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Dow Jones fell 3% during the month. It has been a challenging quarter for the emerging markets and especially the Indian stock market. FPIs have sold shares worth a billion dollars. Nifty has corrected 9% during the month. The Rupee is down 6.1% and there is a worry about the financial health of some non-banking financial companies that has resulted in the weakening of sentiment.

Worries over the health of finance companies has also led to a speculation that any constraint on borrowing of finance companies could result in impacting sales of Auto and white goods as significant sales of two wheelers and four wheelers is funded by finance companies, which is as high as 65-70% in case of Auto companies.

The month of September in particular has been bad with many stocks taking a major hit as Foreign institutional investors continue to sell. Their decision could also have been impacted by the rising US yields that have reached 3.18%.

Total AUM of the MF industry fell 12.5% MoM to INR22t in September, after surpassing the INR25t mark in August. The fall was primarily led by a decline in AUM of liquid funds (by INR2095b), equity funds (by INR566b), income funds (by INR342b) and balanced funds (by INR109b).

All the above seems quite gloomy; however, if one goes back five years, a similar situation was prevalent. US had just announced an end to quantitative easing, oil was trading above \$100 for almost 30 months and the Rupee was trading around 69 to a Dollar (August 2013). The Reserve bank of India then came out with measures to boost the supply of Dollars and in the next four months (by beginning of January 2014), the Rupee appreciated by 10% and the stock market by 24% in local currency terms and 36% in USD terms.

We believe that this time as well, the Reserve Bank of India will come out with measures to shore up the Rupee which will change the sentiment and get the mojo back in the market.

The Government continues to focus on increasing the disposable income in the hands of the rural population. It has recently increased the minimum support price for winter crops increasing the realization of farmers and has launched an insurance scheme for the poor which would be covering about 500 million people and can result in substantial savings for the poor.

As we write this report, the Government has taken cognizance of the situation prevailing in the lending space and has superseded the board of Directors of IL&FS with Government nominees and is likely to lend support to the company.

To ease the burden of rising oil prices, the Government has cut duties on petrol and diesel to bring some relief to consumers.

We believe that the volatility and correction in the market will be arrested in the coming weeks.



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IT SECTOR

.We believe that one should play selectively in the IT sector and should follow an “Accumulate on Dips” strategy for quality companies such as TCS, Infosys, Tech Mahindra, Persistent Systems, Cyient, LTTS and Tata Elxsi despite their high valuations (trading at 18-22x FY20E). HCL Tech can be a good buy at current levels as we expect company to revise organic growth estimates by Q3FY19 and the stock is trading at cheap valuations of 13.8x FY20E EPS. IT sector should serve as a “safe haven” and will ensure Capital Preservation for an otherwise volatile market during election year.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
TCS	1936	2,000	3%	2,100	8%	Hold

Expect BFS vertical (33% of revenue) and Retail & CPG to outperform in FY19E.

Expect Digital Revenues (27% of revenues) to continue robust growth over the next 4-6 quarters.

Stock is currently trading at 24x and 20.2x FY19E and FY20E EPS.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Infosys	691	800	16%	852	23%	Buy

We expect Infosys to aggressively chase higher revenue growth (albeit at the cost of margins), which is evident from the Verizon deal win. At INR 740, the stock is trading at 18.1x and 16.4x FY19E and FY20E.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
HCL Tech	997	1,100	10%	1,213	22%	Buy

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 13.5x and 11.4x FY19E and FY20E. Management commentary in Q1FY19 conference call was in the positive direction and showed early signs of green shoots.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tech Mahindra	693	750	8%	800	15%	Buy

Global implementation of 4G and 5G bodes well for communication services focused (48% of revenues) Tech Mahindra. Expect manufacturing (20% of revenue) to also outperform through FY19E.

