	25.4	25.7	24.5	24.4	25.2

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	21.2	23.1	23.6	24.0	24.3
EBIT margin (%)	18.4	20.2	20.8	20.8	21.2
PAT margin (%)	13.0	14.3	15.3	15.2	15.6
RoE (%)	35.2	32.2	28.8	25.6	23.8
RoCE (%)	25.4	25.7	24.5	24.4	25.2
Gearing (x)	0.8	0.5	0.5	0.3	0.2
Net debt/ EBITDA (x)	1.6	1.2	1.2	0.9	0.6
FCF yield (%)	(0.6)	0.3	(1.2)	2.0	3.7
Dividend yield (%)	-	-	-	-	-

IDFC SECURITIES

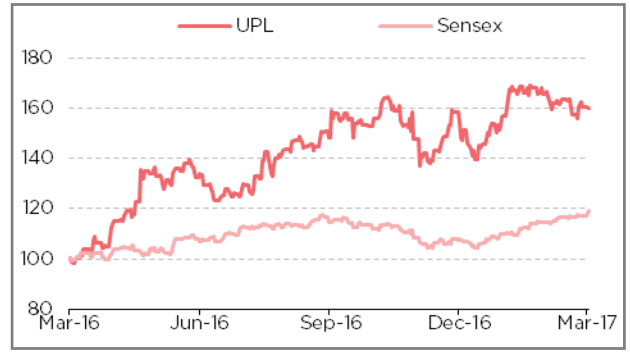
UPL

(Outperformer)

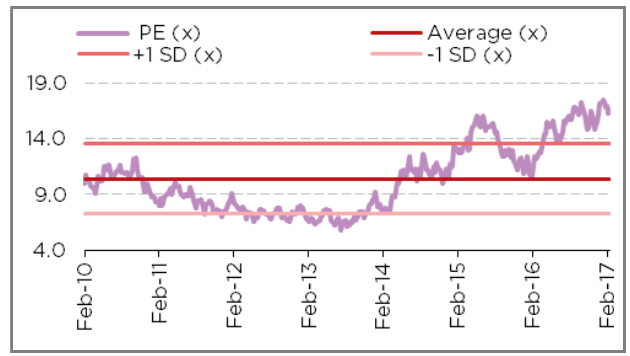
CMP: Rs702; TP: Rs782;
Mkt cap: Rs356bn; US$5.4bn

UPL, with its aggressive M&A strategy, has acquired a geographic/product mix that enables it to address ~70% of the global agrochemicals market. Given that 60% of its revenues are from high-growth markets (LatAm, Asia and Africa), we expect 13% revenue CAGR for UPL over FY16-19E against ~6% CAGR for the global generics industry. This is to be further supported by normal monsoons after two years of drought in India. With return ratios on the mend led by slower M&A activity and shift in focus from growth to profitability, the stock is poised for a re-rating. Overall, we expect UPL to post revenue/earnings CAGRs of 13.2%/18.1% over FY16-19E. Given its growth prospects, UPL is trading at attractive valuations (16.4x FY18E earnings). Maintain Outperformer.

- **Global opportunities – generic products grow faster:** The global agrochemicals industry is set to grow at a steady 3-5% with gradual improvement in farm income dynamics. Within the global agrochemicals industry, generics continue to witness better growth (6-8% growth; 3-5% decline in proprietary products). UPL is well positioned to capitalise on emerging opportunities in the global agrochemicals space.
- **Change in business model – focus on organic growth:** UPL's acquisition-led business model in the past has led to deterioration in balance sheet metrics. This investor concern has been recognised by management, with the shift in focus towards organic growth (organic growth: 14% CAGR over FY11-16). UPL's conscious strategy to increase revenue contribution from high-growth geographies (accounting for ~60% of revenues; ~40% in FY10) will help it achieve sustainable growth (12-15%) in the next 3-5 years.
- **Compelling valuations; recent M&A deals imply UPL is undervalued:** Recent M&A in the industry has happened at valuations of 10-12x EV/EBITDA and some of the globally listed peers are trading at similar valuations. Also, the recent fall in soft commodity prices did not impact UPL in a major way as the company is largely in generics. Moreover, growth is mostly led by market share gains, which will sustain with the introduction of new products and UPL's marketing efforts.
- **Q3FY17 results:** Consolidated revenues grew 18.1% yoy led by strong growth in LatAm (+37%) and India (+20%). Revenue from North America and RoW remained broadly flat while Europe revenue witnessed moderate growth. EBITDA margin rose 220bp yoy, driven by leverage over employee costs and stable other expenses.



(%)	3-mth	6-mth	1-yr
UPL IN	10.2	3.8	63.7
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

UPL

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**120,905**	**133,015**	**162,954**	**177,037**	**193,124**
Adj. net profit (Rs m)	11,519	13,770	17,682	18,620	21,382
Shares in issue (m)	429	429	429	429	429
Adj. EPS (Rs)	26.9	32.1	41.3	43.4	49.9
% change	12.9	19.5	28.4	5.3	14.8
PE (x)	26.4	22.1	17.2	16.4	14.2
Price/ Book (x)	5.2	4.5	3.7	3.1	2.6
EV/ EBITDA (x)	13.9	12.3	10.4	9.5	8.4
RoE (%)	20.3	21.6	23.4	20.7	20.1
RoCE (%)	21.2	21.4	22.0	21.9	22.3

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	19.5	20.4	20.0	20.0	20.5
EBIT margin (%)	16.0	16.6	15.9	15.9	16.4
PAT margin (%)	9.5	10.4	10.9	10.5	11.1
RoE (%)	20.3	21.6	23.4	20.7	20.1
RoCE (%)	21.2	21.4	22.0	21.9	22.3
Gearing (x)	0.4	0.4	0.4	0.3	0.2
Net debt/ EBITDA (x)	1.0	1.0	1.1	0.8	0.7
FCF yield (%)	2.6	0.8	(0.7)	2.6	2.1
Dividend yield (%)	0.8	1.0	1.1	1.1	1.1

IDFC SECURITIES

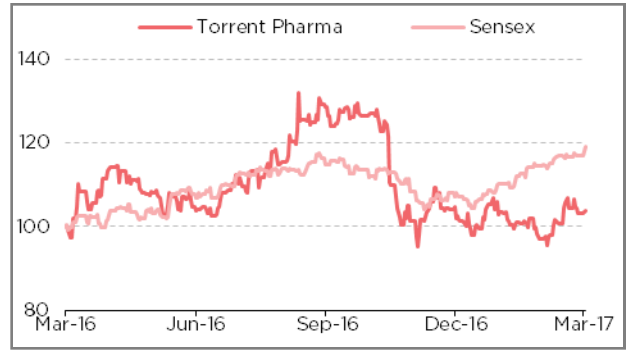
Torrent Pharma

(Outperformer)

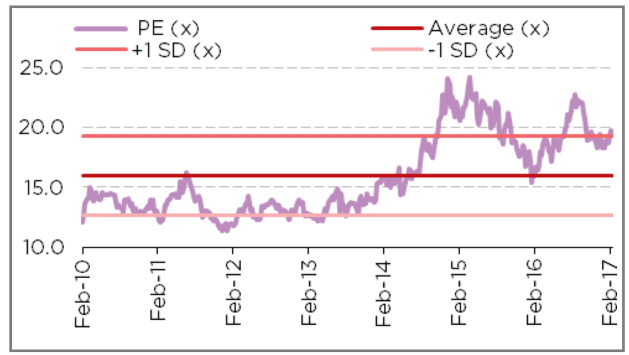
CMP: Rs1,337; TP: Rs1,592;
Mkt cap: Rs226bn; US$3.4bn

Torrent Pharma remains one of the most scalable mid-cap pharma models with a highly profitable branded formulations business in India/Brazil/RoW and a promising US business. Management focus on improving profitability across segments and sharply stepping up R&D investments along with willingness to actively explore M&A options augurs well for the stock in the medium term. Despite Torrent's recent disappointment, our core investment thesis is largely intact as we anticipate a gradual recovery in the US business with pick-up in pace of new ANDA approvals and increasing contribution from the Dahej facility.

- **US outlook remains positive:** Although the US business has been witnessing pricing pressure across the portfolio, we are hopeful on a pick-up in its business on the back of newer launches as well as availability of increased production capacity for some of the existing approved drugs. While Torrent's relatively thin US pipeline (19 ANDAs awaiting approval) is a challenge, management sees significant scope for increasing volumes and market share in existing products after the Dahej plant became operational.
- **Focus on profitability over revenues:** The decision to restructure the field force in India and Brazil to focus on productivity improvement and rationalisation of RoW footprint reflect management's focus on profitability over revenues. India business initiatives, including the Elder Pharma integration, have been successful in significantly improving profitability.
- **Enhanced thrust on R&D:** Torrent has significantly stepped up investments in R&D across segments, especially US generics. It has filed 10 ANDAs in 9MFY17. During FY17, management has indicated to exceed the guidance of 15 ANDA filings. Torrent aims to file 20 ANDAs every year from FY18 onwards and take it to 30-35 ANDAs per annum.
- **Strong performance in domestic business:** The domestic business saw strong growth (12% yoy) despite the growth challenges reported by several peers. The company continues to focus on the chronic and the sub-chronic segments which account for 77% of total revenues. This segment grew 16% during the quarter while industry grew at 13%.



(%)	3-mth	6-mth	1-yr
TRP IN	3.3	(17.0)	6.9
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Torrent Pharma

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**46,537**	**66,760**	**58,853**	**66,404**	**77,351**
Adj. net profit (Rs m)	7,619	17,220	9,465	11,226	13,578
Shares in issue (m)	169	169	169	169	169
Adj. EPS (Rs)	45.0	101.7	55.9	66.3	80.2
% change	15.2	126.0	(45.0)	18.6	21.0
PE (x)	30.0	13.3	24.2	20.4	16.8
Price/ Book (x)	9.2	6.7	5.6	4.7	3.9
EV/ EBITDA (x)	24.5	9.0	17.0	13.9	11.3
RoE (%)	34.7	58.6	25.4	25.2	25.5
RoCE (%)	19.9	44.5	19.4	22.3	26.1

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	21.9	40.7	24.4	25.8	26.4
EBIT margin (%)	17.8	37.1	19.5	20.7	21.7
PAT margin (%)	16.4	25.8	16.1	16.9	17.6
RoE (%)	34.7	58.6	25.4	25.2	25.5
RoCE (%)	19.9	44.5	19.4	22.3	26.1
Gearing (x)	0.9	0.5	0.4	0.2	0.0
Net debt/ EBITDA (x)	2.1	0.6	1.1	0.6	0.1
FCF yield (%)	(6.6)	7.6	2.0	4.0	4.9
Dividend yield (%)	1.0	3.0	1.2	1.4	1.7

IDFC SECURITIES

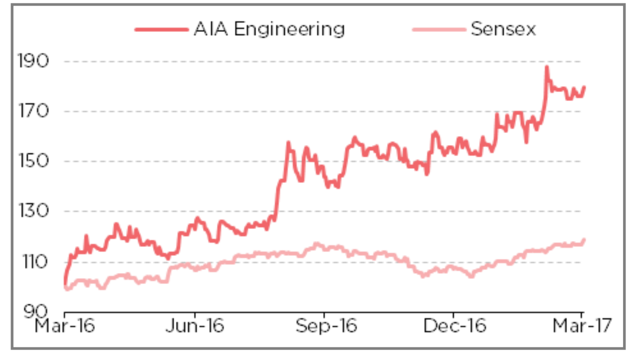
AIA Engineering

(Outperformer)

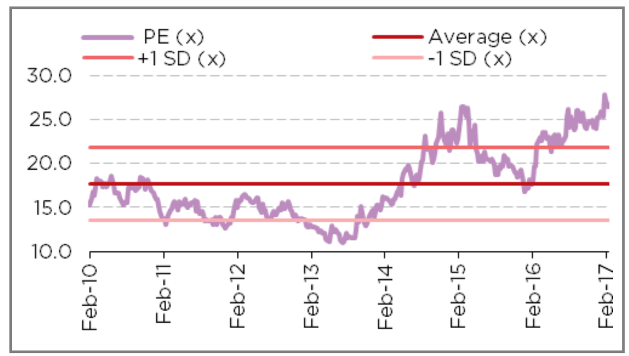
CMP: Rs1,482; TP: Rs1,525;
Mkt cap: Rs140bn; US$2.1bn

Manufacturer of high-chromium consumable wear parts (mill internals), AIA has seen market share gains in the 2m-tonne grinding media business with its 'total-solutions' approach. We expect the trend of market share gains to continue led by AIA's value proposition and cost-efficient offerings (we estimate incremental 65k tons over FY16-18E). However, we believe current margins of ~30% are unlikely to sustain and will scale downwards by FY18 (estimate 280bp drop to 26% in FY18) as volumes ramp up and thereby exert pressure on earnings (entry pricing strategy). AIA trades at 26.1x FY18E earnings. Considering the long-term structural growth on continued penetration into mining (likely upside on volumes from foray into primary segment), oligopolistic nature of the industry, and superior return ratios, we reiterate our Outperformer rating.

