



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Dear All,

After a strong 2017, the first six months of 2018 have been bad for equity markets. In the first six months of 2018, though the Nifty remains in the positive territory, the mid cap and the small cap indices are down significantly.

The fall in equity markets has not been a local phenomenon but is a global one. As the threat of trade wars have escalated and US Fed has increased rates, money is being pulled out of riskier assets like equities and especially emerging market equities.

In local currency, Indian market is one of the few markets that is positive

The pullout has also impacted local currencies Vis a Vis US Dollar. In India the net FPI outflow in the month of June from equities was 704 million USD. This is on top of the 1.5 billion withdrawn in the month of May. The currency is down nearly 7% during last six months.

The carnage in the market has been across sectors. The accompanying graph gives a fair idea of the state of the market. The small cap index is down almost 23% and the mid cap index is down nearly 12.5% as against the Nifty which is almost flat or at a positive 1.74%. The two main sectors that are in the green are FMCG and IT.

In the given scenario, many investors are seriously concerned about the returns from equity markets in India. However anecdotal evidence over the last thirty years suggests that these types of corrections keep happening in a long-term bull market and should be used to invest further in stocks at depressed prices rather than pulling out.

We for one do not believe in the maxim "This time it's different" and are confident of the long-term growth in the Indian market.

As for the medium term here is our take

South west monsoon, the major lifeline of the Indian agriculture sector (that contributes about 18% to GDP) is likely to be normal. This coupled with increase in minimum support prices of agricultural produce announced recently is likely to result in a good uptick in the rural incomes thereby driving consumption and GDP growth.

Post monsoon, we expect the government push for infrastructure investment to accelerate. We also expect oil prices to moderate in the medium term and INR to strengthen a bit.

Overall, though there could be short term uncertainty, we continue to remain positive for the long term.

We recommend 'IGL', 'Petronet LNG' and 'PTC India' as out top picks for the month.



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Indraprastha Gas Ltd. CMP: Rs256, Short term target: Rs340 Long term target: Rs375

Policy push and Green initiatives for pollution control air pollution in Delhi would lead to volume increase.

Initiatives like subsidy of up to Rs 0.1mn to city restaurants to switch from coal to gas based/electric tandoors, SC directive on restricting use of polluting fuels can increase PNG volumes in future to grow and further expansion in new cities of Gurugram and Rewari.

IGL has received permission from the Haryana government to lay a city gas distribution network in a part of the Gurugram district. We believe more such permissions in other areas of Gurugram can boost IGL's prospects. Led by the strong focus on curbing pollution in the NCR, CNG sales volume is likely to grow strongly. The expected restriction on the usage of dirty fuel would propel volume further for the company.

Expect FY19/20 volume growth at 12%/12% and EBITDA/scm at INR5.9/5.9/scm. IGL's consistent operational outperformance, the government's thrust for the usage of gas and sustainable high-growth market warrant premium valuation. We remain confident of IGL's growth potential and recommend to Buy. At CMP the stock is trading at 22x FY20E earnings.

PTC India Ltd. CMP: Rs73, Short term target: Rs90 Long term target: Rs110

Long term volumes contribute 41percent to PTC India's volume while medium term and short term volumes contribute 6percent and 58percent respectively. Company aspires to increase long term power volume to 50percent. PTC has signed long term contract for 400MW hydro power project at Kharchem. Also it has signed PPA for Teesta Urja for 200MW hydro power project. The company is also in talks with Discom to sign PPA for 1050MW SECI wind power project. PPAs are likely to get signed by March-October 18 for this project.

Short term volumes are likely to grow at 10-15% as discoms are more prone to buy short term power at bargain rates. The company has invested Rs6.5bn in its wind power developer subsidiary (PTC Energy), ~Rs7.6bn in its listed subsidiary PTC India Financial Services (PFS), and Rs2.2bn in the 1,200MW Teesta hydroelectric power plant, which could be monetised if needed.

PTC India's volumes are likely to increase by 15-17% over FY17-20E driven by recently signed PPAs and short term volume growth. Margin is likely to remain at current level of Rs0.04-0.05/unit. PTC India's business is expected to be stable with high RoCEs (>20%) compared to the last cycle; however, overall RoE of the Company is likely to remain below 12% (due to Investments and Cash). At current price the company has dividend yield of 4%. It is trading at 6x FY18 earnings and 0.5xP/BV which is at discount to its peers.