TechM currently trades at 15x and 14.2x FY19E and FY20E.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tata Elxsi	985	1,200	21%	1,400	41%	Buy

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 20x and 15.7x FY19E and FY20E EPS.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Persistent Systems	687	899	31%	1000	46%	Buy

Persistent is trading at P/E multiple of 14.8x and 12.3x 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. Company has invested heavily in Sales & Marketing which should yield output from FY20E onwards

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Sterlite Tech	318	350	10%	450	44%	Accumulate

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.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tejas Networks	273	350	28%	480	75%	Buy

TJNL is currently trading at PE multiple of 12.2x and 9.4x 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 optical networking industry.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tata Communications	487	600	23%	750	55%	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 526 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
Cyient	672	800	19%	900	33%	Buy

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 (~10% of revenues), we believe that Cyient is attractively placed at current levels. The stock is currently trading at a PE multiple of 15.9x and 12.6x FY19E and FY20E EPS.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
L&T Tech Services	1,595	1,750	10%	2,000	25%	Buy

Company has managed to continuously deliver above industry average growth since listing. In Q1FY19, company revised its USD revenue growth from 16% to 20% CAGR between FY18 and FY21E and margins to expand to 20%. Stock is trading at 15.8x and 12.4x FY19e and FY20e.



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Pharmaceuticals

The Indian pharmaceuticals market has grown around 10% so far during FY19. The domestic market has witnessed price growth of around 4-5% since April'18, with increased number of value added first to market product launches.

Internationally, the USFDA Governor announced steps taken to increase the pace of drug approvals by reducing the processing time span to 8-10 months from 12-18 months taken earlier. This is a welcome step in favour of affordable drug pricing in the US and is expected to benefit Indian generic suppliers.

The industry is also facing increased material costs due to higher prices of key starting materials (KSM) imported from China, over the last few months. This has resulted in selective supply constraints with a resultant increase in prices of active pharmaceutical ingredients (API) with an impact on gross margins. The issue has hit smaller manufacturers like Laurus Labs harder than the larger manufacturers in view of a wider presence across therapies and geographies.

Outlook

We are positive on the sector and anticipate good performance in domestic as well as exports. Q2FY19 results of pharmaceutical companies will start coming in from end October.

The rupee depreciation has also played well favoring pharmaceutical exports. We recommend investors to selectively accumulate on dips quality stocks like Biocon, Syngene, Natco Pharma, Dr. Reddy's, Cadila Healthcare and GlaxoSmithKline Pharmaceuticals.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Biocon	627	685	9%	745	25%	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. Insulin sales to grow due to EUGMP approval to Malaysia plant.

Biocon+Mylan have launched Pegfilgrastim in the US. Healthy growth in biopharmaceuticals will improve profitability.

At CMP, Biocon trades at 31x FY20E EPS of Rs 19.1.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Cipla	633	662	5%	716	14%	Buy on Dips

Cipla has started one complex generics launch per quarter in the US from Q3FY18. New launches in India, US and 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 21x FY20E EPS of Rs 29.6.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Dr Reddy's	2542	2745	8%	2923	15%	Buy

Launch of Suboxone film in US is facing injunction from the US court- appeal hearing expected in October.

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

Plans 15-20 ANDA filings and 10-15 new launches in US. At CMP, DRL trades at 21x FY20E EPS of Rs 116.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Syngene	590	650	10%	802	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 26x FY20E EPS of Rs 22.2.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Narayana Hrudayalaya	226	242	7%	300	25%	Neutral

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. Currently profitability impacted due to lower occupancy levels at Bengaluru and increased overheads at Mumbai & Delhi. At CMP, NH trades at 76x FY20E EPS of Rs 3.3.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Deepak Nitrite	252	280	11%	310	23%	BUY

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 September. The new products will improve profitability over 2-3 years.

At CMP

, DNL trades at 14x FY20E EPS of Rs 17.6.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Laurus Labs	413	454	10%	508	23%	Accumulate

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 commissioned in March'18. Currently facing challenges of increased raw material prices from China, and higher overheads from new plant, leading to lower profitability.

At CMP, Laurus Labs trades at 15x FY20E EPS of Rs 27.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Granules India	98	103	5%	116	18%	Buy on Dips

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 12x FY20E EPS of Rs 8.2.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Deepak Fertilisers	208	241	16%	260	25%	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 39.7.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Cadila Healthcare	383	409	7%	450	20%	Buy on Dips

New value added product launches to overcome loss of exclusivity in gLiada in FY20. 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.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Alembic Pharma	591	650	10%	739	25%	Buy on Dips

APL has restructured its portfolio in India to increase its focus on specialty chronic products. The company expects to grow better than the industry in India.