- **Volume growth and increased penetration - the strategies going forward:** Management is confident about long-term growth in the mining segment led by the shift to high-chrome grinding media. Incrementally, we believe there will be support from increased penetration in the copper and gold segments. Management has reiterated its volume guidance of incremental 125k tons over FY16-19, primarily through addition of new customers in mining. Commodity prices have also moved up in recent times and hence realisations are likely to increase going forward as prices are increased with a lag of around three months.
- **Market share gains**: We expect AIA to gain market share based on cost-efficient (lower wear rates, etc.) and value-oriented offerings thus leading to improved process efficiencies and better productivity. Hence, the conversion rate is expected to be high for high-chrome, leading to market share gains. We expect market share gains to add 65k tons by FY18 to overall volumes.
- **Q3FY17 results**: Strong revenue growth (20% yoy) due to higher volumes was led by traction in mining volumes (49% yoy). Realisations fell 7% yoy due to pass-through of weak commodity prices. PAT was also strong (19% yoy) due to higher revenues and other income. OPM remained strong at 29.3%, led by a favourable revenue mix.



(%)	3-mth	6-mth	1-yr
AIAE IN	16.1	28.3	70.5
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

AIA Engineering

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**21,836**	**20,984**	**21,655**	**28,355**	**35,828**
Adj. net profit (Rs m)	4,309	4,242	4,559	5,367	6,529
Shares in issue (m)	94	94	94	94	94
Adj. EPS (Rs)	45.7	45.0	48.3	56.9	69.2
% change	24.3	(1.6)	7.5	17.7	21.6
PE (x)	32.5	33.0	30.7	26.1	21.4
Price/ Book (x)	6.7	6.1	5.3	4.6	4.0
EV/ EBITDA (x)	23.8	23.0	22.0	18.4	15.2
RoE (%)	22.5	19.4	18.5	18.9	19.9
RoCE (%)	25.1	23.1	20.8	21.9	23.1

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	26.8	29.1	28.8	26.0	24.8
EBIT margin (%)	23.6	25.9	25.5	23.3	22.4
PAT margin (%)	19.7	20.2	21.1	18.9	18.2
RoE (%)	22.5	19.4	18.5	18.9	19.9
RoCE (%)	25.1	23.1	20.8	21.9	23.1
Gearing (x)	(0.0)	0.0	(0.1)	(0.1)	(0.1)
Net debt/ EBITDA (x)	(0.2)	0.1	(0.5)	(0.5)	(0.6)
FCF yield (%)	1.1	3.0	2.7	1.5	1.9
Dividend yield (%)	0.5	1.2	0.7	0.8	1.0

IDFC SECURITIES

Dish TV

(Outperformer)

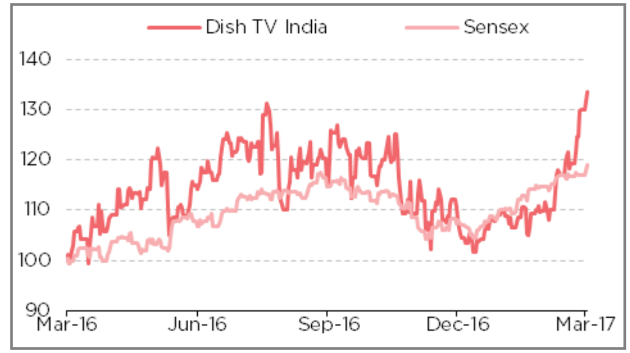
CMP: Rs107; TP: Rs98;
Mkt cap: Rs114bn; US$1.7bn

Distribution businesses are scale businesses and we expect the merger of Dish TV and Videocon D2H (to be completed in Q3FY18E) to yield both revenue (higher ad and carriage revenue and slightly better ability to improve ARPU) and cost (content, SG&A and employee) synergies. This is likely to help create significant medium-term value even as near-term financials remain under pressure. Near-term triggers exist such as GST implementation, lowering of license fee and resolution of past license fees. Maintain Outperformer.

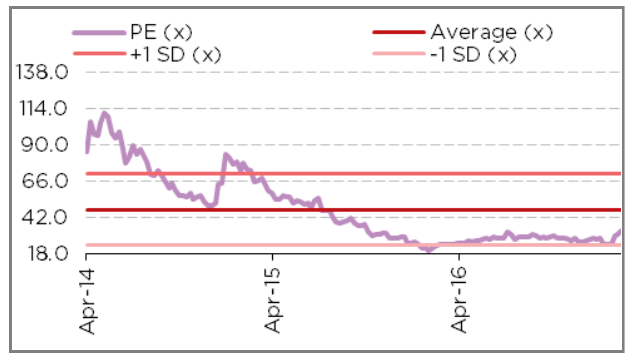
- **Synergy from Videocon DTH acquisition:** The merged entity would have a market-share of ~47% in the DTH space and ~19% in overall Pay-TV and a comfortable FY17E net-debt/EBITDA multiple of ~1x households. The immediate synergy benefits would be restricted to interest cost saving (as Dish TV's cost of debt is lower than that of VD2H's) and medium-term synergies would arise from rationalisation of G&A, employee expenses and content cost synergies provided the industry is not forced to move to the regulator's proposed 'a la carte to subscriber' regime. We estimate that annual synergy benefit of Rs3.7bn in FY20E is possible.

- **Healthy market share in subscriber additions:** Dish TV added 204K net subscribers during Q3FY17, which was marginally lower than our estimate of 230K but was marginally better than that of Airtel DTH (183K). However, management has guided to maintain the incremental market-share in the range of 24-25%, while industry gross addition during FY17E is likely to fall to 9.5m compared to 11.3m gross additions during FY16 because of demonetisation.

- **Note ban to help in the medium term:** The share of online recharges for Dish TV has gone up to 38% currently versus 28% before the note ban. Management is working towards taking this up to 45% in the near term. This is margin accretive because on the EPRS recharges the company pays 3.5-3.6% as commission whereas it pays just 1.5-2% as commission to payment gateways on online recharges.



(%)	3-mth	6-mth	1-yr
DITV IN	28.4	7.3	35.9
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Dish TV

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**26,880**	**30,599**	**30,966**	**34,867**	**39,387**
Adj. net profit (Rs m)	31	2,895	1,365	2,144	3,266
Shares in issue (m)	1,065	1,065	1,065	1,065	1,065
Adj. EPS (Rs)	0.0	2.7	1.3	2.0	3.1
% change	NM	9,120.4	(52.9)	57.1	52.4
PE (x)	3,656.0	39.7	84.1	53.5	35.1
Price/ Book (x)	(37.1)	30.0	22.1	15.6	10.8
EV/ EBITDA (x)	16.8	11.8	11.7	10.5	8.8
RoE (%)	(1.0)	792.8	30.3	34.2	36.4
RoCE (%)	10.5	31.4	24.3	30.1	36.5

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	27.3	33.5	33.5	33.0	34.4
EBIT margin (%)	4.4	14.2	12.2	13.4	15.5
PAT margin (%)	0.1	9.5	4.4	6.1	8.3
RoE (%)	(1.0)	792.8	30.3	34.2	36.4
RoCE (%)	10.5	31.4	24.3	30.1	36.5
Gearing (x)	(2.8)	1.7	1.2	0.9	0.5
Net debt/ EBITDA (x)	1.2	0.6	0.6	0.6	0.4
FCF yield (%)	0.2	5.3	0.1	(0.2)	1.4
Dividend yield (%)	-	-	-	-	-

IDFC SECURITIES

TOP BUYS – SMALL-CAPS

IDFC SECURITIES

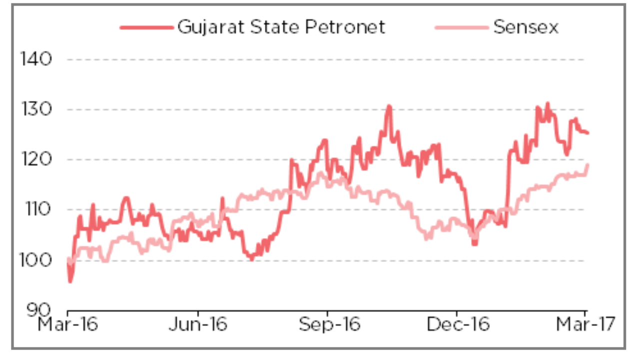
Gujarat State Petronet Ltd (GSPL)

CMP: Rs160; TP: Rs195; Mkt cap: Rs90bn; US$1.4bn

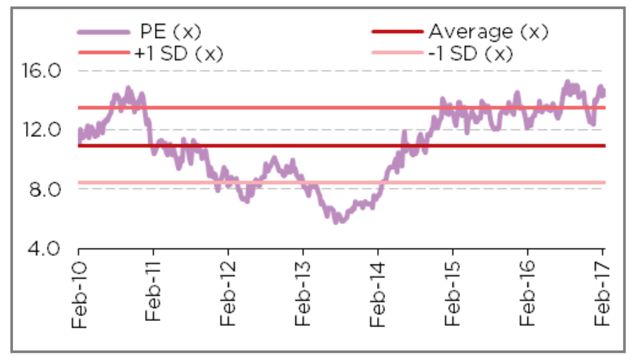
(Outperformer)

GSPL is a strong play on improving LNG supply in its core area of Gujarat, which is the most developed gas market in India with a well-connected gas grid. The pushback on RIL's petcoke gasifier commissioning to FY18-end (earlier est of H1FY18) implies a volume run rate of ~30mmscmd for FY18E (+4mmscmd yoy), while the recent PNGRB notification of the public consultation document for GSPL's tariff application suggests forward movement on this long-delayed issue as well. With steady growth in available LNG supply in its core area of Gujarat, we see the impact of RIL's volume reduction also being mitigated over FY19-20. As a result, higher volumes coupled with the imminent hike in tariff (via the recent PNGRB amendment modifying volume norms) are likely to drive an 8% CAGR in transmission volumes and an 18% CAGR in earnings over FY16-19E. The stock is trading at reasonable valuations (12.5x FY18E EPS; 7.6x FY18E EV/EBITDA). Reiterate Outperformer.