Petronet LNG Ltd. CMP-Rs219 Short term target: Rs271 Long term Target: Rs289

Petronet LNG Limited (PLNG), has set up the country's first LNG receiving and regasification terminal at Dahej, Gujarat, and another terminal at Kochi, Kerala. While the Dahej terminal has a nominal capacity of 15 MMTPA, the Kochi terminal has a capacity of 5 MMTPA. Petronet has current capacity of 15mmtpa which will be increased to 17.5mmtpa by H2FY19E. Of the incremental capacity 1.5mmtpa has been contracted while 1mmtpa will be sold in open market. Management expects better margin in open trade.

As Kochi-Mangalore pipeline is likely to commence by December 18 utilisation of Kochi refinery will be increased to 35% by FY21. Petronet has signed a MOU in Dec 2016 with Petrobanga to set up a 7.5mt LNG terminal for US\$950m. Petronet (in a JV with Japanese and Sri Lankan firms) could spend US\$250m (Rs16bn) to set up a 2mtpa FSRU in Sri Lanka.

Considering both domestic and import LNG supply is likely to increase at a CAGR of 11% over FY17-22E. Overall LNG demand is likely to grow at a CAGR of 6-7% over the same period. Higher availability of gas with non-commensurate increase in pipeline network may lead to poor utilization of LNG import terminals in future. Petronet likely to post EPS of 14 and Rs17 in FY19E and FY20E respectively. At current price the stock is trading at 14x FY19E and 12.4x FY20E estimates. EV/EBITDA is at 8.5x FY19E and 7.6x FY20E EBITDA which is undervalued.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Biocon	628	700	7%	800	27%	BUY

USFDA approval to Pegfilgrastim as first to file opens up huge opportunity (mkt size US \$4bn). Trastuzumab to open up huge opportunity as first biosimilar to Roche's Herceptin - US market size \$ 2.6 bn.

Biocon+Mylan to launch Pegfilgrastin in the US soon. Insulin sales to grow due to EUGMP approval to Malaysia plant

At CMP, Biocon trades at 33x FY20E EPS of Rs 19.1.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Cipla	640	590	2%	680	6%	Accumulate

Cipla has started one complex generics launch per quarter in the US from Q3FY18. New launches in India, growth in South Africa to drive revenue growth.

Profitability to **improve** through better product mix and operational efficiencies. Cipla to conduct trials for respiratory products over next 2 years.

At CMP, Cipla trades at 28x FY20E EPS of Rs 23.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Dr Reddy's	2274	2609	14%	3074	35%	Buy

USFDA approval to Duvvada plant will help restore revenues and profitability due to impact of warning letter

Awaits clearance to Duvvada injectables plant. Plans 15-20 ANDA filings and 10-15 new launches in US. Price correction due to delay in Duvvada re-inspection by 1-2 quarters. At CMP, DRL trades at 18x FY20E EPS of Rs 121.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Syngene	610	699	15%	830	36%	BUY

Largest contract research service (CRO) company in India, with a focus on early stage R & D. Wide offerings of niche services in discovery chemistry and biology. Robust revenue growth due to increased demand, improvement in EBITDA margins due to increased business from dedicated centres to drive earnings growth.

At CMP, Syngene trades at 31x FY20E EPS of Rs 20.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Narayana Hrudayalaya	234	273	17%	350	50%	Buy

Increase in average revenue per occupied bed (ARPOB) due to widening presence in Mumbai and Delhi. Increase in number of operating beds due to Increased occupancy due to better service offerings. Acquired balance stake in Cayman Islands, consolidated into FY18 results.

Promoted by Dr. Devi Shetty with a focus of affordable specialized treatment in oncology, neo natal care, cardiology, neurology and orthopedic. Scalable due to lowest capex per bed. Minimum impact of pricing control. Largest beneficiary of National Health Protection Scheme announced in Union Budget 2018-19. At CMP, NH trades at 30x FY20E EPS of Rs 7.9.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Max India	81					SELL

Price correction due to effect of Shalimar Bagh hospital incident, New Delhi. Max has resumed operations at the hospital. In view of the developments at New Delhi, there will be a delay in turnaround of both Healthcare and Health Insurance operations. The Healthcare business has been impacted due to regulatory pricing caps and changes in trade practices. Health Insurance business needs investments to expand sales network. We do not expect investors to benefit for the next 2 years.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Deepak Nitrite	242	260	7%	300	24%	Hold

The company is setting up a greenfield project for 2 lakh tonnes of phenol, used in laminates, paints, rubber adhesives and 1.2 lakh tonnes of acetone, used in pharmaceuticals to be commissioned by Q1FY19. The new products will improve profitability over 2-3 years.