In exports, the company plans to launch 10+ products in the US markets. Expects to benefit from higher volumes in existing products. Change in product mix expected to improve profitability.

At CMP, APL trades at 21x FY20E EPS of Rs 27.4.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Natco Pharma	728	800	10%	859	19%	Buy on Dips

Natco enjoys a niche API portfolio of more than 37 US DMFs (drug master files) with 7 blockbusters to its credit and over 10 products under development. All products in oncology and cardiology, catering to India, US and select emerging markets.

Further product specific tie-ups with players like Mylan and Alvogen for US sales, helps Natco to generate significant share of profit.

At CMP, Natco trades at 15x FY20E EPS of Rs 45.



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Consumer Durables

An important event during the last month was **hike in customs duty** on 19 items (which includes Ac's, Refrigerators, footwear, jewellery) to curb widening CAD.

These 19 tariff lines accounted for an import bill of Rs 86,000 crore in FY18 and the custom duty has been increased in the range of ~2.5-10%. We believe this could be beneficial for companies like IFB Industries and Bata wherein majority of production is localised.

Rainfall was 9% below normal. However, reservoir levels at 74% were still at highest level in the past 4 years and marginally ahead of the 10-year-average, mitigating any adverse impact. 24 of the 36 meteorological subdivisions have received normal rainfall this year.

Demand revival and sustained rural growth, despite a healthy base of four quarters, has encouraged Consumer companies to launch new products and this trend is likely to continue into the rest of FY19.

Floods in Kerala and the transport strike were not material at a national level, there has been an impact on demand from CSD of late.

Outlook

Despite the recent correction in the stock prices over the past month, consumer names continue commanding rich near-term valuations. Moreover, the ongoing inflationary trend caused by higher crude prices and INR depreciation continues to put pressure on the sector. We would recommend consumers to stick to strong names such as Britannia, Bata, Trent and Kansai Nerolac which have strong management and the potential to tide away from these difficult times.

HUL Q2FY19 RESULT UPDATE

Q2FY19 Revenue below our Expectation but beats street estimates, EBITDA and PAT in line with estimates.

Revenue increased by 11.1% Y-o-Y to Rs.91380 mn, with a volume growth of 10%, making this the 4th consecutive Quarter with a double digit volume growth.

Other Income stands at Rs.3050mn vs 2040mn, +49% yoy, which includes a one off of interest earned on tax refund, and an accounting change which resulted in a fiscal benefit being recorded in sales to other income currently.

Segmental Growth in Double Digits:

Homecare grew 12.4% yoy / Beauty & personal Care grew 10.4% / Food & Refreshment ~10%

EBIDTA in actual terms stood at Rs 20190mn up 20% Y-o-Y. EBITDA Margins stood at 21.9% vs 19.7% on account of lower other expenses.



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Raw Materials Costs stood at 48% vs 47.3% (on account of increasing crude prices) and other expenses stood at 13.5% vs 15.1%

PBT (before exceptional items) stood at Rs 21870mn registering 23.9% YoY growth

PAT (before exceptional items) stood at Rs 15220mn registering 23.1% YoY growth.

KTA:

Fabric Care & Household Care: Double digit volume growth led by strong performance in Vim / Domex "Pick up the Brush" Campaign launched in South

India and well received - Hair Care: witnessed strong double digit growth and TRESemme was relaunched with superior fragrance and packaging/ launched an exclusive makeup range "Kareena Kapoor Khan by Lakme Absolute"

- Ice Cream & Frozen Desserts: Witnessed double digit growth during the Quarter

- Ice Cream: Acquired Adityaa Milk Ice Cream during the Quarter and the integration has started

- Launched Rs. 5 pack of Lifebuoy in Gujarat

- E-Commerce platform contribution is higher than Modern Trade

- Reduced inventory ; excess inventory out of system, would aid flexibility on going long on some commodities.