- **Volumes to see uptick:** Post the weakness seen during FY14-15 (~22mmscmd), GSPL has seen uptick in volumes (24-25mmscmd over the past six quarters) mainly aided by a low base and some recovery in demand from power plants, refining, steel sector and city gas distribution companies. We see additional silver linings over the next 18 months, with additional volumes flowing through GSPL's network led by affordable LNG prices and the doubling of LNG capacity in Gujarat viz the commissioning of 5mtpa at Dahej, 5mtpa Swan Energy LNG terminal (Pipavav) and GSPC-Adani's 5mtpa Mundra terminal.
- **Blended tariffs to remain strong:** Post the regulator's (PNGRB) notification amending the divisor norms for calculating tariffs, we see long-term tariffs being at higher levels for GSPL. With the public consultation document (PCD) for GSPL's tariff proposal put up for stakeholder comments during Jan 2017, we see the final notification nearer to fruition, removing a key overhang on the stock (expect ~19% increase in annual tariffs in FY18E).
- **Q3FY17 results:** PAT was marginally lower on the back of lower other income and higher employee costs, even as volumes and tariffs remained strong. Reported tariff at Rs1.09/scm (up 4% yoy) came ahead of estimates and was the highest during the last six qtrs. Similarly, current quarter volume of 26.5mmscmd is the highest in last six quarters.



(%)	3-mth	6-mth	1-yr
GUJS IN	9.6	7.0	32.1
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

GSPL

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**10,646**	**9,919**	**10,396**	**14,624**	**15,097**
Adj. net profit (Rs m)	4,104	4,445	4,893	7,279	7,394
Shares in issue (m)	563	563	563	563	563
Adj. EPS (Rs)	7.3	7.9	8.7	12.9	13.1
% change	(2.1)	8.3	10.1	48.8	1.6
PE (x)	22.1	20.4	18.6	12.5	12.3
Price/ Book (x)	2.5	2.3	2.1	1.8	1.7
EV/ EBITDA (x)	10.6	11.1	10.5	7.6	7.4
RoE (%)	11.9	11.7	11.8	15.7	14.2
RoCE (%)	14.2	12.6	13.1	18.4	16.8

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	87.2	87.3	88.5	89.8	89.1
EBIT margin (%)	69.4	68.7	71.4	76.3	75.1
PAT margin (%)	38.5	44.8	47.1	49.8	49.0
RoE (%)	11.9	11.7	11.8	15.7	14.2
RoCE (%)	14.2	12.6	13.1	18.4	16.8
Gearing (x)	0.2	0.1	0.1	0.2	0.2
Net debt/ EBITDA (x)	0.8	0.6	0.6	0.6	0.7
FCF yield (%)	3.7	4.4	6.0	4.0	6.5
Dividend yield (%)	0.8	1.0	1.1	1.6	1.6

Adani Transmission

(Outperformer)

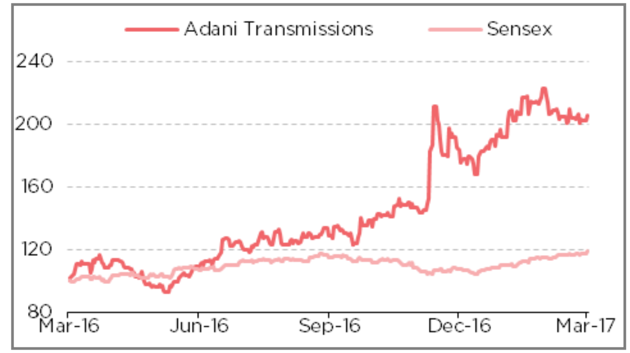
CMP: Rs63; TP: Rs70;
Mkt cap: Rs69bn; US$1.1bn

Adani Transmission has been building a diversified portfolio of transmission assets (mix of cost plus and tariff based) through organic/inorganic acquisitions. We view acquisition as structurally positive as it would build a steady/safe earnings stream. Its major portion of loan has been refinanced by USD & Masala bonds with expected interest savings of ~Rs.0.5 bn/quarter. We expect FY16-19E revenue and earnings CAGR to be 10% and 28% respectively, led by final tariff orders for existing assets, commissioning of new assets, acquisition of assets and refinancing-led interest cost savings. Given the attractive valuations (9.4x FY19E earnings; 1.6x FY19E BV) and strong earnings trajectory (28% EPS CAGR over FY16-19E), we maintain Outperformer rating on the stock. The key risk is cost escalation in new projects.

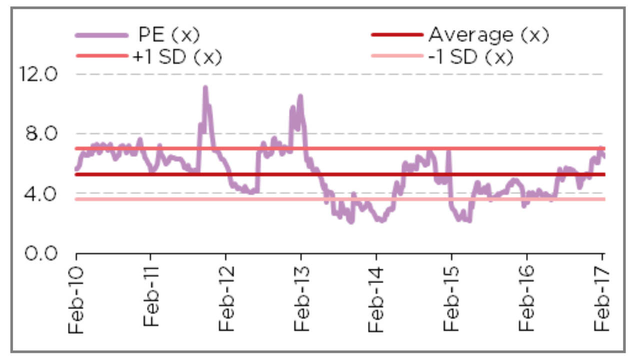
- **Approval for final capital costs to support earnings in near term:** Adani Transmission has not yet received the tariff for its Mundra-Mohindergarh and Mundra-Dehgam projects for tariff period 2015-2019. Company has been booking revenue on a provisional basis . Under the earlier order, interest cost was trued up based on the ECB rate of 4.7%. On full true up of interest cost, we estimate profit will increase by Rs800-900m/annum. In addition, it will also receive Rs5-6bn for past dues.

- **Strong bidding pipelines:** During next 12-18 months, company expects projects worth Rs400bn will be bid out. However, the company will bid on conservative basis to make sure they meet their internal rate of return. It already has won bid for five new projects with total cost of Rs36bn while the original timelines for completing these projects was 36-40 months. Company intends to build these projects well ahead of schedule, there by earning incentive income.

- **Refinancing of existing loan at lower rates:** We note that company has raised USD500m loan at an effective rate of 8% and Rs5bn through masala bonds at a rate of 9.1%. As a result, the effective interest rate on the loan is 9.66% and the expected interest cost is Rs2.1bn/ quarter (saving of ~Rs0.5 bn/quarter).



(%)	3-mth	6-mth	1-yr
ADANIT IN	21.4	69.1	108.7
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Adani Transmission

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**1,353**	**21,970**	**28,070**	**26,392**	**29,184**
Adj. net profit (Rs m)	(68)	3,577	4,221	6,818	7,721
Shares in issue (m)	1,090	1,100	1,100	1,100	1,100
Adj. EPS (Rs)	(0.1)	3.3	3.8	6.2	7.0
% change		NM	18.0	61.5	13.2
PE (x)	n/a	20.3	17.2	10.7	9.4
Price/ Book (x)	6.6	2.7	2.3	1.9	1.6
EV/ EBITDA (x)	158.6	8.2	8.0	7.4	6.5
RoE (%)	(1.3)	19.1	14.6	19.8	18.5
RoCE (%)	1.3	12.9	11.9	12.8	12.5

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	74.8	87.9	71.0	95.4	95.4
EBIT margin (%)	47.4	62.4	50.5	68.0	69.0
PAT margin (%)	(5.0)	16.3	15.0	25.8	26.5
RoE (%)	(1.3)	19.1	14.6	19.8	18.5
RoCE (%)	1.3	12.9	11.9	12.8	12.5
Gearing (x)	8.2	3.2	2.8	3.0	2.4
Net debt/ EBITDA (x)	87.5	4.4	4.3	4.5	3.9
FCF yield (%)	(147.6)	(12.9)	(1.9)	(39.9)	8.3
Dividend yield (%)	-	-	-	-	-

IDFC SECURITIES

Chennai Petroleum Corporation Ltd.

CMP: Rs369; TP: Rs400;
Mkt cap: Rs55bn; US$832m

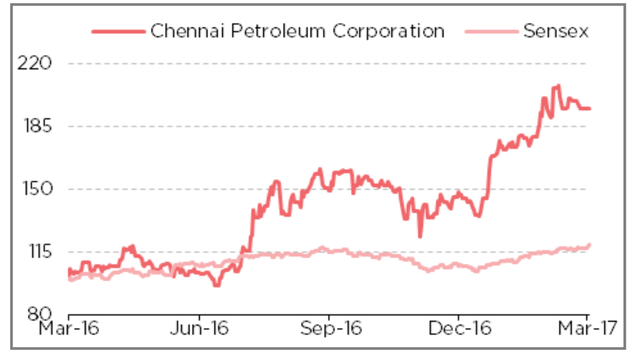
(Outperformer)

Chennai Petroleum (CPCL) is in the midst of a strong earnings revival, with robust refining utilisation and improving GRMs coupled with the residual upgrade/revamp of secondary units by FY18E to reflect in higher earnings trajectory over FY17-19E. The steady improvement in the refining environment and a rising crude price environment (which negates potential for large inventory losses) implies FY16-18E GRMs would range around US$5.7-6/bbl, up sharply from US$2.8/bbl average over FY12-15. Refining utilisation of ~95% for 9MFY17 is also materially ahead of 9MFY16 levels of 79%, implying higher operating leverage coming into play. We expect improving operating metrics and expansion projects to deliver 18% CAGR in earnings over FY17-19E, which does not reflect in valuations of 5.3x FY18E EPS/ 4.5x EV/EBITDA.

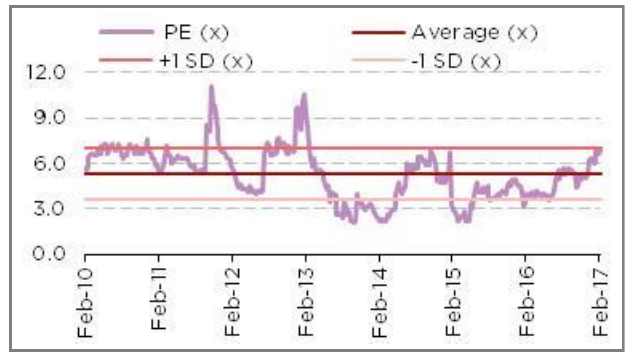
- **Strong GRMs and refining utilisation:** Refining utilisation remained healthy at ~95% during 9MFY17, with the problems seen in FY16 (floods) now resolved. The steady improvement in the refining environment and a rising crude price environment (which negates potential for large inventory losses) implies FY16-18E GRMs would range around US$5.7-6/bbl, up sharply from US$2.8/bbl average over FY12-15.

- **Investment plans to deliver further uptick:** In addition to benefiting from an improved operational environment for refining margins, CPCL is preparing for the long term via a Rs31.1bn residual up-gradation project (completion expected in H1FY18) and Rs6bn crude pipeline replacement (completion end-2016). The company also plans to revamp its diesel hydro-desulphurisation unit to 2.34mmtpa from 1.8mmtpa to make the Manali refinery 100% BS-IV compliant by FY17 end. We estimate these projects to deliver ~US$0.5/0.7 per bbl of incremental GRM benefit over FY18E/19E.

- **Q3FY17 results**: Refining thruput for Q3FY17 at 2.6mt dipped slightly qoq due to lower volumes in Dec 2016, but is well ahead of 1.9mt in Q3FY16. Utilisation was at a healthy 91% for the quarter and 95% for 9MFY17, ahead of only 79% in 9MFY16. It reported core GRMs of US$4.9/bbl for 9MFY17 and GRMs of US$5.8/bbl in the period with inventory gains of US$0.9/bbl.