At CMP, DNL trades at 12x FY20E EPS of Rs 19.7.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Laurus Labs	474	562	19%	644	36%	Buy

Strong promoters background with strength in research & development of new molecules, with focus on high volume therapies.

Healthy growth in active pharmaceutical ingredients (APIs), custom synthesis. New formulations plant to be commissioned by Q1FY19.

Price correction due to de-growth in Hep C business. At CMP, Laurus Labs trades at 8x FY20E EPS of Rs 59.8.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Granules India	80	89	11%	110	37%	Buy

Granules India received USFDA approval for gMethergine, a \$100 mn opportunity, which will help improve profitability.

Granules is a fully integrated lowest cost producer of matured generics and has filed for complex generics ANDAs pending approval.

At CMP, Granules trades at 10x FY20E EPS of Rs 8.2.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Cadila Healthcare	388	412	6%	450	16%	Buy on Dips

USFDA Approves the Moraiya and Baddi Plant. Sizeable pipeline of ANDA fillings

India formulations to grow through new product launches and vaccines. Cadila to expand formulations facility with a capex of Rs 1000 crs.

At CMP, Cadila trades at 18x FY20E EPS of Rs 21.9.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Deepak Fertilisers	266	300	13%	360	35%	Buy

Expects turnaround of fertilizer business. To increase capacity & more number of complex fertilizers.

The company expects to receive subsidy payment of Rs.310 Crores.

At CMP, Deepak Fertilisers trades at 6x FY20E EPS of Rs 44.4.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Bata	842	924	10%	1000	19%	Accumulate

Retail sentiments remain positive, same store sales growth picking up.

EBIDTA Margins to improve with saving on fixed costs like rentals with higher turnover.

At CMP of Rs 842 stock trades at 42x FY19e EPS of Rs 20 and 37x FY20e EPS of Rs 23.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Trent	307	360	17%	500	63%	Buy

Trent a play on consumer theme, includes Westside - apparels, Starbazaar- departmental and Zara-high end fashion.

Diversified business with a potential of compounded growth in each of its segment.

At CMP of Rs 307 stock trades at 60x FY19e EPS of Rs 5.1 and 40x FY20e EPS of Rs 7.6.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Mahindra Logistics	575	630	9.5	690	20	Accumulate

Mahindra Logistics (MAHLOG) is play on 3PL Logistics. Shift to organized from unorganized would benefit companies like Mahindra logistics and TCI Express. Consolidation in warehouse industry and e-way bill in process would benefit strong brand name like Mahindra. Assetlight model would minimize industry risk. MLL trades at 39x its FY19e EPS of Rs 14.5 and 27x its FY20e EPS of Rs 21.

We would recommend investors to Accumulate Mahindra Logistics.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
IFB Industries Ltd	1209	1350	12%	1500	24%	Accumulate

IFB Industries a leader in manufacturing of Washing Machines a good consumer durable stock to play the housing for all theme Company is known for Front Loaders and has started Top Loaders and gaining market share. Entering in to Refrigerators as well At CMP of Rs 1209 stock trades at 50x FY19e EPS of Rs 24 and 40x FY20e EPS of Rs 30.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Britannia	6295	6500	3%	7000	11%	Buy on Dips

FMCG company with high success ratio in terms of margins sustainability during tough times. Expanding in to croissants through JV and also would be announcing it plan on dairy in the near future At CMP of Rs 6295 trades at 59x FY19e EPS of Rs 106 and 48x FY20e EPS of Rs 130

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Kansai Nerolac	477	600	25%	680	42%	Buy

Paint company have been maintaining double digit topline and bottomline growth. Leader in Auto paints with Maruti being one of the major client. At CMP of Rs 477 trades at 48 x FY19e EPS of Rs 10 and 37x FY20e EPS of Rs 13

