

# Technical Strategy

## Golden Cross – PSE Index: Awakening from hibernation...

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A decisive political mandate in the general elections has set the stage for reforms of the previous incumbent government to get effectively rolled over and implemented. As we embark on the next phase, focus will be on government policies and impetus to infrastructure segments.

BJP's manifesto envisages the overall infrastructure investment to the tune of ₹ 100 lakh crore by 2022, implying an annual investment of ₹ 20 lakh crore. Segments such as Power, Airports, Housing And Urban Infrastructure will be in focus, in the medium to long term, which will also create strong demand environment in their respective value chains. On basis of the same, we believe many PSU stocks across the spectrum mentioned above are in a sweet spot. Also, this PSU basket offers comfortable risk reward in terms of reasonable valuations, strong dividend yields and high sensitivity to operating leverage will lead to strong growth ahead if the current government acts to deliver.

### What we expect:

We expect PSE index to gain momentum as we observe a rear bullish phenomenon as "Golden Cross" on Nifty PSE index after multi year under performance along with similar crossover in index constituents collectively contributing 69% to the index weight, which indicates a bullish shift in trend direction. Since inception, on two out of three instances "Golden Cross" on the Nifty PSE index have produced average return of 18%, in the following year. Going ahead, we expect index to follow the same rhythm and yield 18% return in the coming year. Further, we screen the PSE universe and filter stocks supported by a favourable technical set-up.

### "Golden Crossover"

In technical parlance, when a medium-term moving average (50 day) crosses above a longer-term moving average (200 day) it is termed as a "Golden Cross". As long-term indicators carry more weight, the Golden Cross represents a major shift in momentum from bears to bulls with a bull market on the horizon.

#### Nifty PSE-Golden Cross occurred Earlier

Name	Date	Returns
BPCL	27-Mar-19	11%
REC	3-Jan-19	32%
PFC	20-Nov-18	28%

#### Nifty PSE constituents where Golden Crossover has occurred recently

Name	Date	Name	Date
BEL	20-May-19	HPCL	12-Apr-19
ONGC	7-May-19	IOC	12-Apr-19
NTPC	2-May-19	POWERGRID	9-Apr-19

### Top Gladiator Picks

Scrip	I-Direct Code	Buying Range	Target	Stop loss	Upside%
Bharat Electronics	BHAELE	107-112	127	99	16%
Power Finance Corp	POWFIN	124-128	146	114.5	16%
NMDC	NATMIN	100-104	117	93	14%

# Bharat Electronics (BHAELE): Breakout above six months consolidation...

Rec. Price	107-112	Target	127.00	Stop loss	99.00
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Upside	16%
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Weekly chart



BHE IN Equity (Bharat Electronics Ltd) gladiator bar chart Daily 03JUN2018-03JU Copyright© 2019 Bloomberg Finance L.P. 03-Jun-2019 15:43:27

Source: Bloomberg, ICICI Direct Research

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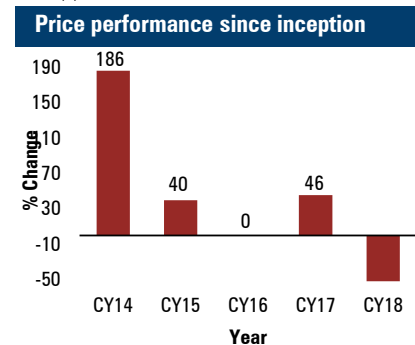
- In the last week of May 2019, the share price registered a breakout above the six months consolidation range (₹ 100-73) signalling reversal of the corrective trend and offers a fresh entry opportunity
- The stock recently rebounded after forming a higher trough around ₹ 85 and witnessed a faster retracement of the last falling segment as 25 session decline (₹ 102-85) was completely retraced in just seven sessions highlighting a positive price structure
- The stock has recorded a "Golden cross" on the daily chart, on May 20, 2019 when the 50 days SMA crossed above long term 200 days SMA, suggesting a turnaround in trend direction
- We expect the stock to continue its current up move and head towards ₹ 127 as it is the measuring implication of the range breakout (100-73= 27 points) added to the breakout area of ₹ 100 signals upside towards ₹ 127 levels in medium term