(%)	3-mth	6-mth	1-yr
MRL IN	34.4	28.2	86.5
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Chennai Petroleum Corporation Ltd

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**418,660**	**259,942**	**381,233**	**427,914**	**450,075**
Adj. net profit (Rs m)	(390)	8,458	10,070	10,438	14,000
Shares in issue (m)	149	149	149	149	149
Adj. EPS (Rs)	(2.6)	56.8	67.6	70.0	94.0
% change	NM	NM	19.1	3.6	34.1
PE (x)	n/a	6.5	5.5	5.3	3.9
Price/ Book (x)	3.3	2.4	1.9	1.5	1.2
EV/ EBITDA (x)	NM	6.7	5.0	4.5	3.2
RoE (%)	(2.3)	42.8	38.4	31.7	34.3
RoCE (%)	(3.0)	17.6	23.3	20.7	24.5

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	(0.0)	5.7	5.2	4.8	5.7
EBIT margin (%)	(0.5)	4.7	4.4	4.0	4.9
PAT margin (%)	(0.1)	3.3	2.6	2.4	3.1
RoE (%)	(2.3)	42.8	38.4	31.7	34.3
RoCE (%)	(3.0)	17.6	23.3	20.7	24.5
Gearing (x)	3.2	2.0	1.5	1.1	0.6
Net debt/ EBITDA (x)	NM	3.0	2.2	1.9	1.1
FCF yield (%)	3.9	18.2	9.3	15.4	26.5
Dividend yield (%)	-	-	5.3	5.5	7.4

IDFC SECURITIES

Sintex

(Outperformer)

CMP: Rs97; TP: Rs128;
Mkt cap: Rs51bn; US$770m

The demerger of Sintex Industries into three business units (BUs) and two companies is on track and is likely to happen before May 2017. Spinning Phase-I revenue ramp up is on track and we expect just maintenance capex for the next couple of years across both its plastics and textiles divisions (excluding Phase-II spinning capex). This would help in lower leverage ratios and the demerger should help price the plastic (RoCE of ~15%) and textile (RoCE of ~4%) companies on their operating merit, helping in unlocking significant value. We believe post demerger the textile segment would trade at 5x one-year forward PER and the plastics segment could list at 10x one-year forward PER given its strong return profile. Maintain Outperformer.

- **Demerger on track:** The businesses are being divided into three business units (BUs) and two companies. Textiles including spinning will be one BU and company, while custom moulding will be another BU, and building materials (pre-fab/monolithic/storage tanks/EPC) will be another BU. The latter two BUs will be housed under one company called Sintex Plastics Technology Limited. Sintex Plastics will have a mirror shareholding of Sintex Industries. The approval from both lenders and shareholders has come through and the demerger is likely to happen before May 2017.

- **Debt repayment:** Management has highlighted that the custom moulding BU will be cash positive from day one and hence there will be substantial deleveraging opportunity in this segment. The debt in the pre-fab segment is in the form of debentures, which has its own period of payment. In textiles, the debt will take time to reduce.

- **Value unlocking:** Currently, Sintex trades at 6.8x/5.4x FY17E/FY18E earnings as it is undertaking a large spinning capex that is masking the good performance of its plastics segment. We believe the demerger would translate into value creation - the textile segment (~15% of FY16 PAT) could trade at 5x one-year-forward P/E and the plastics segment (~85% of FY16 PAT) could list at 10x one-year-forward P/E given its strong return profile.

(%)	3-mth	6-mth	1-yr
SINT IN	27.5	23.3	40.3
BSE Sensex	10.9	3.5	19.7

Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Sintex

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**70,066**	**77,335**	**87,621**	**108,622**	**133,371**
Adj. net profit (Rs m)	5,506	6,341	5,994	7,880	9,697
Shares in issue (m)	424	447	524	524	603
Adj. EPS (Rs)	13.0	14.2	11.4	15.1	16.1
% change	5.4	9.5	(19.4)	31.5	6.9
PE (x)	7.5	6.8	8.5	6.5	6.0
Price/ Book (x)	0.9	0.8	0.8	0.7	0.7
EV/ EBITDA (x)	6.8	7.5	7.2	6.0	5.0
RoE (%)	13.4	12.4	9.9	11.3	11.9
RoCE (%)	10.4	8.8	8.4	9.6	10.9

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	16.9	16.8	17.2	17.8	17.9
EBIT margin (%)	13.2	12.8	13.1	13.4	13.1
PAT margin (%)	7.9	8.2	6.8	7.3	7.3
RoE (%)	13.4	12.4	9.9	11.3	11.9
RoCE (%)	10.4	8.8	8.4	9.6	10.9
Gearing (x)	0.8	1.0	0.9	0.9	0.7
Net debt/ EBITDA (x)	3.3	4.2	3.8	3.4	2.5
FCF yield (%)	(29.2)	(45.7)	(11.8)	(17.0)	(2.9)
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8

IDFC SECURITIES

Rallis India

(Outperformer)

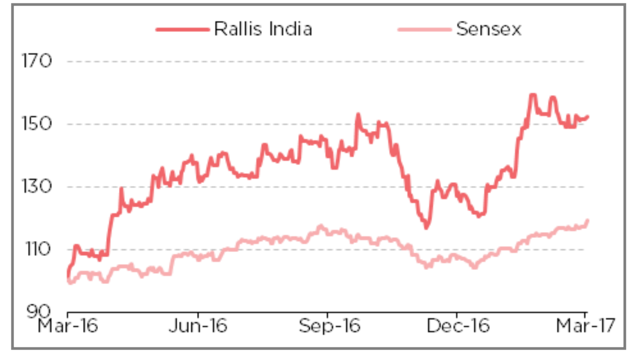
CMP: Rs239; TP: Rs302;
Mkt cap: Rs46bn; US$704m

We expect Rallis India to deliver sustained growth mainly aided by its well-established distribution reach, presence across key product segments and ability to introduce new products. The introduction of new products and revival of growth in existing key revenue contributing molecules through introducing new formulations and pre-mixes are likely to drive the domestic ag-chem business. On the other hand, the international business is likely to grow via continued revenue traction from contract manufacturing businesses. Rallis is one of the fastest-growing companies in the hybrid seeds segment with strong product offerings in hybrid rice, hybrid corn, and Bt cotton. We expect Rallis to deliver earnings at ~20% CAGR over FY16-19E on the back of improving growth momentum. Maintain Outperformer.

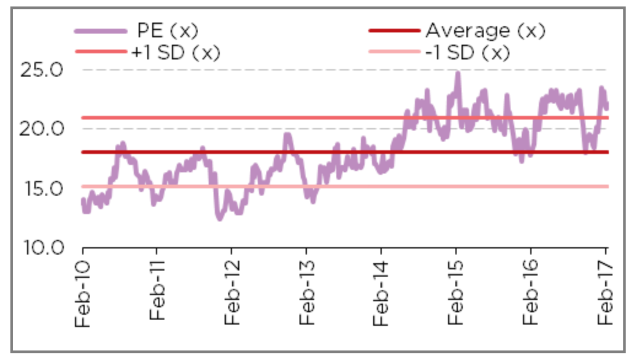
- **Improvement in business outlook:** Rallis India has witnessed subdued growth in its domestic ag-chem business as well as in exports during the past two years. However, its growth and profitability improvement in 9MFY17 is reflective of the company's product initiative taken during the past three years. Domestic business is likely to see traction through increased sale of non-pesticide agriculture inputs (PGP, biological products, etc.) while in the international business, commercialisation of new molecules under contract manufacturing agreements will improve utilisation in manufacturing facilities.

- **Shift towards favourable product mix:** A favourable shift in product mix is on the back of higher share of premium products in revenues and lower contribution from major molecule like acephate, which sees higher application during Kharif season. Acephate, which accounts for ~Rs1.5bn/year revenue, continued to witness price correction due to excess supply through China imports. Gross margin improvement (+260bp) is largely attributable to increase in contribution from new products like Hunk, Zeeny, Rilon, Epic and Ergon, which more than compensated for the adverse impact from fall in Acephate realisations.

- **Q3FY17E results:** Overall performance has been better than our expectations, despite drought in South India and impact of demonetisation. Q3 saw marked improvement in domestic business while export revenue witnessed marginal growth.



(%)	3-mth	6-mth	1-yr
RALI IN	24.3	10.7	49.1
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Rallis India

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**15,185**	**13,056**	**13,989**	**16,064**	**18,036**
Adj. net profit (Rs m)	1,454	1,260	1,519	1,816	2,164
Shares in issue (m)	194	194	194	194	194
Adj. EPS (Rs)	7.5	6.5	7.8	9.3	11.1
% change	(0.6)	(13.3)	20.5	19.6	19.2
PE (x)	32.7	37.8	31.3	26.2	22.0
Price/ Book (x)	6.0	5.5	4.5	4.1	3.7
EV/ EBITDA (x)	19.0	23.0	19.6	16.1	13.1
RoE (%)	19.2	15.2	15.8	16.4	17.6
RoCE (%)	24.4	18.1	19.0	20.4	22.4

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	16.7	15.9	17.0	17.8	18.8
EBIT margin (%)	13.8	12.9	14.1	15.0	16.2
PAT margin (%)	9.6	9.7	10.9	11.3	12.0
RoE (%)	19.2	15.2	15.8	16.4	17.6
RoCE (%)	24.4	18.1	19.0	20.4	22.4
Gearing (x)	0.1	0.0	(0.1)	(0.1)	(0.2)
Net debt/ EBITDA (x)	0.2	0.1	(0.4)	(0.6)	(0.9)
FCF yield (%)	1.0	3.2	4.0	3.6	4.5
Dividend yield (%)	1.1	1.1	1.5	1.5	1.5

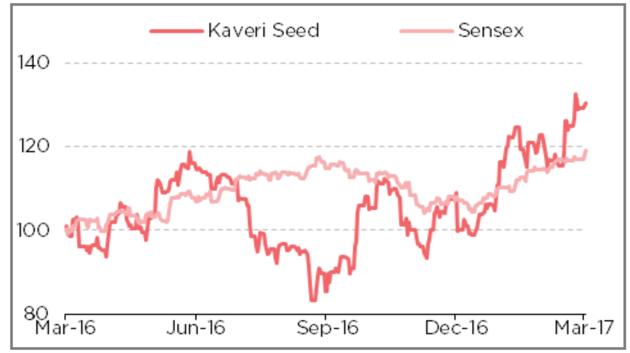
Kaveri Seeds

(Outperformer)

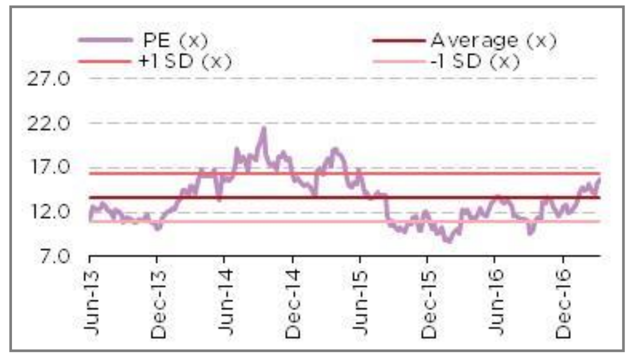
CMP: Rs513; TP: Rs523;
Mkt cap: Rs35bn; US$536m

Kaveri Seeds (KSCL) is best-placed to capitalise on the growth opportunity in cotton seed sales with cotton cultivation remaining remunerative for farmers in FY18E compared to alternate crops. The company has been successful in restricting the decline in cotton seed sales to 4% compared to a 15% decline in the industry. Nonetheless, we expect KSCL's cotton seed sales volume to increase from 5.5m packets in FY17E to 6.5m packets in FY18E. Amongst the non-cotton crop segment, hybrid corn, hybrid rice and hybrid pearl millet are likely to drive growth at 15-18% in FY18E. The lower seed production cost is likely to aid 80-100bp margin improvement in FY18E. We believe the company's ability to reduce receivables and distributing the surplus cash to shareholders will be the key re-rating trigger. We maintain Outperformer.

- **Concern of declining cotton acreage is behind us:** KSCL's recent performances have been impacted by fall in cotton seed realisation and lower cotton acreage. However, it has been able to restrict the decline in cotton seed sales volume to 4% vs. 15% decline for the industry. Further, the non-cotton revenue remained resilient with ~20% growth in hybrid maize sales. Going forward, we expect cotton acreage to normalise (increase of ~10% yoy) in FY18E, with the cotton cultivation remaining remunerative compared to alternate crops available for farmers.
- **Lower seed production cost is positive:** Above normal monsoon along with reduced pest incidence in FY17 would translate into improved seed quality and quantity in seed production, which will benefit FY18E profitability.
- **Q3FY17E results:** As 80% of sales occurs in the Kharif season, there was no material impact of demonetisation on Kaveri Seeds. Revenues declined 2.7% yoy due to lower cotton seed realisation and lower maize seed sales on the back of fall in acreage in Bihar and coastal AP. Inventory write-off of Rs71m and Rs52m provisioning for CSR expenses adversely impacted the profitability for the quarter. Any adverse outcome in the SEBI ordered forensic audit is the key risk to our recommendation on the stock.