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Schaeffler India Ltd	5520	5800	5%	6275	14%	Accumulate

Orginal Name: Fag India Ltd Management decisions to merge the unlisted entities in the listed entity will bring in synergies and increase business prospects At CMP (excluding the merger) Rs 5520 trades at 34x CY18e EPS of Rs161 and 29x CY19e EPS of Rs 191

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Jyothy Labs	238	250	5%	275	15%	Buy on Dips

The company has good product profile with flagship brands like Ujala. Acquisition of Henkel's India added high quality products. The company successfully turnaround Henkel brands and has been successful in its niche Going forward: Brand building and innovations to continue, IT spine in place would leverage to fullest. **Guidance FY19:** Topline 12-14% growth, EBIDTA margins 16-17%, PAT growth 20-25% At CMP of Rs 238 trades at 39x FY19e EPS of Rs 6 and 34x FY19e EPS of Rs 7



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Castrol	161	190	15%	197	15%	Book Partial Profits

GST implementation has a positive impact as lot of un-organized players will be out of business
Lower crude oil prices and shift to high end quality oils for automobiles beneficial for the company
Introduction of Electric Vehicles at fast pace is a Risk
At CMP of Rs 161 trades at 20.3x CY19e EPS of Rs 7.9 and 19.8x its CY20e EPS of Rs 8.1

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
SKF	1711	1950	14%	2010	17%	Buy on Dips

Economic activity improvement will give rise to demand for CV and automobiles.
Railways too is a big opportunity going forward where SKF is already affiliated.
At CMP of Rs 1711 trades at 28x FY19e EPS of Rs 62.15 and 24x its FY20e EPS of Rs 71.18

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
BHEL	69	76	10%	90	30%	Buy

Faster clearances with new orders give a good visibility for the company. Bhel's executable order has grown substantially giving good visibility. Intends to increase its industrial exposure which has grown in double digits for FY18 & exploring new opportunities in railway transmission is a positive.
Employee cost reducing by 10% every year and induction of around ~180 so we envisage reduction in employee cost. Continuous focus on its gross margins.
At CMP of Rs 69 stock trades at 12.2x FY20e EPS of Rs 5.6 and 19.6x its FY19e EPS of Rs 3.5

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Finolex Industries	545	600	10%	731	34%	Buy

Finolex being the market leader in Agri pipes & focus on improving market share. We believe with 1)government initiative & increased spending on irrigation, water supply, focus on doubling farmer income 2)affordable housing and 3) shift to organised players led by brand awareness, strong distribution network 4)CPVC to drive next leg of growth: Plans to ramp-up its CPVC volumes exponentially over the near term, from ~4,000 to ~20,000 MTPA.
At CMP of Rs 612 stock trades at 20.5x FY19e EPS of Rs 26.6 and 17.1x its FY20e EPS of Rs 31.8.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
KEC International	333	365	10%	430	29%	Buy

Incremental opportunities for KEC exist in railways, civil division and international operations and expects T&D to garner improved revenues from SEBs.
Business visibility is strong across verticals for KEC with good order book. Focus on debt reduction and working capital is helping profitability
At CMP of Rs 330 stock trades at 14.8x FY19e EPS of Rs 22.4 and 10.9x its FY20e EPS of Rs 30.6

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Hero Motocrop	3461	3944	14%	4176	20%	Buy

HMCL has a healthy volume uptick after 5 years of flattish CAGR in motorcycle and its scooter market share of 13% seems to have bottom out
We value the stock at 20.5x FY19 due to slightly better growth outlook in rural India as it contributes ~50% to revenue
At CMP of Rs 3461 stock is trading at FY19E EPS of Rs 218 and FY20E of Rs 232 Our TP is based on P/E of 18x FY20E



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Bajaj Auto	2980	3222	8%	3400	14%	Accumulate

Regulatory changes driving medium term visibility in 3wheelers. Key export markets showing revival and new ramp-up will drive volume growth and margin expansion.

BAL JV with UK's Triumph motorcycle to cater mid-capacity (250-750 cc) motorcycle for India and Global markets. Focus on entering new markets & higher volume

At CMP of Rs 2980 stock is trading at 17.6x of FY19E EPS of Rs 169 and 16.6x and FY20E EPS of Rs 179.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Mahindra & Mahindra	897	980	9%	1000	11%	Accumulate

Management expects electric vehicles as another big segment which has potential to grow. Currently M&M is L2 bidder in current ELSS order. Some of their products such as e-alfa, e-Supro and e-verito have been launched in Delhi and Himachal Pradesh. Planned capex of 600cr will be invested for technology and component development.

