DIYSIP Picks

December 24, 2015

We present herewith **two set of stocks (Better known and Lesser known stocks)**, which investors, based on their risk profile, can look at for investing from a medium term perspective.

While the frontline indices have not moved much over the last few quarters, mid and small caps have done well. The small and midcap space may selectively come under selling pressure going forward. As some of these stocks may not have corrected sufficiently from their recent highs or some of them may have some downside left, using a SIP or averaging policy may be advisable (for aggressive investors, this may be in addition to an initial lumpsum investment, if they so choose). This will enable benefitting out of expected fall in prices (in line with the expected fall in these stocks). SIP investments will give good returns only if the average entry price is lower (due to the initial fall expected). In case the stock price first rises and then falls, SIP investment may not generate attractive returns.

Systematic Investment Plans, or SIPs, are expected to curb volatility, both on the upside as well as downside. This is done by cost averaging since the investments are made on a periodic basis, and not in a lump sum. Though the investment amount is fixed, more units are purchased when the market trends downwards, and fewer units when the market moves up.

If compared with lump-sum investing, cost averaging does not work to the investor's benefit in a rising market. While cost averaging cushions your investment during a downside, it also irons out gains made in a bull run to some extent. But to be effective, it needs to be sustained over a long time frame or at least an entire market cycle.

In case at any time during the period of SIP, the stock price moves up sharply (compared to the average entry price) – to attain the probable upside level or say 13-25% above the average entry price – depending on the capitalization and volatility of the individual stocks, then it would be a good idea to stop the SIP and sell the stocks booking the profits accrued.

Better Known Stocks

Sr No	Company	Industry	Key business triggers	Equity Latest	FV	CMP Dec 23 2015	Book Value latest	Net Sales FY15	Change in sales y-o-y	PAT FY15	Change in PAT y-o-y	EPS TTM	P/E TTM	P/B V	Last Div %.	Dividend Yield
1	Axis Bank	Banks	While the Balance Sheet continues towards increasing granularity and diversification, the corporate book's baggage is hitting asset quality. Still, Axis Bank remains ahead of comparable peers on coverage ratio. Axis continues to remain our preferred bet given its strong liability franchise, improving granularity, healthy B/S and superior return ratios.	475.8	2	451.9	189.0	35727.5	16.2%	7447.9	18.0%	33.5	13.5	2.4	230	1.0%
2	B H E L	Heavy Electrical Equipment	A pick up in power sector capex and ordering activity is a key trigger. BHEL's order intake surged by 10% in FY15 (aided by a Rs.93bn order received from Telangana).	489.5	2	172.1	139.8	30147.5	-22.4%	1452.4	-58.6%	3.8	45.3	1.2	58	0.7%

			Defence initiatives could play out for the company over the medium term.													
3	Bank of Baroda	Banks	With relatively lower gross stressed additions, declining trend in cost of funds, stable CASA and ample room for expansion in C-D ratio, NIM is expected to increase. BoB can surprise on growth and asset quality given its healthy capital adequacy ratios, diversified loan mix, presence in fast-growing states and recent change in management.	460.8	2	158.4	190.1	44915.0	11.0%	3911.7	-22.6%	9.2	17.3	0.8	160	2.0%
4	Biocon	Biotechnology	The opportunity for biosimilars in EMs remains huge with potential for volume expansion post biosimilar launches not appreciated adequately, in our view We believe the restructuring of branded formulations will be completed in the current fiscal and expect growth to be normalise from FY17E onwards	100.0	5	481.8	163.5	3060.0	7.3%	408.5	-1.3%	20.8	23.1	2.9	100	1.0%
5	Coal India	Coal	CIL is a large natural resource company with assured profits (even at the current low discounted prices under FSA) and large cash balance. Any resurgence in the financial situation of SEBs (after the recent package for them) or higher demand from power and non-power sectors could lead to better valuations for CIL.	6316.4	10	321.8	63.9	72014.6	4.7%	13723.5	-9.2%	21.9	14.7	5.0	207	6.4%
6	EID Parry	Sugar/ Fertilsers	The highly efficient south based sugar company will ride on expected sugar price upside. It is also the holding company of Coromandel Fertilisers and its holding value is almost equal to the market cap of EID Parry.	17.6	1	193.7	126.4	13845.4	15.1%	119.2	51.0%	-5.5	-35.2	1.5	300	1.5%
7	JSW Steel	Iron & Steel/Interm. Products	JSW Steel is one of India's largest private sector steel manufacturers with a capacity of 14.3mtpa. Its major facilities are located in Vijaynagar (10mtpa) in Karnataka,	241.7	10	1051.4	919.6	52050.6	3.3%	1828.5	46.9%	17.7	59.3	1.1	110	1.0%