(%)	3-mth	6-mth	1-yr
KSCL IN	31.5	50.3	32.7
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Kaveri Seeds

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**11,613**	**8,928**	**8,350**	**9,380**	**10,322**
Adj. net profit (Rs m)	2,988	1,727	1,796	2,250	2,589
Shares in issue (m)	69	69	69	69	69
Adj. EPS (Rs)	43.4	25.1	26.1	32.7	37.6
% change	42.7	(42.2)	4.0	25.3	15.0
PE (x)	12.0	20.7	19.9	15.9	13.8
Price/ Book (x)	4.7	3.9	3.7	3.3	3.0
EV/ EBITDA (x)	10.6	16.3	15.9	13.1	11.5
RoE (%)	47.1	20.8	19.1	21.9	22.7
RoCE (%)	45.9	19.2	17.0	19.2	19.7

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	26.7	21.1	22.9	24.6	25.3
EBIT margin (%)	25.4	18.1	19.4	21.3	22.1
PAT margin (%)	25.7	19.3	21.5	24.0	25.1
RoE (%)	47.1	20.8	19.1	21.9	22.7
RoCE (%)	45.9	19.2	17.0	19.2	19.7
Gearing (x)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Net debt/ EBITDA (x)	(1.0)	(2.6)	(2.7)	(2.4)	(2.2)
FCF yield (%)	2.2	6.6	3.3	4.3	4.7
Dividend yield (%)	1.5	1.0	2.9	2.9	3.4

IDFC SECURITIES

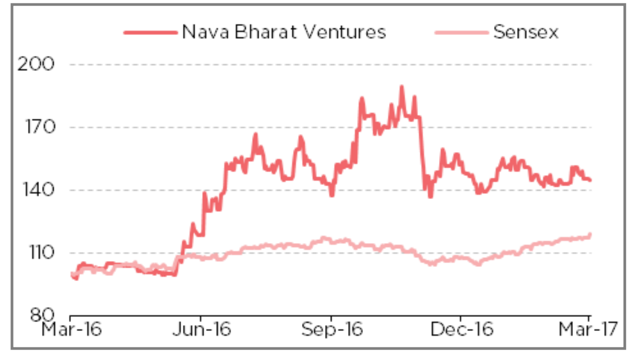
NBVL

(Outperformer)

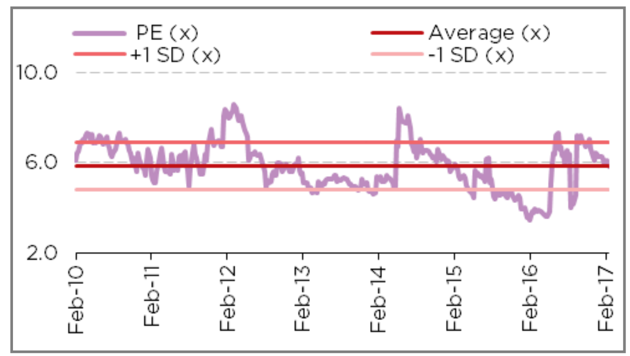
CMP: Rs113; TP: Rs156;
Mkt cap: Rs20bn; US$307m

Nava Bharat Ventures (NBVL) has 442MW capacity located in India and is in the process of setting up a thermal power plant in Zambia. Around 64% of its power plant capacity is located in South India and is being sold on a merchant basis at attractive rates. Merchant prices in the South are likely to stay high for the next two years on the back of transmission constraints. NBVL has also renewed the conversion agreement with Tata Steel for four years. NBVL's earnings have faced pressure in FY17 on account of delay in commissioning of the Zambian power plant and lower offtake from its South-based power plants. However, we believe the worst is behind us and expect earnings to increase by 18% over FY16-19E driven by commercialisation of the Zambian power plant in April 2017. We find NBVL's valuations attractive at 4.3x FY19E consolidated earnings and 0.6x FY19E BV.

- **Existing operational power plants located in South India:** Of the 442MW power plant capacity, 64% is located in the South. The region is likely to sell power on a merchant basis at attractive rates for the next two years given transmission constraints.
- **Zambian power plants increase visibility:** NBVL's Zambian power plants Unit 1 and Unit 2 started supplying power from Nov 16 and Dec 16, respectively, and have sold power worth US$29m so far, but it has been taken to balance sheet as the units are not yet commissioned. The expected CoD of both the units is expected by Q4FY17 end.
- **PPA with ZESCO will earn 20% return on equity:** MCL has entered into a PPA (approved by the Zambian Energy Regulation Board) with Zambian Electricity Supply Company (ZESCO), under which power will be sold at ~10.9US cents/kWh. The tariff consists of three parts – capacity charge, energy charge and transmission charge. Capacity charge is fixed for 20 years, the energy charge is linked to wage inflation and coal transfer prices.
- **Q3FY17 results:** Consolidated revenue and PAT for Q3FY17 stood at Rs3.5bn (-9% yoy) and Rs233m, respectively, a decline of 69% due to decline in merchant power offtake from its southern India power plants. Net generation at standalone business was flat yoy at 224MU (PLF of 51%) on account of lower offtake from the grid.



(%)	3-mth	6-mth	1-yr
NBVL IN	(1.8)	1.6	48.7
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

NBVL

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**18,138**	**15,930**	**13,383**	**29,163**	**33,363**
Adj. net profit (Rs m)	2,065	2,878	873	3,925	4,703
Shares in issue (m)	179	179	179	179	179
Adj. EPS (Rs)	11.6	16.1	4.9	22.0	26.3
% change	(27.4)	39.4	(69.7)	349.4	19.8
PE (x)	9.9	7.1	23.4	5.2	4.3
Price/ Book (x)	0.7	0.6	0.7	0.6	0.6
EV/ EBITDA (x)	10.7	13.1	35.3	4.7	3.8
RoE (%)	7.3	9.4	2.8	12.1	13.3
RoCE (%)	5.4	4.9	1.2	10.9	11.8

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	17.1	22.5	13.8	42.5	40.2
EBIT margin (%)	12.8	17.7	6.5	30.5	29.7
PAT margin (%)	11.4	18.1	6.5	13.5	14.1
RoE (%)	7.3	9.4	2.8	12.1	13.3
RoCE (%)	5.4	4.9	1.2	10.9	11.8
Gearing (x)	0.4	0.8	1.4	1.1	0.8
Net debt/ EBITDA (x)	4.1	7.4	23.9	3.0	2.2
FCF yield (%)	(37.9)	(66.3)	(84.1)	46.2	52.4
Dividend yield (%)	4.4	2.7	6.2	6.2	6.2

IDFC SECURITIES

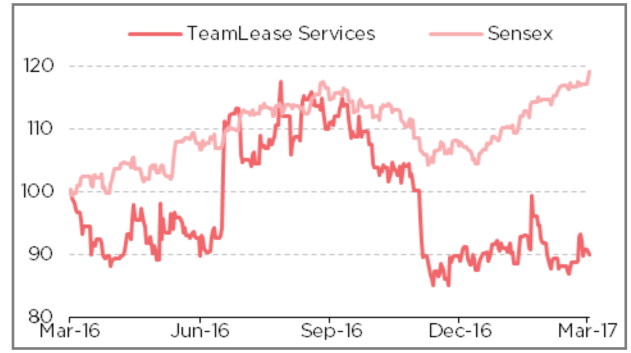
TeamLease Services

CMP: Rs881; TP Rs1,175; Mkt cap: Rs15bn; US$228m

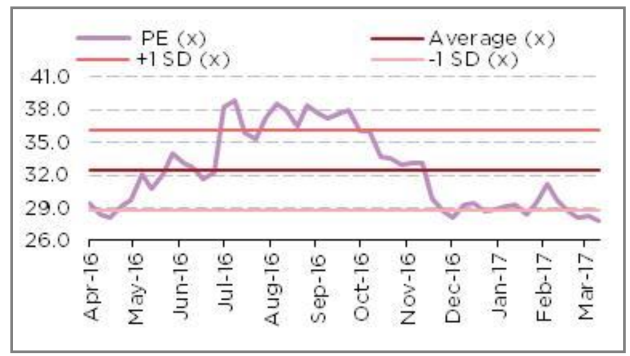
(Outperformer)

Contrary to general belief, demonetisation has helped TeamLease Services to report healthy volume/ revenue growth during Q3FY17 even as integration costs have partly offset other margin tailwinds. We believe its diversified client portfolio, back-end infrastructure, and strong brand positioning augurs well for the company to ride macro tailwinds in the staffing industry. We believe strong earnings growth (~41% EPS CAGR over FY16-19E) would support a valuation premium (16.9x FY18E EV/EBITDA), while consistent execution on operating performance over the next few quarters is a key monitorable.

- **Niche scalable business model with pan-India presence:** TeamLease manages ~110K associate employees across 1,400+ clients in 1,800+ locations pan-India. Key differentiators for the company are strong execution capabilities, wide presence in sectors/states, focus on HR services value chain, credible brand and remarkable technology backend. Equipped with a well-diversified portfolio (no sector accounts for more than 10-11% of employees), the company plans to enter high-yield specialised sectors such as Healthcare, IT Services and Hospitality inorganically, leveraging its balance sheet strength.
- **Healthy volume growth to continue:** Positive seasonality and demonetisation-led demand from the BFSI vertical led to ~8.7K associate additions in core staffing during Q3FY17. However, net mark-up per associate declined ~3% due to volume based discounts and re-negotiations of certain contracts over the past two quarters (margin headwind). Rollout of value added services (attendance, sales reporting, asset tracking) would drive wallet share or per associate mark-up starting Q1FY18. IT staffing has been added, which would likely grow at 15-20% yoy and drive margin improvement. In general staffing, the company is focused on expanding the client base to benefit from vendor consolidation (post GST) and sustain growth at 20-25%.
- **Margin expansion to drive strong EBITDA CAGR:** TeamLease operates at 1.2% EBITDA margin on gross revenues in staffing services with 3.5% mark-up on gross billing. Key margin levers are operating leverage with mid-teen volume growth and mark-up improvement. Also, a mature recruitment business would drive EBITDA CAGR to ~57% over FY16-19E.