Interim Dividend of Rs. 9 per share for FY19 declared.

Valuation @ Rs 1569: 54.08x FY19e EPS of Rs 29.01 and 45.93x FY20e EPS of Rs 34.16. We would recommend investors to Accumulate this stock



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Bata	921	1000	9%	1150	15%	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 921 stock trades at 44x FY19e EPS of Rs 21 and 37x FY20e EPS of Rs 24.6.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Trent	321	360	12%	500	56%	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 321 stock trades at 62x FY19e EPS of Rs 5.1 and 42x FY20e EPS of Rs 7.6.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Mahindra Logistics	548	630	15%	690	25%	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 44x its FY19e EPS of Rs 13 and 31x its FY20e EPS of Rs 18.

We would recommend investors to Accumulate Mahindra Logistics.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
IFB Industries Ltd	1004	1100	10%	1350	35%	Buy

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 1004 stock trades at 42x FY19e EPS of Rs 24 and 33x FY20e EPS of Rs 30.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Britannia	5677	6000	6%	6500	15%	Accumulate

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 5677 trades at 56x FY19e EPS of Rs 102 and 46x FY20e EPS of Rs 123

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Kansai Nerolac	421	465	10%	615	46%	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 421 trades at 42x FY19e EPS of Rs 10 and 32x FY20e EPS of Rs 13

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Schaeffler India Ltd	5150	5500	7%	6000	16%	Accumulate

Original 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 5150 trades at 32x CY18e EPS of Rs161 and 27x CY19e EPS of Rs 191

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
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			Upside		Upside	
Jyothy Labs	198	218	12%	250	26%	Accumulate

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, EBITDA margins 16-17%, PAT growth 20-25%

At CMP of Rs 198 trades at 33x FY19e EPS of Rs 6 and 28x FY19e EPS of Rs 7

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Sarla Perf Fibers Ltd.	33	45	36%	55	67%	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
Arvind	334	384	15%	448	35%	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
V-Mart	2006	2500	25%	3000	50%	Buy

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



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Capital Goods

We expect the execution momentum of Q1FY19 to sustain in Q2FY19 led by healthy order books along with need for timely completion of projects given the upcoming elections. Order book remains healthy for the companies under coverage, focus to remain on better execution. We expect ordering to remain front ended in FY19. Lower cash balances in PSU companies and higher interest cost given stretched working capital are likely to impact profitability.

With the Industry Capacity Utilisation still at moderate levels, there is no urgency among manufacturers to go for expansions, which is delaying demand growth for Capital Goods manufacturers. Pick up in private capex and green field expansions remain key for next leg of growth for EPC companies. Revenue growth momentum in electrical consumer goods particularly in AC for Q1FY19 was weak but expected to pick up in the festive season and the long term fundamental remains strong.

Outlook

We remain positive on the sector and anticipate good performance in domestic and overseas in the medium to long term. We expect order inflows to improve further with improved execution across segments providing better revenue visibility.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
BHEL	75	75	0%	88	17%	Accumulate

BHEL has healthy share of executable orders, visibility on FY19-20 revenues has improved, focus remains on improved execution. Intends to increase its industrial exposure which has grown in double digits for FY18 & exploring new opportunities in railway transmission is a positive. We are positive on the stock 1) executable orders grown substantially providing good visibility 2) big project like Yadadri has started seeing execution and revenue recognition would be spread over 3) continuous focus on its gross margins and retaining it 3) employee cost reduction giving cushion to the operating margins

At CMP of Rs 70 stock trades at 18.7x FY19e EPS of Rs 3.7 and 11.9x its FY20e EPS of Rs 5.9

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Finolex Industries	498	580	16%	680	36%	Buy

Finolex being the market leader in Agri pipes & focus on improving market share. Recent volume growth with better price realization 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 514 stock trades at 19x FY19e EPS of Rs 26.6 and 16x its FY20e EPS of Rs 31.8.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
KEC International	276	300	9%	350	27%	Buy