- Bharat Electronics is a major supplier of products and turnkey systems to the Indian defence forces. Over the years, the company has also diversified into manufacturing many civilian products. Renowned for its professional management and strong execution capabilities, BEL stands out among select well-run government companies
- For FY19, BEL witnessed strong execution and order inflows. Revenues for FY19 increased 17.1% YoY while order inflows have been highest ever at ₹ 23,430 crore (Q1FY19: ₹ 3583 crore, Q2FY19: ₹ 10755 crore, Q3FY19: ₹ 2164 crore and Q4FY19: ₹ 6929 crore). EBITDA for FY19 increased ~43% YoY implying strong operational efficiencies of the company. Q4FY19 witnessed continued order booking in projects like Integrated Air Command and Control System (IACCS), weapon locating radar, electronic warfare systems and communication equipment, etc. Export revenues for FY19 came in at \$21.6 million. To increase contribution from this segment, BEL has already set up an office in Vietnam and is planning offices in Sri Lanka, Myanmar, etc. The export order book as on Q4FY19 was at \$116.62 million
- The management's persistent focus on receivables in FY19 has led to efficient working capital management, averting any debt on the books of BEL. Strong execution in FY20E-21E coupled with steady capex of ₹ 600-650 crore in the next two to three years is likely to keep liquidity position tight for BEL. The tax rate for BEL may also go up as benefits of spend on indigenous R&D are likely to go down from 150% to 0% in coming years. Accordingly, we estimate higher tax outgo in FY19E-21E
- Overall, with a healthy order backlog of ₹ 51,798 crore, we expect execution momentum to continue in FY20E-21E. Going ahead, BEL is likely to derive higher revenues from non-defence segment like homeland security, cyber security and smart cities. Order book from this segment is roughly at ~₹ 1500 crore. These newer areas have potential to contribute ~20% to topline albeit with lower margins over the next three to five years. Accordingly, we remain positive on the company and expect it to report revenue, EBITDA and PAT CAGR of 15.2%, 6.6%, 2.9%, respectively, in FY20E-21E

Stock Data	
Particular	Amount
Market Capitalization	₹ 27290 Crore
Total Debt (FY19)	₹ 30.6 Crore
Cash and Investments (FY19)	₹ 828.8 crore
EV (FY19)	₹ 26492 Crore
52 week H/L (₹) (BSE)	124 / 72
Equity capital	₹ 243.7 Crore
Face value	₹ 1

Key metrics				
(x)	FY18	FY19	FY20E	FY21E
P/E	19.5	14.2	14.3	13.4
Target P/E	23.5	17.1	17.2	16.1
EV / EBITDA	13.3	9.3	8.8	7.8
P/BV	3.5	3.0	2.7	2.5
RoNW (%)	18	21.4	19.1	18.6
RoCE (%)	25.0	30.0	27.6	27.4

Financial Highlights				
₹ Crore	FY18	FY19	FY20E	FY21E
Revenue	10,322	12,085	14,038	16,038
EBITDA	2,000	2,862	2,933	3,251
EBITDA (%)	19.4	23.7	20.9	20.3
Net Profit	1,399	1,927	1,909	2,042
EPS (₹)	5.7	7.9	7.8	8.4



# Power Finance Corporation (POWFIN): Rallis getting bigger..

Rec. Price	124-128	Target	146.00	Stop loss	114.50
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Upside	14%
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Weekly chart



- The stock resolved above its March 2019 highs in last week indicating continuance of up trend and in a process formed a higher bottom at May 2019 lows of ₹ 105.00
- The share price is in a well channelled up move indicating strong up trend. Further the rallies are getting bigger and corrections have been shallow which underscores the inherent strength
- Going forward, we expect prices to head towards ₹ 150 over medium term which is 80% retracement of 2017 – 2018 decline (₹ 168-68) which coincides with October 2017 swing high of ₹ 150

POWF IN Equity (Power Finance Corp Ltd) gladiator bar chart Weekly 03JUN2017-03 Copyright© 2019 Bloomberg Finance L.P. 03-Jun-2019 15:47:11

Source: Bloomberg, ICICI Direct Research  
June 4, 2019

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# NMDC (NATMIN): Base formation at key support threshold offers favourable risk reward set up...

Rec. Price	100-104	Target	117.00	Stop loss	93.00	Upside	14%
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Weekly chart



- The stock has undergone a secondary phase of correction where it has retraced 80% of last major up move and entered a base formation. The potential double bottom formation signifies impending trend reversal, auguring well for next leg of up move, thereby offering favourable risk reward set up
- Structurally, over the past 27 months, the stock has retraced 80% of preceding 12months' rally (75-152). The slower pace of retracement signifies, robust price structure, paving way to resolve higher
- We expect the stock to extend ongoing pullback and head towards 38.2% retracement of entire secondary corrective phase (₹ 163 - 89), at ₹ 117 coincided with identical high of November 2018 and March 2019 month of ₹ 118

NMDC IN Equity (NMDC Ltd) gladiator bar chart Weekly 04JUN2017-04JUN2019 Copyright© 2019 Bloomberg Finance L.P. 04-Jun-2019 10:10:15