(%)	3-mth	6-mth	1-yr
TEAM IN	2.2	(15.5)	(5.4)
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

TeamLease Services

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**20,071**	**25,049**	**31,041**	**38,948**	**46,506**
Adj. net profit (Rs m)	308	248	415	579	701
Shares in issue (m)	15	16	17	17	17
Adj. EPS (Rs)	20.1	15.9	24.3	33.8	41.0
% change	73.2	(20.7)	52.6	39.3	21.1
PE (x)	45.6	57.5	37.7	27.1	22.3
Price/ Book (x)	9.4	4.6	4.4	3.8	3.3
EV/ EBITDA (x)	53.6	46.1	29.8	16.9	12.9
RoE (%)	23.0	10.8	12.5	15.1	15.7
RoCE (%)	13.8	8.5	11.5	16.0	17.4

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	1.2	1.0	1.5	2.1	2.1
EBIT margin (%)	1.1	0.9	1.4	1.7	1.8
PAT margin (%)	1.5	1.0	1.3	1.5	1.5
RoE (%)	23.0	10.8	12.5	15.1	15.7
RoCE (%)	13.8	8.5	11.5	16.0	17.4
Gearing (x)	(0.8)	(0.8)	(0.4)	(0.5)	(0.6)
Net debt/ EBITDA (x)	(4.8)	(9.3)	(3.4)	(2.5)	(2.8)
FCF yield (%)	2.9	(1.1)	(5.6)	2.8	5.4
Dividend yield (%)	-	-	-	-	-

IDFC SECURITIES

TOP SELLS

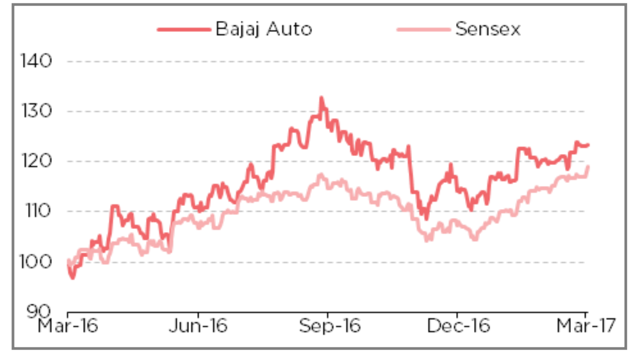
Bajaj Auto

(Underperformer)

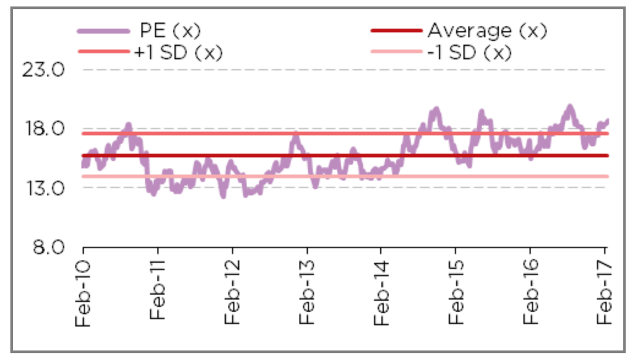
CMP: Rs2,867; TP: Rs2,515;
Mkt cap: Rs830bn; US$12.6bn

Bajaj Auto has improved its domestic market share; however, the sustainability of the gains remains an issue given that (apart from the Pulsar) the company is yet to develop a strong brand. Further, the concerns on the export market continue to persist. The currency movement in countries like Nigeria may have led to demand destruction - implying that a meaningful demand recovery could be difficult. Moreover, rising commodity and regulatory costs (shift to BS IV) could be additional pain points. Furthermore, competitive intensity in the 2W space seems to be rising substantially. Maintain Underperformer with a target price of Rs2,515 (15x earnings and Rs105 for the KTM stake).

- **Product portfolio still weak:** Despite the launch of new products (the Avenger, V15), substantial gaps still exist in Bajaj Auto's product portfolio. The portfolio does not address the gaps in the executive motorcycle space and the fast-growing scooter segment – together, these two segments account for ~70% of total two-wheeler demand. In addition, apart from Pulsar, the company lacks strong brands. Furthermore, volume sustainability from newly launched vehicles (Avenger/V15) remains a concern.
- **Exports to remain stressed:** YTD Bajaj Auto's exports (~40% of volumes) are down by ~23% as key oil dependent markets (such as Nigeria) remain stressed. A meaningful recovery seems to be some distance away. Furthermore, we believe doubling exports in five years to 3.2m units is an ambitious target as: (a) Bajaj Auto's high market share (30-80%) in top-10 export markets makes further gains difficult and (b) expansion from here can come from markets like Brazil where Japanese players are deeply entrenched.
- **Q3FY17 results:** PAT was down 5% yoy but was ~4% ahead of estimates on the back of higher-than-anticipated other income and a slightly better-than-expected EBITDA margin. Management expects volumes are unlikely to normalise before April. Exports continue to remain weak in key geographies (Nigeria, Sri Lanka, Egypt) on account of currency movements and political uncertainty - there is unlikely to be any major recovery in the next 3-6 months in these markets.



(%)	3-mth	6-mth	1-yr
BJAUT IN	7.6	(2.0)	26.1
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Bajaj Auto

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**216,120**	**226,876**	**222,639**	**253,667**	**283,421**
Adj. net profit (Rs m)	31,540	36,525	39,159	42,863	47,617
Shares in issue (m)	289	289	289	289	289
Adj. EPS (Rs)	109.0	126.2	135.3	148.1	164.6
% change	(2.7)	15.8	7.2	9.5	11.1
PE (x)	26.4	22.8	21.2	19.4	17.5
Price/ Book (x)	7.8	6.8	6.1	5.7	5.2
EV/ EBITDA (x)	20.1	17.2	18.2	16.3	14.6
RoE (%)	31.1	31.8	30.2	30.4	31.2
RoCE (%)	37.1	37.9	31.7	32.7	33.8

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	19.0	21.1	20.4	20.0	19.9
EBIT margin (%)	17.8	19.7	19.0	18.6	18.6
PAT margin (%)	14.6	16.1	17.6	16.9	16.8
RoE (%)	31.1	31.8	30.2	30.4	31.2
RoCE (%)	37.1	37.9	31.7	32.7	33.8
Gearing (x)	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)
Net debt/ EBITDA (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
FCF yield (%)	2.9	4.9	4.3	5.4	6.0
Dividend yield (%)	1.8	1.8	2.7	3.6	3.6

IDFC SECURITIES

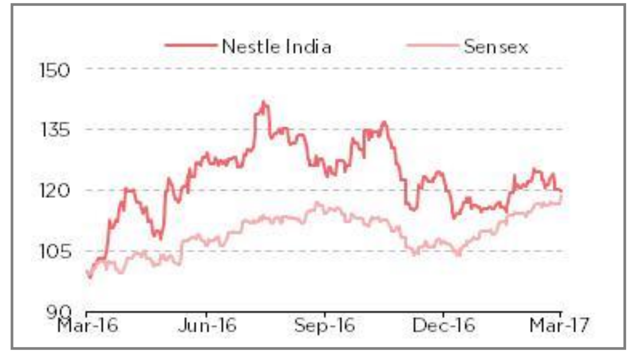
Nestle

(Underperformer)

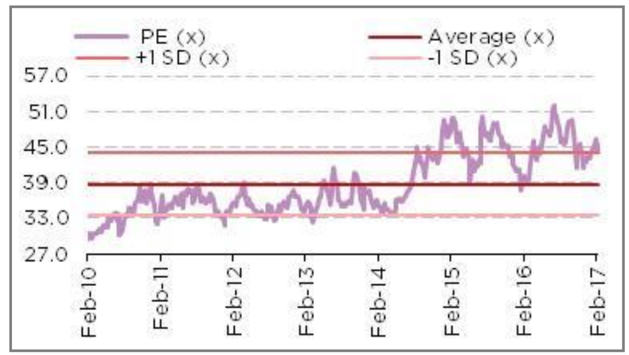
CMP: Rs6,119; TP: Rs5,335;
Mkt cap: Rs590bn; US$8.9bn

While we remain positive on the MD's focus on volume growth and the company's innovation drive across the portfolio, the challenges in terms of regaining lost market shares in key categories like milk products, beverages, instant noodles and chocolates still remain. Moreover, margins are likely to remain under pressure given the recent steep rise in the input costs (milk, sugar, wheat, vegetable oils etc.) and higher A&P spends to support the recent innovations. With expensive valuations (43xCY17E and 37xCY18E earnings) and weak earnings visibility, we reiterate our Underperformer rating on Nestle with a target price of Rs5,335.

- **Strong competitive intensity across portfolio:** Maggi (Key Nestle product in India) is still far from gaining its old market share given the competitive intensity from ITC and Patanjali. Chocolates and Beverages, too, are facing intense competition from Mondelez and HUL/Tata beverages, thus leading to volume decline across these categories.
- **Higher input costs & staff expenses impacting operating margins:** Given subdued volume growth across categories and higher competitive intensity, pricing power has taken a hit. This along with steep rise in the input costs (milk, sugar, wheat, vegetable oils etc.), higher A&P spend behind renovation and new launches are likely to put pressure on the margins.
- **Strategic initiatives from new management to take time to fructify:** Management is focusing on restaging the chocolates and beverages portfolios, thus incurring a higher spend behind channels and innovations. Given the competitive intensity, we believe these initiatives will take time to start yielding results.
- **Q3FY17 Results:** Domestic revenues grew 16.9% on low base (as Maggi was launched in mid Q4CY15). However the sales are down 4% qoq and down 11% as compared to Q4CY14 largely impacted by disruption on account of demonetisation. Gross margin declined by 90bps as benefit of improved mix was offset by increase in input costs.



(%)	3-mth	6-mth	1-yr
NEST IN	(1.2)	(3.1)	20.8
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Nestle

Key Valuation Metrics

Year to 31 Mar	CY14	CY15	CY16	CY17E	CY18E
Net sales (Rs m)	**98,063**	**81,233**	**91,593**	**105,851**	**120,497**
Adj. net profit (Rs m)	12,557	11,764	11,690	13,808	16,074
Shares in issue (m)	96	96	96	96	96
Adj. EPS (Rs)	130.2	122.0	121.2	143.2	166.7
% change	6.8	(6.3)	(0.6)	18.1	16.4
PE (x)	46.9	50.0	50.4	42.6	36.6
Price/ Book (x)	20.7	20.9	19.5	18.1	15.8
EV/ EBITDA (x)	28.3	36.1	31.8	26.4	22.4
RoE (%)	48.2	41.6	40.1	44.0	46.0
RoCE (%)	50.3	41.7	47.5	53.7	56.7

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key Ratios

Year to 31 Mar (%)	CY14	CY15	CY16	CY17E	CY18E
EBITDA margin (%)	21.0	19.9	19.9	20.6	20.9
EBIT margin (%)	17.6	15.6	16.1	16.9	17.3
PAT margin (%)	12.8	14.5	12.8	13.0	13.3
RoE (%)	48.2	41.6	40.1	44.0	46.0
RoCE (%)	50.3	41.7	47.5	53.7	56.7
Gearing (x)	(0.2)	(0.2)	(0.3)	(0.4)	(0.6)
Net debt/ EBITDA (x)	(0.2)	(0.3)	(0.5)	(0.7)	(0.9)
FCF yield (%)	2.6	2.0	2.6	2.8	3.3
Dividend yield (%)	1.0	0.8	1.0	1.5	1.5

IDFC SECURITIES

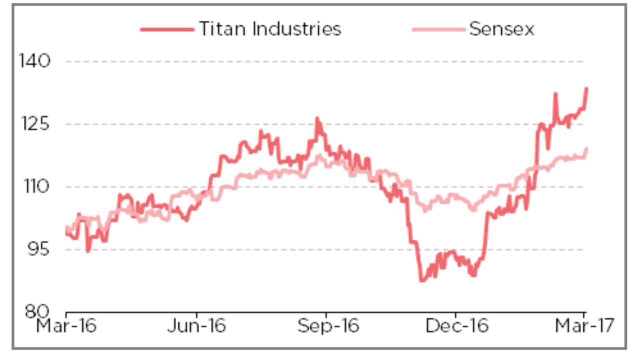
Titan

(Underperformer)

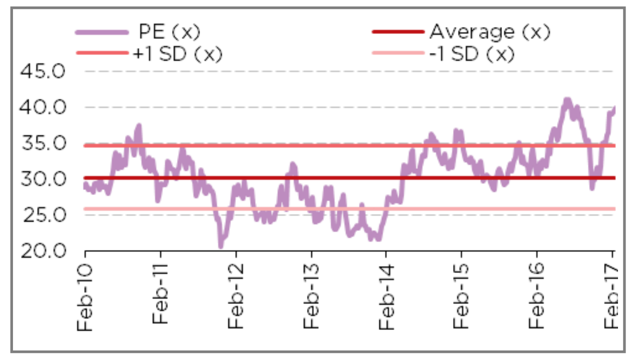
CMP: Rs462; TP: Rs368;
Mkt cap: Rs410bn; US$6.2bn

Titan's revenue growth has been a function of a stellar October and lesser decline compared to competition during demonetisation. Though we expect market share gains to continue, we believe competitive intensity will only increase as competition recovers from the demonetisation shock. Furthermore, a shrinking gold jewellery industry, likely implications of GST and worsening elasticity of gold volumes are all factors which still exist and which could come up as roadblocks in Titan's growth trajectory. We factor an 18% PAT CAGR over FY17-19E; however, we believe that with the stock at levels above the pre-demonetisation era, valuations are not factoring in any apprehensions on future growth. Maintain Underperformer.