Incremental opportunities for KEC exist in railways, civil division and international operations and expects T&D to garner improved revenues from SEBs. International business has been good mainly the SAE region has been getting good order inflows and enquiry. Business visibility is strong across verticals for KEC. Order book remains healthy with a good mix of railway orders and domestic & international t&d orders. Focus on debt reduction and working capital is helping profitability At CMP of Rs 292 stock trades at 12x FY19e EPS of Rs 20.9 and 9x its FY20e EPS of Rs 27.1

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Voltas Ltd.	501	550	10%	650	30%	Buy

Voltas being the market leader with 23% market share in AC market. Better product profile with new additions in inverter ACs, large distribution network and focus on aftermarket sales keeps Voltas ahead of its competition. Project segment order book improved as the company is cautious in picking orders. Margin improvement for the FY18 to 6.5% from previous lows 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.

At CMP of Rs 480 stock trades at 24x FY19e EPS of Rs 19.9 and 19x its FY20e EPS of Rs 24.6.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Engineer's India	117	117	0%	134	15%	Accumulate

EIL is attractively placed as a strong early cyclical play, with robust demand outlook & the surging oil & gas capex to drive a much longer and larger capex cycle. Most of these will be driven by domestic OMCs like HPCL-Barmer (Rajasthan), West Coast refinery, IOCL-Paradip petchem expansion, Numaligarh refinery, among others. EIL will continue to benefit from investments in downstream hydrocarbon and fertilizers.

At CMP of Rs 105 stock trades at 14.9x FY19e EPS of Rs 7 and 12.4x its FY20e EPS of Rs 8.5.



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Automobiles

Overview:

A delayed festive season, rising oil prices and a higher base tented September Auto sales Volumes

Automobile sales in September 2018 were expected to be weak because of the high base of last year and the 'shradh' period which is considered to be inauspicious for making purchases. Passenger vehicles and two wheelers report a YoY decline or single-digit YoY growth in sales due to the high base of last year; it was because of inventory build-up ahead of the festive season, which this year is a month late compared to last year. Apart from this, Kerala floods also had an adverse impact on demand during the month. Commercial vehicles (CVs) double-digit YoY growth momentum to continue. Going forward, we remain positive on automotive segment in October 2018 on back of upcoming festival season.

Maruti Suzuki India Ltd.'s sales fell for the third month in a row. Maruti sold 1.62 lakh units a decline of 0.5% yoy

M&M sales down 16% to 21411 unit's yoy

Tata motors sales grew 7% to 18429 unit's yoy on back of continuous strong demand for new generation vehicles picking up.

M&HCV industry continues to grow on the back of road construction, affordable housing, irrigation projects and government spending on infrastructure projects in addition to the healthy growth in core sectors like cement, coal and steel.

Tata motors MH&CV sales were up 32% to 16,239 unit's yoy

Ashok Leyland sales rose 28% to 17,386 unit's yoy

M&M MH&CV sales rose 20% to 22917 unit's yoy

Tractors volumes declined this month due to the change in Festive season compared to the same period last year. We expect positive momentum in the festive season, which starts in October volume to pick up.

M&M farm equipment declined 19% to 35983 unit's yoy

Escorts sales grew marginally 2.5% to 10,617 unit's yoy

Two wheelers export volumes posted strong double digit no. However Hero, TVS and Eicher motors yet to deliver September volumes numbers

Bajaj Auto sales grew 17% increase to 5, 02,009 units yoy

Our top picks are Maruti Suzuki, M&M and Ashok Leyland.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Bajaj Auto	2606	2800	7.4	2910	11.5%	Accumulate

Regulatory changes driving medium term visibility in 3wheelers. Key export markets showing revival and new ramp-up will drive volume growth. 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 2606 stock is trading at 18.3x of FY19E EPS of Rs 142.3 and 16.1x and FY20E EPS of Rs 161.7.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Mahindra & Mahindra	745	980	31.5%	1000	34%	Buy

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 745 stock is trading at 16.7x FY20E EPS of Rs 44.56

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Maruti Suzuki	7174	9300	30%	10000	39%	Buy