			Dolvi (3.3mtpa) in Maharashtra, and Salem (1mtpa) in Tamil Nadu. Iron ore prices in the domestic market have declined sharply and would lead to lower costs for the company. Stability in realisation on the back of safeguard duty and sequential decline in raw material cost on account of fall in iron ore and coking coal prices would aid in strengthening of EBITDA margin.													
8	Larsen & Toubro	Construction & Engineering	We expect investment climate to revive gradually as government takes actions to ease execution and opens up new sectors like defence and railways for private investment. L&T, with its diversified presence, stands to gain meaningfully from these initiatives, near term weakness notwithstanding.	186.2	2	1293.0	439.1	92004.6	8.1%	4546.8	-2.7%	45.7	28.3	2.9	813	1.3%
9	O N G C	Exploration & Production	While near term lower oil prices is a key concern, we are positive on medium term prospects of ONGC due to (1) likely increase in net realization led by lower subsidy, (2) further benefits from kerosene reforms and (3) reasonable valuations. Likely subsidy rationalization will change earnings predictability and valuation. Although there is uncertainty about crude prices, we feel the risk-reward is favourable at current valuations.	4277.8	5	235.4	210.9	159074.8	-8.2%	18333.5	-30.8%	20.8	11.3	1.1	190	4.0%
10	Tata Motors	Automobiles	JLR's volume growth and margins have bottomed out and should see an improvement from 3QFY16.We expect standalone volumes to witness strong growth over the next couple of years, as LCV volumes recover from the cyclical downturn and PV volume sustain growth momentum on the back of new launches	577.4	2	378.6	217.9	260734.3	13.0%	14106.0	-4.2%	27.8	13.6	1.7	0	0.0%

Lesser Known Stocks

Sr No	Company	Industry	Key business triggers	Equity Latest	FV	CMP Dec 23 2015	Book Value latest	Net Sales FY15	Change in sales y-o-y	PAT FY15	Change in PAT y-o-y	EPS TTM	P/E TTM	P/B V	Last Div %.	Dividend Yield
1	AIA Engg.	Industrial/ Mining consumable	By end-FY16, AIA is set to become world's largest manufacturer of high chrome mill internals. It could be a key beneficiary of mining and cement boom globally. AIA plans to add another 1,80,000 tonnes of greenfield capacity in Gujarat by H2FY17E (second phase has got delayed by six months).Revival of mining activities and increased capex on cement expansion could bring the growth phase back for AIA.	18.9	2	876.5	220.9	2107.8	4.5%	430.9	24%	45.0	19.5	4.0	400.0	0.9%
2	Crompton Greaves	Heavy Electrical Equipment, consumer appliances	Crompton Greaves monetised three assets in October 2015; proceeds of which would help reduce the debt of its international subsidiary. This could bring some relief to the firm's profits, as 54 per cent y-o-y jump in interest cost contributed to lower profits in the second quarter of FY16. The company is in talks to offload certain loss making international power businesses and the deal is expected to conclude soon. Post de-merger, we expect re-rating of the consumer durable segment driven by the new management which is targeting strong growth and high return metrics. Sale of Kanjurmarg land will also help.	125.4	2	189.4	60.5	14013.1	2.8%	165.8	-32%	1.3	150.6	3.1	40.0	0.4%
3	Firstsource Solutions	BPO/KPO	Strong deals conversion (around $500 million of deals pipeline) coupled with recent lift-out deal win from a UK bank for a deal value of $110 million and improved prospects in payer side of business, FSL is well placed to deliver strong number for FY17. On the margin side, the management expects margins to improve in FY17, led by absence of one-off losses in FY16.	671.9	10	43.8	31.2	3003.4	-4.0%	234.3	21%	3.5	12.4	1.4	0.0	0.0%