- **Jewellery segment:** Healthy festive and wedding season along with market share gains for Titan as industry sales remained weak impacted by demonetisation have aided the jewellery segment. Retail growth has been better - Tanishq format sales growth and like to like growth increased by 20% and 15%, respectively. In terms of region, North and West saw better performances compared to East and South. According to management's indication, the jewellery segment saw healthy growth till November 8th, post which sales declined in the remaining part of the quarter. However, jewellery sales in January have improved and is tracking in line with its internal target.
- **Watches segment:** Watch segment revenue increased 5.1% in Q3FY17 as healthy growth in the festive season was impacted by disruption due to demonetisation. The retail channel recovered quickly post demonetisation, while the trade channel (50% of division sales) continues to remain under pressure. However, gross margins improved led by improved product mix for Titan and Fastrack. The spare part sale is gradually coming back to normalcy post restructuring but the export business remains under pressure given the headwinds in key markets like the Middle East.
- **Q3FY17 results**: Net revenue growth (13.6% yoy vs. est: 7%) was ahead of expectations but gross margin declined 120bp. Adjusting for Rs6.0m VRS expense, PAT increased by 13%, impacted by 21% decline in other income and 530bp increase in the tax rate.



(%)	3-mth	6-mth	1-yr
TTAN IN	46.5	13.7	34.4
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Titan

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**119,134**	**112,779**	**121,910**	**139,727**	**160,459**
Adj. net profit (Rs m)	8,163	6,894	8,368	9,923	11,663
Shares in issue (m)	888	888	888	888	888
Adj. EPS (Rs)	9.2	7.8	9.4	11.2	13.1
% change	11.1	(15.5)	21.4	18.6	17.5
PE (x)	50.3	59.5	49.0	41.3	35.2
Price/ Book (x)	13.3	11.8	10.3	8.9	7.7
EV/ EBITDA (x)	35.6	44.0	33.4	28.4	24.3
RoE (%)	29.1	21.0	22.4	23.1	23.4
RoCE (%)	32.7	24.7	29.0	29.8	30.3

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	9.6	8.3	10.0	10.3	10.5
EBIT margin (%)	8.9	7.4	9.1	9.3	9.6
PAT margin (%)	6.9	6.1	6.9	7.1	7.3
RoE (%)	29.1	21.0	22.4	23.1	23.4
RoCE (%)	32.7	24.7	29.0	29.8	30.3
Gearing (x)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Net debt/ EBITDA (x)	(0.1)	(0.0)	(0.1)	(0.1)	(0.2)
FCF yield (%)	0.7	0.5	1.1	1.1	1.4
Dividend yield (%)	0.5	0.5	0.7	0.8	0.9

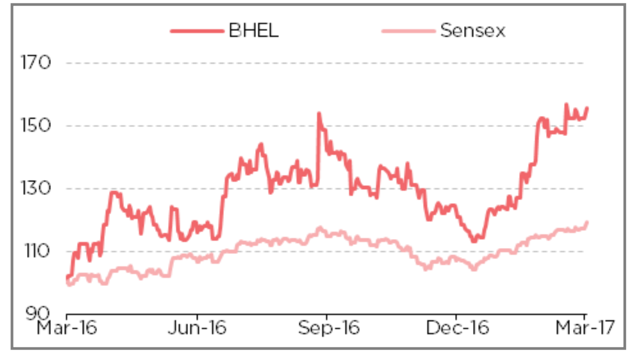
BHEL

(Underperformer)

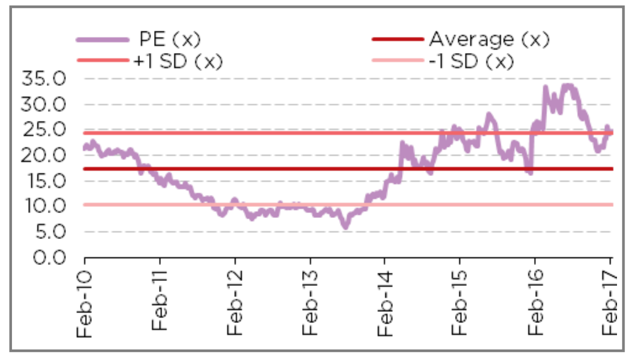
CMP: Rs161; TP: Rs118;
Mkt cap: Rs395bn; US$6.0bn

Notwithstanding BHEL's improved execution, its order backlog remains stressed as ~45% of orders are slow-moving/stalled. This poses material risks to BHEL's earnings estimates for FY18/19E. The outlook for order inflow, too, remains uncertain due to low PLFs (9M: 60%) for existing coal-based power plants and weak financial health of most SEBs. Also, we estimate an annual ordering potential of ~10GW in thermal capacities compared with domestic BTG manufacturing capacity of ~30GW. As a result, we expect pricing and margins to remain under pressure. Valuations at 28.3x FY19E earnings are expensive, especially given the uncertain outlook. We maintain our Underperformer rating on BHEL with a price target of Rs118 (PE of 20x FY19E EPS).

- **Execution risks persist:** BHEL has indicated that ~45% of the current order backlog (Rs984bn) is stressed and is slow-moving/stalled. Of these, the company expects orders worth ~Rs220bn for the Bhadradri and Yadadri power projects to commence soon post regulatory clearances. Of the balance, ~Rs120bn worth of orders are stalled and zero date on ~Rs95bn orders is being delayed by the clients. Of the stalled projects, BHEL has indicated that it may consider removing ~Rs75bn worth of orders from Indiabulls Power projects (~Rs54bn) and Abhijeet Power Vizag (~Rs21bn) project from its order backlog.
- **Muted order inflows**: Order inflows for BHEL during the quarter has been muted at Rs16.1bn (9M: Rs68.3bn) and as a result order backlog declined 9.9% yoy to Rs984bn. The Udangudi project (EPC - 2 x 660MW) is in the final stages of negotiation and BHEL expects the order to be finalised soon. Although BHEL is favourably placed in orders worth ~5-6GW and management has guided to order inflow of Rs150-200bn in Q4FY17, the large chunk of non-moving orders remain a concern.
- **Q3FY17 results:** Earnings came ahead of our estimates due to stronger margins. Revenues grew 18.7% yoy, with the yoy growth being aided by accelerated execution in projects where there are no constraints. PAT came in at Rs935m (est: Rs431m) against net loss of Rs10.8bn in Q3FY16. Similarly, EBITDA margin came in at 3.5% against estimate of 1%.



(%)	3-mth	6-mth	1-yr
BHEL IN	33.1	11.0	57.2
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

BHEL

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**301,830**	**256,300**	**299,477**	**329,216**	**355,553**
Adj. net profit (Rs m)	14,193	(9,075)	7,370	11,609	14,438
Shares in issue (m)	2,448	2,448	2,448	2,448	2,448
Adj. EPS (Rs)	5.8	(3.7)	3.0	4.7	5.9
% change	(58.8)	(163.9)	NM	57.5	24.4
PE (x)	28.8	n/a	55.4	35.2	28.3
Price/ Book (x)	1.2	1.2	1.2	1.2	1.1
EV/ EBITDA (x)	12.4	(15.4)	27.8	17.9	13.7
RoE (%)	4.2	(2.7)	2.2	3.4	4.1
RoCE (%)	4.0	(8.6)	0.7	2.3	3.6

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	8.2	(7.6)	3.7	5.1	6.1
EBIT margin (%)	4.6	(11.3)	0.8	2.4	3.6
PAT margin (%)	4.7	(3.5)	2.5	3.5	4.1
RoE (%)	4.2	(2.7)	2.2	3.4	4.1
RoCE (%)	4.0	(8.6)	0.7	2.3	3.6
Gearing (x)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net debt/ EBITDA (x)	(3.9)	5.1	(8.8)	(6.3)	(4.9)
FCF yield (%)	6.1	4.1	(0.5)	2.7	1.2
Dividend yield (%)	0.7	0.2	0.5	0.6	0.7

IDFC SECURITIES

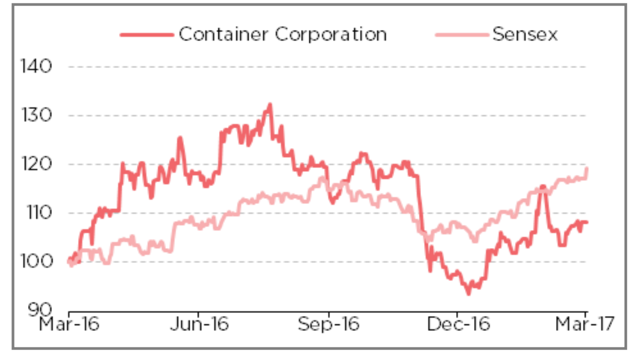
Concor

(Neutral)

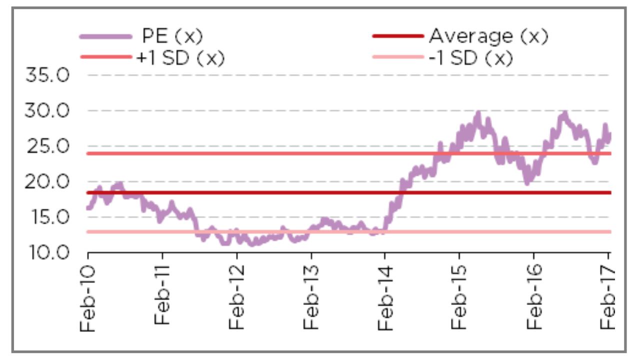
CMP: Rs1,242; TP: Rs1,221;
Mkt cap: Rs242bn; US$3.7bn

We expect Concor to post 10% volume CAGR over FY16-18E due to a low base and a pick-up in international trade in H2FY17. However, we expect the trade imbalance, increased competition versus road and empty running, to restrict earnings CAGR to 11% over FY16-19E. Capex of Rs60bn, largely in logistics parks, is unlikely to be earnings accretive in the medium term and would be a drag on return ratios. We believe valuations at 26.2x FY18E earnings factor in long-term positives.

- **Decline in market share:** Although there has been some improvement in the market share from 72% in Q2FY17 to 75.5% in Q3FY17, Concor has lost market share to increased private competition from other rail operators and also due to a shift of cargo to road, led by a sharp dip in road freight (lower diesel prices) and simultaneous increase in rail haulage charges. Private rail operators are increasingly setting up terminals in key profitable EXIM routes, thus affecting Concor's profitability.
- **Huge investments into logistics parks:** Concor's profitability was impacted by multiple increases in haulage charges in the past few years as also due to increasing competition from the private sector. In addition, Concor is investing heavily in logistics parks, which are not expected to generate meaningful cash flows in the initial years of commissioning and consequently drag return ratios.
- **Higher volume; lower empty running:** Volume growth at 10% yoy has come on back of 11% yoy growth in EXIM volumes, helped by higher handling volumes at Kathuwas. Domestic volumes too saw some traction helped by commencement of scheduled trains on more routes (Delhi-Chennai, Delhi-Bangalore and Delhi-Hyderabad). Double stacking also increased qoq to 216 rakes vs 130 rakes in Q2FY17. Empty running charges declined to ~Rs610m (-15% yoy) with reduction in both domestic (-6% yoy) and EXIM (-20% yoy) empty running charges. The reduction is largely driven by repositioning of empties via increased double stacking.