Strong product pipeline, with launch of four new products in PV, two in tractors and one new ICV by H1FY19

At CMP of Rs 897 stock is trading at 20.1x FY20E EPS of Rs 44.56

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Maruti Suzuki	9217	9900	7%	10475	14%	Accumulate

Maruti Suzuki well placed to drive premiumization and electrification of India's car market.

Expect company to further expand EBIT margins owing to its huge scale advantage

Strong hold on reach through premium channel Nexa and Strong financials are likely to enable MSIL to sustain premium Valuation

At CMP of Rs 8757 stock is trading at FY19E EPS of Rs 394 and FY20E of Rs 419 Our TP is based on P/E of 25x FY21E.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
WABCO	7100	7500	10%	8346	17%	Accumulate

WIL is one of the major beneficiaries of an improvement in M&HCV volumes, as it enjoys higher market share ~85% in the CV

The company expects to gradually benefit from increasing its content per vehicle (CPV) partly driven by safety legislations

At CMP of Rs 7100 stock is trading at 39.6x FY19E EPS of Rs 179 and 33.1x FY20E of Rs 214

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Ashok Leyland	127	158	24%	173	36%	Buy

Ashok Leyland and Hino Motors (Japan) to renew partnership for Euro VI Engines

Recovery in volume is seen in MH&CV & Market share due to adoption of New igr technology is expected in FY18-19

We Expect strong bounce back in M&HCV industry till 2020.

At CMP of Rs 127 stock is trading at 16.2x FY20E EPS of Rs 7.8 Our TP is based on P/E of 22.2x FY21E.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
TVS	581	620	8%	690	19%	Hold

Management expect scooter to grow faster than motorcycle. With successful launch of Jupiter management expect market share to reach 16% soon from 14.5%

TVS-BMW product launch would be announced post festive season. Consumer trends in rural are changing due to more awareness

At CMP of Rs 581 stock is trading at 25x FY19E EPS of Rs 22.9 and 20.3x FY20E of Rs 28.1



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
TCS	1805	1700	-6%	2000	11%	Hold

Expect BFS vertical (33% of revenue) to pick up from beginning of FY19E and Retail & CPG performance will be closely monitored.

Expect Digital Revenues (23% of revenues) to continue robust growth over the next 4-6 quarters.

Stock is currently trading at 20.4x and 19.5x FY19E and FY20E EPS.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Infosys	1340	1,354	1%	1,400	4.4%	Hold

Salil Parekh has started off with toning down expectations of investors and reiterated Infosys' strategy will be steady growth through Digital and Products & Platforms. Currently trading at 17.1x and 15.8x FY19E and FY20E.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
HCL Tech	938	1000	6.6%	1065	13.5%	Hold

HCL Tech achieved our short term targets in the recent rally as company delivered as per expectations.

The stock corrected sharply post Q4 results as company reduced organic growth guidance to ~5% and maintained inorganic growth at 5-7% and therefore the stock is available at cheap valuations of 13x and 11.5x FY19E and FY20E. One can hold the stock with a long term target of INR 1,065.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tech Mahindra	661	650	-1.3%	700	5.9%	Hold

Believe that the current wave in Telecom Technology from 3G to 4G to 5G to have a positive effect on Telecom focused players like

Tech Mahindra (48% of revenues) as growth in services generally comes after upgradation of networks which is in progress globally. Completion of LCC restructuring has reflected well for the stock as witnessed in the recent rally. TechM currently trades at 14.7x and 14x FY19E and FY20E.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tata Elxsi	1367	1320	-3.4%	1500	10%	Hold

We expect Tata Elxsi to outperform due to presence in high spending automotive tech industry and direction towards next gen offerings such as AR & VR industry.