4	Guj Pipavav Port	Marine Port & Services	Gujarat Pipavav Port, located on western coast of India, is among the most efficient container ports in India. Given the capacity constraints at existing government owned ports, especially JNPT and Kandla, GPPL is extremely well placed to benefit from increased containerization of India trade. GPPL could report sluggish growth for next few quarters due to weak industry growth and recent shift of FE-3 to Mundra Port. However its strong parentage, free cash flow generation and expected revival in global trade could result in the stock price performing going forward after a sustained fall.	483.4	10	144.1	37.0	792.2	33.8%	432.1	97%	6.2	23.4	3.9	0.0	0.0%
5	Gulf Oil Lubricants	Lubricants	With a well-diversified and improving portfolio of lubricants, persistent brand building and distribution expansion, Gulf Oil Lubricants is in an advantageous position to benefit from a cyclical revival in autos and GDP/IIP growth in India. It seems undervalued despite its low leverage, superior return ratios (FY18E RoE ~40.9%), multi-year market share gains, healthy dividend payout (~35%) and growth prospects.	9.9	2	496.9	37.7	965.3	NA	77.4	NA	17.0	29.3	13.2	275.0	1.1%
6	India Cements	Cement & Cement Products	India Cement is largest player in South India. The management indicated that demand is expected to improve post Q3FY16E led by a revival of infrastructure spending resulting from bifurcation of Andhra Pradesh. Another captive power plant of 50 MW at Vishnupuram in Andhra Pradesh (AP) has been installed and is expected to stabilise from H2FY16. This will help it to improve the power cost per ton and margins. Restructuring its noncore investments could also help it to improve return ratios.	307.2	10	85.4	100.2	5060.4	-0.5%	-3.3	-97%	3.9	22.1	0.9	0.0	0.0%
7	Inox Wind	Heavy Electrical Equipment/	The strong order book provides revenue visibility over the next 12-15 months. Aggressive capacity	221.9	10	365.8	62.7	2702.7	74.5%	296.4	124%	16.1	22.7	5.8	0.0	0.0%

		Wind energy equipment	expansion, strong order book, and large project sites could increase the top line. Inox's market share will rise to 30% in FY18 from current 25%, supported by rising backlog, new products, and increased capacity. India's wind energy market should rise at a 20% CAGR for the next 5 years due to government initiatives, restoration of fiscal incentives, and entry of large investors due to the attractive return on investment (14% project IRR ex-incentives).													
8	Jet Airways	Airlines	Jet Airways received an investment of INR 20,580mn from Etihad Airways in 2014 for 24% equity stake. Partnership with Etihad will enable JAL to have combined network of more than 130 routes and would bring additional feeder traffic to Jet. Also low crude oil prices would improve margins due to low Aviation Turbine Fuel (ATF) prices. Surge in passenger traffic and increased utilisation could put it back on profit path. Recent listing of Indigo at high valuations could pressurise Jet to put its house in order soon enough.	113.6	10	624.2	-584.5	19380.7	10.0%	-1344.2	-61%	-29.6	-21.1	-1.1	0.0	0.0%
9	Multi Comm. Exc.	Other Financial Services	MCX has been fraught with challenges (group's NSEL crisis, management rejig, introduction of CTT, among others. Things stabilising on the operational front (stable management at helm) coupled with structural and potential growth levers (aided by merger of FMC and SEBI, among others) are bound to aid performance. Rise in trading volumes/values (once the recessionary conditions in the commodity markets ebb) and operational leverage due to the same could bring the shine back to MCX.	51.0	10	846.9	236.2	204.0	-36.2%	125.8	-18%	22.6	37.5	3.6	100.0	1.2%
10	Oberoi Realty	Realty	Oberoi Realty is best placed amongst the Western peers on account of its superior land bank quality, access to finance, healthy balance sheet and	339.3	10	264.0	146.2	910.9	16.2%	317.1	2%	9.9	26.8	1.8	20.0	0.8%