(%)	3-mth	6-mth	1-yr
CCRI IN	12.7	(2.5)	9.1
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

Concor

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**55,851**	**57,426**	**55,469**	**64,263**	**73,836**
Adj. net profit (Rs m)	11,947	8,614	7,615	9,341	10,831
Shares in issue (m)	195	195	195	195	195
Adj. EPS (Rs)	61.3	44.2	39.1	47.9	55.6
% change	11.1	(27.9)	(11.6)	22.7	15.9
PE (x)	20.5	28.4	32.1	26.2	22.6
Price/ Book (x)	3.2	3.0	2.9	2.7	2.5
EV/ EBITDA (x)	14.7	17.9	19.7	16.3	13.8
RoE (%)	16.3	10.9	9.2	10.6	11.6
RoCE (%)	14.3	9.8	8.1	9.8	11.0

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	25.2	20.1	18.9	19.9	20.6
EBIT margin (%)	19.4	13.8	12.4	13.8	14.3
PAT margin (%)	21.4	15.0	13.7	14.5	14.7
RoE (%)	16.3	10.9	9.2	10.6	11.6
RoCE (%)	14.3	9.8	8.1	9.8	11.0
Gearing (x)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)
Net debt/ EBITDA (x)	(2.7)	(3.2)	(3.5)	(2.9)	(2.3)
FCF yield (%)	3.6	1.6	0.7	1.3	0.9
Dividend yield (%)	1.1	1.1	1.2	1.4	1.9

IDFC SECURITIES

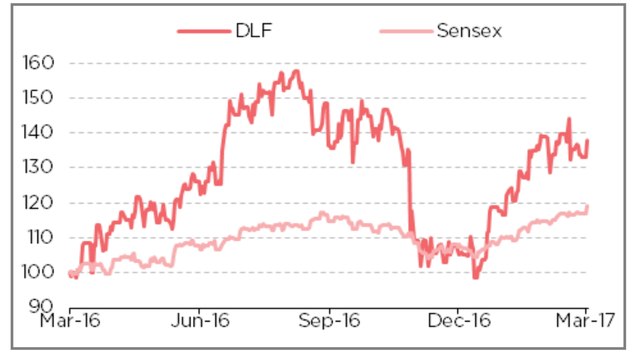
DLF

(Underperformer)

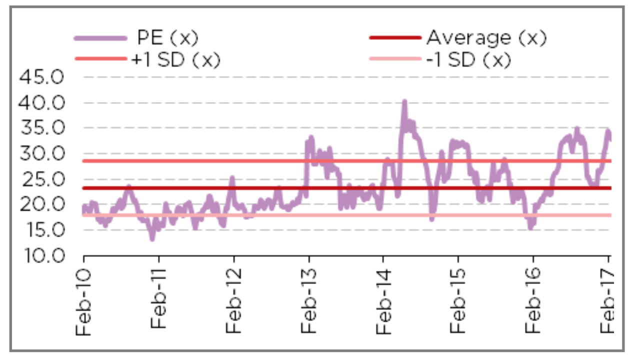
CMP: Rs147; TP: Rs159;
Mkt cap: Rs262bn; US$4.0bn

DLF has generated negative cash flow of ~Rs30bn in the past six quarters, which has led to increase in debt. Its weak operating cash flow status is reflected in ~Rs10bn increase in debt during Q3. The fund infusion emanating from the promoter's decision to sell its 40% stake in the annuity business (to PE players) and then ploughing it back into DLF will take a few quarters to operationalise. Delay in asset monetisation will keep debt elevated in FY17 given weak operating cash flow on account of subdued demand in its key market of Gurgaon. While the DCCDL stake sale will address leverage issues, challenges hampering DLF's ability to monetise its huge land-bank into operating cash flows are likely to persist. The anticipated pressure on luxury project sales post the recent demonetisation move will add to DLF's operational challenges. Maintain Underperformer.

- **Weak residential pre-sales:** Reported net sales was lower at Rs2.7bn during Q3FY17 compared to the annual run-rate of ~Rs35bn recorded in previous years, as there were higher cancellations in the legacy projects of ~Rs3.9bn compared to up-gradation of Rs1.35bn in Q2FY17. DLF continues to focus on completion of legacy projects as opposed to launching new projects. The company hopes to complete most of these projects by Sep 2017. Management's focus is on increasing the "ready" inventory in existing projects and benefit from the same when the economy turns around.
- **Debt to remain an issue:** Net debt rose by Rs12.6bn qoq to Rs244bn, reflecting significant negative free cash flow in the system at current operating levels. Management highlighted that the average run rate of debt increase was around Rs6-7bn in the past, Q2/Q3 FY17 have witnessed a higher rate of increase in the net debt levels (~Rs10bn or so) due to higher construction spends and lower customer collections. This pace of debt increase is expected to continue over the next few quarters till the money from the DCCDL stake sale in ploughed back into the business.
- **Q3FY17 results:** Net sales were Rs2.70bn compared with Rs3.05bn in Q2 due to relatively higher cancellations (Rs3.9bn in Q3). Its reported revenues came at Rs20.6bn (-30% yoy; flat qoq) vs estimate of Rs20.2bn. Net debt increased by Rs12.6bn qoq to Rs244bn, reflecting significant negative free cash flow at current operating levels.



(%)	3-mth	6-mth	1-yr
DLFUI IN	29.9	1.3	38.6
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

IDFC SECURITIES

DLF

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**76,487**	**92,600**	**82,535**	**88,693**	**93,068**
Adj. net profit (Rs m)	5,668	6,500	6,137	7,523	8,121
Shares in issue (m)	1,782	1,785	1,785	1,785	1,785
Adj. EPS (Rs)	3.2	3.6	3.4	4.2	4.5
% change	(43.2)	14.5	(5.6)	22.6	8.0
PE (x)	46.0	40.2	42.6	34.7	32.2
Price/ Book (x)	0.9	0.9	0.9	0.9	0.9
EV/ EBITDA (x)	15.6	12.5	13.1	12.4	11.5
RoE (%)	1.9	2.2	2.1	2.6	2.8
RoCE (%)	4.7	5.9	5.9	6.2	6.4

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	39.5	41.8	44.6	44.7	45.9
EBIT margin (%)	32.4	33.4	37.4	37.1	36.7
PAT margin (%)	7.4	7.0	7.4	8.5	8.7
RoE (%)	1.9	2.2	2.1	2.6	2.8
RoCE (%)	4.7	5.9	5.9	6.2	6.4
Gearing (x)	0.7	0.8	0.8	0.8	0.8
Net debt/ EBITDA (x)	6.9	5.8	6.0	5.8	5.4
FCF yield (%)	3.6	0.8	3.5	(2.2)	2.3
Dividend yield (%)	2.4	2.3	2.3	2.3	2.3

IDFC SECURITIES

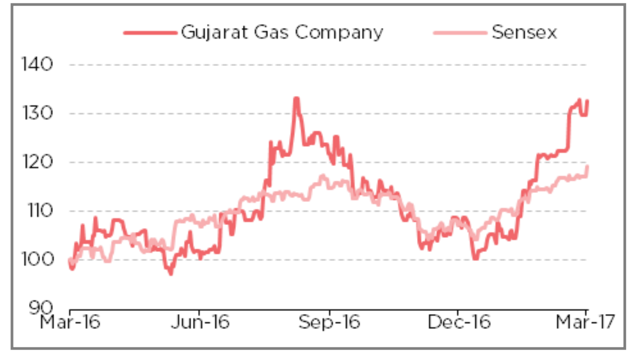
Gujarat Gas

(Neutral)

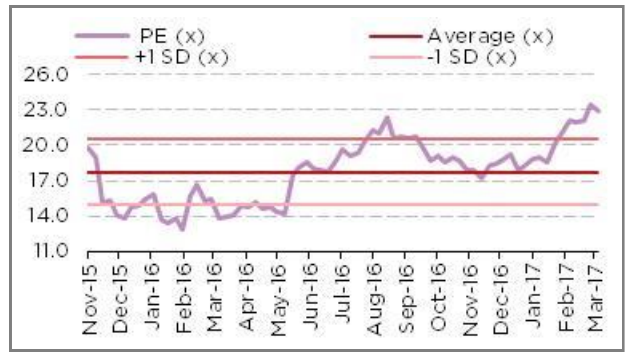
CMP: Rs675; TP: Rs535;
Mkt cap: Rs93bn; US$1.4bn

Gujarat Gas (GGL) has been witnessing weakness in volumes, offsetting margin strength on lower gas prices. There has been some volume traction and the development of newer areas is likely to reflect in Q4FY17 run rate of 5.6mmscmd (built in our estimates). While margins remain subdued, we believe higher alternate fuel prices will improve competitiveness/pricing power for GGL over FY18-19E, helping it pass on the higher gas costs and improve margins over FY18/19E. With aggressive development of multiple new districts GGL should see meaningful volume growth over FY18-19E, but near-term earnings prospects remain muted. Our revised target price (Rs535 based on 16x FY18E EPS) does factor in 14/10% yoy volume growth to 6.1mmscmd in FY18/19E and robust Rs7.3/scm gross margin and Rs5/scm EBITDA margin (vs Q3FY17 margins of Rs6/3.5).

- **Volume growth – early signs of improvement:** GGL saw volumes at flat levels yoy of 5.3mmscmd for the quarter, mainly aided by 10% growth in residential volumes and 3% growth in industrial/comm volumes. The company has guided to a run-rate of >5.5mmscmd in the current quarter, with the Morbi price cut and the connection of new areas likely to deliver meaningfully over the next two years. We believe that with the decline in spot LNG prices due to higher supply globally and the efforts by GGL to leverage the same by aggressive price cuts to Morbi as well as ongoing geographic expansion will help reverse the trajectory of declining volumes of the past few quarters over FY18-19E.
- **Expansion into new territories:** In addition to improving economics of using gas vs other liquid fuels the aggressive expansion into new areas will help drive volume growth for GGL. GGL is looking at expanding gradually into 10-11 new districts over the next few years, some districts of these are at various stages of development. The potential payoff from these new districts is material, with our estimates suggesting that GGL can grow to 1.5x current volumes over the next five years.
- **Q3FY17 results:** Some volume traction is finally visible for GGL with qoq stabilisation seen in industrial volumes despite demonetisation. EBITDA/scm therefore declined 22% qoq to Rs3.5/scm, well below estimates of Rs4/scm.



(%)	3-mth	6-mth	1-yr
GUJGA IN	9.3	9.3	9.3
BSE Sensex	10.9	3.5	19.7



Source: Bloomberg; PE ratio is 1 Year forward; Stock price as on March 14, 2017

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Gujarat Gas

Key valuation metrics

Year to 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Net sales (Rs m)	**90,063**	**61,059**	**50,334**	**60,040**	**67,452**
Adj. net profit (Rs m)	4,446	1,701	2,825	4,604	5,371
Shares in issue (m)	138	138	138	138	138
Adj. EPS (Rs)	32.3	12.3	20.5	33.4	39.0
% change	1,086.8	(61.7)	66.1	63.0	16.7
PE (x)	20.9	54.7	32.9	20.2	17.3
Price/ Book (x)	4.7	4.4	4.0	3.5	3.0
EV/ EBITDA (x)	11.1	16.0	13.3	10.4	9.3
RoE (%)	24.5	8.3	12.8	18.6	18.8
RoCE (%)	15.2	8.8	11.8	15.2	16.0

Source: IDFC Securities Research, Bloomberg ; Stock price as on March 14, 2017

Key ratios

Year to 31 Mar (%)	FY15	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	12.3	11.9	17.4	18.5	18.2
EBIT margin (%)	9.6	7.8	12.3	14.0	13.9
PAT margin (%)	4.9	2.8	5.6	7.7	8.0
RoE (%)	24.5	8.3	12.8	18.6	18.8
RoCE (%)	15.2	8.8	11.8	15.2	16.0
Gearing (x)	1.5	1.1	1.0	0.8	0.7
Net debt/ EBITDA (x)	2.7	3.2	2.7	2.0	1.7
FCF yield (%)	6.2	(2.6)	0.6	2.2	3.1
Dividend yield (%)	(1.0)	(0.5)	(1.0)	(1.2)	(1.5)

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2. Neutral	:	Within 0-5% (upside or downside) to Index
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