TELX is trading at 27.1x and 23.8x FY19E and FY20E EPS.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Persistent Systems	822	899	9%	1000	21%	Buy

Company has stated that IP business will revive in FY19E post drop in Q4FY18. Persistent is trading at P/E multiple of 16.8x and 15.2x FY19E and FY20E EPS, which we believe is an opportunity to BUY as our view on the fundamentals remains intact and we are confident of the management's ability to deliver above industry average growth along with margin expansion over FY19 and FY20.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Sterlite Tech	263	330	25%	400	52%	Buy

Expect growth to be driven by strong demand in Optic Fibre and Optic Fibre Cable space coupled with strength in realizations.

With unique technology to manufacture Optic Fibre from Silica, the company has a significant margin advantage over mere converting companies.

Projects like BharatNet Phase II, Network for Spectrum and Smart Cities as well as increasing non-spectrum capex by telcos to provide immense thrust to business.

Dalal & Broacha Recommendation

July 4, 2018



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tejas Networks	294	400	36%	509	73%	Buy

TJNL is currently trading at PE multiple of 17x and 13x FY19E and FY20E EPS. We believe that the company will deliver high growth given that it holds ~15% market share domestically and is present in a high growth industry optical networking industry

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Petronet LNG	216	271	23%	289	31%	Accumulate

Kochi utilisation rising to 11%/29%/39% in FY19/20/21. Expect 9% CAGR in offtake over FY17-21
Petronet turning net cash in FY18 with rising free cash flow. We expect the EPS to grow at 13% CAGR over FY17-21.
At CMP of Rs 217 stock is trading at 14x FY19E EPS of Rs 14 and 12.4x FY20E EPS of Rs 17

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Zuari Agro Chemicals	346	420	23%	500	46%	Hold

Decline in working capital and subsidy is expected to lower interest cost and drive earnings in long term. Implementation of DBT has teething effects on working capital will have some pressure going forward for short term.
Looking at revamping MCFL and ZAC. Focus on non-subsidy products where the company can use its distribution channel
At CMP of Rs 341 stock is trading at 6.8x FY19E of Rs 50.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Chambal Fertilizer	154	180	17%	225	46%	Accumulate

4 Expected commissioning of new capacity in Jan/Feb 2019 and increased focus on agriculture and food production are key triggers for Chambal
With the government introducing DBT (Direct Benefits Transfer), we believe that companies across the sector are likely to benefit in terms of working capital cycle
At CMP of Rs 164 stock is trading at 13.6x FY19E EPS of Rs 12 and 8.7x FY20E of Rs 18.8.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Spice Jet	110	150	36%	167	52%	Buy

Airline under-penetration (0.09 annual trips/capita, 1/4th of China) is expected to improve with better airport connectivity under UDAN.
SJ focused on maximising revenue by adopting dynamic revenue management through higher airline load factor than industry.
At CMP of Rs 126 stock is trading at 16.5x FY18E EPS of Rs 10.4 and 9.7x FY19E of Rs 17.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
M& M Financial Service	464	491	-3%	512	1%	Hold

Asset quality improvement on the back of higher recoveries and lower fresh delinquencies, translating into lower credit costs.
Demand for LCVs fuelled by increase of hub-and-spoke model, growth of organised retail, rising consumption expenditure and improvement in rural infrastructure MMFS currently trades 3.2x its FY19 BV of Rs.135.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
JK Tyres	121	176	37%	195	52%	Buy

Increased capacity utilisation and lower rubber prices have led company's EBITDA margin to ~16-17% (above 10-year average).
With the Cavendish plant stabilising, we expect the company to generate Rs. 1000 cr. cash profit over next two years driving the debt downward
The current price of 157, the company trades 6.5x FY19 EPS of Rs. 26. Our TP is based on P/E of 7.5x FY19E.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tata Communications	588	755	25%	812	35%	Buy

Data Business to become the growth driver going forward. Data revenues expected to grow at 10 - 15 %

Voice business to stabilize around the current levels

At CMP of Rs 616 stock is trading at 22x FY18E EPS of Rs 28 and 16x FY19E of Rs 40.

Rising free cash, Improving ROE to support the Valuations

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Skipper	165	227	37%	272	64%	Buy

Engineering product segment to grow at a CAGR of 15% due to improved order inflows.

Polymer products segment to grow at a CAGR of 40% due to improved capacity utilisation.

Topline to increase a CAGR of 18% while PAT to increase at a CAGR of 25% over FY17-20E.

The company trades at 14x FY19E and 10x FY20E earnings.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Arvind	391	509	30%	558	42%	Buy

Focus on asset-light B&R segment to drive growth. De-merger to unlock potential.