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 7174 stock is trading at FY19E EPS of Rs 348 and FY20E of Rs 372 Our TP is based on P/E of 25x FY21E.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
WABCO	6478	7500	15.7%	8346	28%	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 6478 stock is trading at 36x FY19E EPS of Rs 179 and 30.2x FY20E of Rs 214

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Ashok Leyland	116	158	36%	173	49%	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 116 stock is trading at 14.8x 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	528	620	17.4%	690	30%	Accumulate

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 528 stock is trading at 23.3x FY19E EPS of Rs 22.9 and 18.7x FY20E of Rs 28.1



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
JK Tyres	95	109	15%	124	30%	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 95, the company trades 6.5x FY19 EPS of Rs. 26. Our TP is based on P/E of 7.5x FY19E.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Hero Motocrop	2877	3944	37%	3960	38%	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 2877 stock is trading at FY19E EPS of Rs 218 and FY20E of Rs 220 Our TP is based on P/E of 18x FY20E



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Power sector

Impact of Electricity (Amendment) Act, 2018:

Surcharge to be capped at 20%: Every consumer with 1MW or more consumption will be allowed open access (right to procure power from supplier of choice) and the open access surcharge will be capped at 20% of the wheeling (transmission) charges. This would be progressively reduced and eliminated within three years. SEBs levy surcharge on industrial customers to discourage power procurement through other sources. However, cap on surcharge will improve trading volume on exchange as power procurement cost for industrial users will go down by around Re0.8p.u.

Removal of cross subsidy charge: The amendments propose restricting cross subsidy charges to 20% of tariff and eliminating all cross subsidy in 3 years with at least 6% reduction every year. Cross-subsidy charge ranges between Rs.1.2-1.4 p.u. for industrial customers. Removal of cross subsidy charge will reduce procurement cost for industrial customers over a period. These measures are likely to be beneficial for power exchanges like IEX as open-access volumes will increase on the exchange.

RPO/RGO: part of new act: Renewable Power Obligation (RPO) is a threshold of minimum quantum power purchase through renewable sources, mandated for every power supplier. These targets will now be set by the Central Govt. (as opposed to every State today). RPO noncompliance will attract penalties (INR 1-5 /kWh) to the extent of shortfall. The move is likely to increase REC trades on IEX. However, REC supply has gone down due to lack of increase in RE sources.

Outlook

Power demand outlook for FY19 is positive. However, commensurate increase in thermal production with view of improving coal availability remains key for increasing PLFs for manufacturers. Short term volumes are expected to increase in absence of incremental PPA capacity.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
PTC India	76	83	10%	90	19%	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 5x FY18 earnings and 0.5xP/BV which is at discount to its peers.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
IEX	1640	1673	2%	2027	16%	Accumulate

IEX has 98% market share in power trading in India. Short term power contributes 10% of total volume and 35% of the short term power is traded through exchange.

Short term power trading is expected increase over a period as country has excess power capacity and no new PPAs are getting signed. Therefore, incremental power demand is expected to come for short term.

We expect IEX's volume to increase at a CAGR of 18% over FY18-20E and earnings to increase at a CAGR of 20%. At current price the stock is trading at 29x FY19E and 25x FY20E earnings and 25x FY19E and 21x FY20E EV/EBITDA.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
CESC	904	960	6%	1110	23%	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 10x FY19E and 9x FY20E earnings.



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Miscellaneous Sector

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Zuari Agro Chemicals	255	306	20%	350	37%	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

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Chambal Fertilizer	142	180	27%	200	41%	Accumulate

4Expected 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 158 stock is trading at 13.1x FY19E EPS of Rs 12 and 8.40x FY20E of Rs 18.8.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Spice Jet	70	90	28%	100	42%	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 70.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
M&M Financial Service	387	491	26%	512	32%	Buy

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
Petronet LNG	215	271	26%	289	34%	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 245 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
Vijaya Bank	44	49	12%	60	36%	Accumulate

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
IGL	242	340	40%	375	54%	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. At CMP, the stock is trading at 22x FY20E Earnings.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
MGL	829	1170	41%	1300	56%	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.



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