			high potential for successful foray in newer markets. The micro factors are well supported by strong execution, quality construction & management bandwidth. With multiple launches (Mulund, Worli, Borivali and Goregaon) as new/subsequent phases, it is set to deliver horizontal and vertical growth.													
11	Reliance Infra.	Electric Utilities	Sale of BOT roads, cement and Mumbai electricity businesses are expected to give Reliance Infrastructure, the infrastructure arm of the Anil Ambani Reliance Group, good amount of liquidity, as the company aims to become debt free by March 2017, and enter the defence sector in a big way. The size of opportunities in defence is expected to be Rs.20 lakh crore over the next 10 years.	263.0	10	457.9	995.2	16933.2	-10.1%	1800.2	-6%	67.1	6.8	0.5	80.0	1.7%
12	Selan Expl. Tech	Exploration & Production	Strong production growth both in crude and natural gas will culminate in healthy earnings growth for the company from FY17 onwards. Apart from it the company has Low burden of Royalty and Cess, Debt-free status, good cash per share and having track record to pay dividend.	16.4	10	222.5	170.9	79.3	-21.7%	28.3	-36%	11.2	19.9	1.3	50.0	2.2%
13	V I P Inds.	Luggage, Other Apparels & Accessories	VIP, which began as a moulding furniture company in 1970, is now the second largest player in the world and largest in Asia and commanding ~45% market share in India. We believe recouping market share in Canteen Stores Department (25% of sales) with sales reorganisation and introduction of Skybags, and revitalising the VIP brand (47% of sales) holds the key for the targeted ~15% sales growth. Valuations could gradually expand as the stret recognises the value of its brands even as the operational performance improves.	28.3	2	102.9	21.6	1043.0	7.7%	43.5	-6%	3.9	26.3	4.8	75.0	1.5%

14	V-Mart Retail	Department Stores	One of the few retail companies having a right business model with best product mix, appropriate location/store size and control over costs. It is gearing up to join the fast growing e-commerce sector by next year with a mobile app-based platform to sell products. The company has 114 stores across 97 cities in 14 states and plans to further open 20 more stores in 2016. The company is a play on the growing organised apparel market, high aspirational demand and rising purchasing power of middle-class India.	18.1	10	488.5	113.5	719.0	25.2%	38.6	53%	21.0	23.3	4.3	15.0	0.3%

Note:
Source: Capitaline Database
All figures in Rs. except for Equity, Sales FY15 and PAT FY15 which are in Rs.Cr.
CMP is as of Dec 23, 2015
EPS is adjusted for extraordinary items

Analyst	Stock	Holding
Gajendra Prabhu	Jet Airways	No
Gajendra Prabhu	Biocon	No
Gajendra Prabhu	Reliance Infra	No
Gajendra Prabhu	India Cements	No
Gajendra Prabhu	VIP Industries	No
Gajendra Prabhu	FSL	No
Gajendra Prabhu	GPPL	No
Gajendra Prabhu	EID Parry	No
Gajendra Prabhu	AIA Enginerring	No
Gajendra Prabhu	Inox Wind	No
Gajendra Prabhu	JSW Steel	No
Gajendra Prabhu	MCX	No
Zececa Mehta	Axis Bank	No
Siji Philip	Bank of Baroda	No
Abdul Karim	Coal india	No
Sneha Prashant	Tata Motors	No
Gajendra Prabhu	BHEL	No
Abhinav Sharma	L&T	No
Abdul Karim	ONGC	No
Abdul Karim	Selan Exploration	No
Gajendra Prabhu	Crompton Greaves	No
Parikshit Kandpal	Oberoi Realty	No
Abdul Karim	V Mart	No
Mehernosh Panthaki	Gulf Oil Lubricants	No

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