Focus of textile division shifted to asset-light garmenting and high growth advanced material segment.

Topline to increase a CAGR of 12% while PAT to increase at a CAGR of 26% over FY17-20E.

The company trades at 20x FY19E and 15x FY20E earnings.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Sarla Perf Fibers Ltd.	43	66	32%	80	60%	Buy

Co. added new clients in domestic market which will improve volume at a CAGR of 10-12%.

New capacity of Nylon 66 will boost domestic sales further.

Consolidation of US capacity to reduce losses.

The company trades at 11x FY19E and 9x FY20E earnings.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Voltas Ltd.	520	580	11%	656	25%	Buy

Voltas being the market leader with 23% market share in AC market and expectation of a healthy double digit growth in the unitary cooling segment.

There might be some short term pressure due to intermittent rainfall and sales for Q1 might be affected but it will happen for all the AC players across the industry. Project segment order book improved as the company is cautious in picking orders. Margin improvement for the FY18 to 6.5% from previous low which is likely to sustain and will improve further going ahead. Voltas entry into other consumer durables such as refrigerators, washing machines and other small appliances will pave the way for a further re-rating of the stock as the proportion of the branded product segment in total revenue will increase further.

The company trades at 25.7x FY19E and 21.6x FY20E earnings.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Vijaya Bank	51	62	22%	69	35%	Buy

The Bank has a stable capital adequacy ratio of 12.5%

No Major Divergence in NPA's

Due to the current PSU problems the stock is available at a cheap valuation of 0.7x its current book value.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Cyient	733	750	2.3%	900	23%	Accumulate

Based on certain key project wins in A&D, high level of penetration in Transportation segment, huge industry potential in Communications and Semi-conductor (>50% of revenues) and turnaround in DLM segment (~50% of revenues), we believe that Cyient is attractively placed at current levels. The stock is currently trading at a PE multiple of 14.1x and 12.9x FY19E and FY20E EPS.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
V-Mart	2523	2792	11%	3000	19%	Buy on Dips

Based on the aggressive expansion of the business in terms of new store openings, (26 stores opened this quarter), and only 15% of the 770 districts as yet penetrated, the company has a huge expansion opportunity which makes this scrip an attractive buy. The stock is currently trading at a PE multiple of 52x and 42.5x FY19 and FY20 EPS

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
MGL	811	1114	36%	1250	50%	Buy

MGL's plans to aggressively set up +20 CNG stations every year (50% company-owned, which typically generates higher throughput and better margins). Its addressable target market is 3 Mn households currently stands at 1 Mn. Gradual expansion of its geographical area (including Raigarh District) will also help MGL going forward.

With regulatory approval of gas in NOC for new buildings will benefit PNG volumes.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
CESC	886	1150	27	1340	51	BUY

CESC is on track to demerge its businesses into four verticals: generation, distribution, retail, and other investments. CESC received franchisee for three circles of Rajasthan which will drive earnings for distribution segment. Spencer Retail to grow at 15-18% and margin to reach 5% by FY20E. At current price the stock is trading at 11x FY19E and 10x FY20E earnings.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
IGL	258	340	32	375	45	Buy

Policy push and Green initiatives for pollution control air pollution in Delhi would lead to volume increase.

Initiatives like subsidy of up to Rs 0.1mn to city restaurants to switch from coal to gas based/electric tandoors, SC directive on restricting use of polluting fuels can increase PNG volumes in future to grow and further expansion in new cities of Gurugram and Rewari all this will help IGL volumes to grow at 11% CAGR between FY18-20E.

We remain confident of IGL's growth potential and recommend to Buy. At CMP the stock is trading at 22x FY20E earnings.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
PTC India	73	90	23	110	50	Buy

Short term volumes are likely to grow at 10-15% as discoms are more prone to buy short term power at bargain rates.

The company has invested Rs6.5bn in its wind power developer subsidiary (PTC Energy), ~Rs7.6bn in its listed subsidiary PTC India Financial Services (PFS), and Rs2.2bn in the 1,200MW Teesta hydroelectric power plant, which could be monetised if needed. At current price the company has dividend yield of 4%. It is trading at 6x FY18 earnings and 0.5xP/BV which is at discount to its peers.

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