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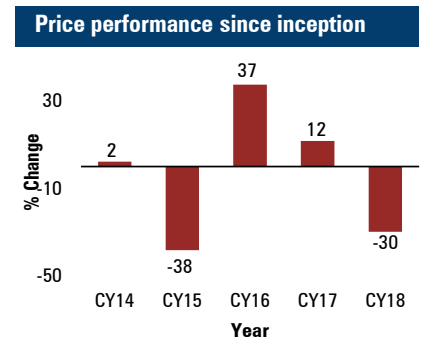
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- NMDC Ltd (NMDC), a Navratna public sector enterprise, is engaged in mining iron ore, the key material used in steel manufacturing. NMDC is India's largest merchant iron ore miner having access to superior quality iron ore with healthy reserve and resource (R&R) base and average Fe content of ~63-64%
- Iron ore is a key raw material required in steel making in process. On the back of infrastructure push provided by the government both steel demand and production is likely to grow at a healthy pace. This augurs well from NMDC which is India's leading merchant iron ore miner in India.
- NMDC recently took a price hike (May end 2019) that augurs well for the company. The company has increased the prices of lump ore from ₹ 2850/tonne to ₹ 3100/tonne reflecting a price hike ₹ 250/tonne. Even for the fines grade the company has increased the price of fines from ₹ 2610/tonne to ₹ 2860/tonne implying a price of hike of ₹ 250/tonne. The recent uptrend witnessed in global iron ore prices augurs well for the company
- Globally NMDC is one of the lowest cost iron ore miner, which keeps its mining cost of production (CoP) under check. Low CoP aids the company to report healthy EBITDA margin. NMDC's EBITDA margin hovers ~50-55%, thereby helping the company to also report good PAT margins
- Going forward, NMDC has given a volume guidance of 32 MT for FY20E [~25 million tonnes (MT) from Chhattisgarh and 7 MT from Karnataka]. This is without considering any volumes from the Donimalai mine. If the pending court verdict comes in favour of NMDC, the restart of Donimalai mine would add a production capacity of 6 MT
- The company is currently trading at 5.1x FY21E EV/EBITDA and at 9.2x FY21E P/E

Stock Data	
Particulars	Amount
Market Capitalization	₹ 31538 crore
Total Debt (FY19)	₹ 364 crore
Cash and Investments (FY19)	₹ 4608 crore
EV	₹ 27294 crore
52 week H/L	124 / 86
Equity capital	₹ 306.2 crore

Key metrics				
	FY18	FY19	FY20E	FY21E
P/E	8.6	6.8	8.3	9.2
EV/EBITDA	4.8	4.1	4.8	5.1
P/BV	1.3	1.3	1.1	1.0
RoNW (%)	15.6	17.9	12.7	10.8
RoCE (%)	22.3	25.3	18.2	15.2

Financial Highlights				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Net Sales	11,615	12,153	11,579	10,410
EBITDA	5,809	6,930	5,782	5,206
EBITDA Margin (%)	50.0	57.0	49.9	50.0
Adj PAT	3,806	4,643	3,817	3,436
EPS (₹)	12.0	15.2	12.5	11.2



## Summary Performance - Recommendations till date

Total Recommendations	435	Open	4
Closed Recommendations	431	Yield on Positive recommendations	18.0%
Positive Recommendations	317	Yield on Negative recommendations	-8.0%
Closed at cost	10		
Strike Rate	75%		



# Price history of past three years

## Bharat Electronics



BHE IN Equity (Bharat Electronics Ltd) gladiator bar chart Weekly 03JUN2017-03J  
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## Power Finance Corporation



POWF IN Equity (Power Finance Corp Ltd) gladiator bar chart Weekly 04JUN2017-04  
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## NMDC



NMDC IN Equity (NMDC Ltd) gladiator bar chart Weekly 04JUN2017-04JUN2019  
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Source: Bloomberg, ICICI Direct Research  
June 4, 2019

- It is recommended to enter in a staggered manner within the prescribed range provided in the report
- Once the recommendation is executed, it is advisable to keep strict stop loss as provided in the report on closing basis
- The recommendations are valid for six months and in case we intend to carry forward the position, it will be communicated through separate mail

## **Trading portfolio allocation**

- It is recommended to spread out the trading corpus in a proportionate manner between the various technical research products
- Please avoid allocating the entire trading corpus to a single stock or a single product segment
- Within each product segment it is advisable to allocate equal amount to each recommendation
- For example: The 'Daily Calls' product carries 3 to 4 intraday recommendations. It is advisable to allocate equal amount to each recommendation

# Recommended product wise trading portfolio allocation

Product	Allocations		Number of Calls	Return Objective	Duration
	Product wise allocation	Max allocation In 1 Stock			
Momentum Picks- Intraday	10%	30-50%	2-3 Stocks	1-2%	Intraday
Momentum Picks- Positional	25%	8-10%	6-8 Per Month	5-8%	1 Month
Stocks on the move	25%	12-15%	6-8 Per Month	10-12%	3 Months
Gladiator Stocks	35%	15-20%		20-30%	6 Months
Cash	5%				
	100%				



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