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Indian equity markets closed in the green for the Month ended July 31, 2018, with key benchmark indices touching record highs. Rate cuts by the Goods and Service Tax (GST) council gave a boost to the indices. The GST council has cut rates on 88 items with effect from Jul 27, 2018.

In the first half of the calendar year 2018, we saw divergent trend in large and mid-caps. While Nifty is up by about 8% for the year, the Sensex is up more than 10%, the Nifty mid cap is down by nearly 10% and the Nifty small cap index is down by more than 20%.

A major correction in the midcaps some of which have fallen 20% from its peak owing to various reasons like continuous FII selling in India as well as the overall emerging market portfolio, Additional Surveillance Measures list by SEBI and profit booking by the DII's. We believe the midcaps have bottomed and we can see some positive movements from these levels. We continue to believe that the long-term India story remains intact. For the month of July, the small cap index is up by about 2.5%, the midcap by 3.8% and the Nifty by about 6%.

We also expect oil prices to moderate in the medium term as they face resistance around \$75 range due to supply pressure from the OPEC. This will strengthen the INR and provide a upside momentum to the market. Overall, though there could be short term uncertainty, we continue to remain positive for the long term.

The Reserve Bank of India raised rates by 25bps during July 18. This we think would help to curb inflation in the coming months and could also help stabilize the currency.

The Indian monsoon season has been normal so far and out of total 36 sub divisions, only 6 have received deficient rainfall upto 31st July. This coupled with the increase in MSP for agricultural outputs is likely to boost rural demand. Our interaction with some of the rural focused companies indicates 200bps higher growth in the rural sector as compared to the urban centers. GST rate cut on 88 items is also likely to be consumption booster.

Capacity utilization in the Indian industry has started inching up in and as per RBI's data it has reached 75% in April-June 18 quarter, which is the highest in the past two years. As per RBI the consumption driven credit growth such as housing, consumer durables, credit card outstanding etc. have shown a yoy growth between 15% and 33%.

On the earnings front, IT, consumption and Banking sector have given positive results while telecom sector saw muted results due to continued price war. The current earnings season has been positive overall leading to strengthening the overall market sentiments.



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IT SECTOR

Majority of the IT companies reported its Q1FY19 performance in July 2018. Results were largely in-line with our estimates and reinforced our positive view on the sector. Revenue growth in dollar terms was in the range of 0.5% - 6% qoq for companies under our coverage. EBITDA margins were a mixed bag they were impacted by wage hikes (usually done in Q1 of every financial year) and visa renewal costs which were off-set by INR currency depreciation. Other Income of companies across our coverage universe were impacted by lower Forex Gain due ~5% depreciation of the INR which resulted in a hedging losses / lower gains. Another notable trend was the positive commentary given by IT companies on the Banking & Financial (BFS) industry and Consumer Packaged Goods industry which means that BFS has finally turned the tide and can be a major play going ahead.

Outlook

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, LTTTS 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.

Dalal & Broacha Recommendation

August 7, 2018



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
TCS	1,977	1,900	-4%	2,000	1.5%	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 23.8x and 21.3x FY19E and FY20E EPS.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Infosys	1,361	1,354	-0.7%	1,436	5.3%	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 16.8x and 15.2x FY19E and FY20E.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
HCL Tech	957	1000	3.7%	1119	15.8%	Buy

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 13.7x and 11.9x 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	667	700	6%	750	7%	Hold

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 14.0x and 12.4x FY19E and FY20E. Recommend BUY with a target of INR 750.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tata Elxsi	1,408	1,400	-1.2%	1500	6%	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 30.4x and 25.5x FY19E and FY20E EPS.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Persistent Systems	855	899	5%	1000	17%	Buy

Persistent is trading at P/E multiple of 18x and 15x 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	337	350	2.9%	450	32%	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.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tejas Networks	254	350	38%	509	100%	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 optical networking industry.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Tata Communications	584	700	20%	812	39%	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 584 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	688	750	9%	900	31%	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 15.8x and 13.1x FY19E and FY20E EPS.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
L&T Tech Services	1427	1500	5%	1585	11%	Buy

Company has managed to continuously deliver above industry average growth since listing. In Q1FY19, company revised its USD revenue growth from 16% to greater than 16% in FY19E and margins to remain intact. Stock is trading at 21.4x and 18.1x FY19e and FY20e.



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Pharmaceuticals

For the quarter ended June'2018 the domestic pharmaceuticals industry grew at 9.1% to Rs 31,244 crs with an 8% increase in volumes. While the sales from Indian players increased 9.1% to Rs 24,853 crs, the MNCs grew faster at 9.3% to Rs 6391 crs. This has been reflected in the Q1FY19 results of MNC players like GlaxoSmithKline Pharmaceuticals, Sanofi India, Abbott declaring more than healthy earnings growth.

USFDA clearance to Sun Pharma's Halol facility improved the market sentiment for pharmaceutical stocks. More facilities witnessed clearances like Alembic Pharma's Vadodara unit, Cipla's Pithampur and some more.

Majority of the Q1FY19 results declared so far have performed well in terms of healthy growth in revenues and a higher growth in earnings. The growth has been due to a lower base in Q1FY18 which saw inventory destocking by the trade channels in anticipation of GST implementation.

Outlook

We are positive on the sector and anticipate good performance in domestic as well as exports. The rupee depreciation has also played well favoring pharmaceutical exports.

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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Biocon	573	700	22%	800	39%	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 Pegfilgrastim in the US soon. Insulin sales to grow due to EUGMP approval to Malaysia plant

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	637	650	2%	680	7%	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	2244	2500	11%	3074	37%	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 19x FY20E EPS of Rs 121.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Syngene	594	699	17%	830	38%	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 27x FY20E EPS of Rs 22.2.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Narayana Hrudayalaya	251	273	9%	300	20%	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 33x FY20E EPS of Rs 7.9.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Max India	85					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	250	260	4%	300	20%	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 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
Granules India	108	120	11%	140	30%	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 13x FY20E EPS of Rs 8.2.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Laurus Labs	437	480	10%	535	22%	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 7.3x FY20E EPS of Rs 59.8.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Deepak Fertilisers	278	300	7%	360	29%	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
Cadila Healthcare	380	412	10%	450	20%	Buy

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 17x FY20E EPS of Rs 21.9.



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Consumer Durables

GST rates were lowered for a variety of consumer products which will have sentimental push for consumption. Tax compliant organized players would benefit and will also witness accelerated demand for branded & labelled products.

Bigger beneficiary items with 10% savings with rate reduction from 28% to 18%:

- 1. Consumer Durable:** Items such as vacuum cleaners, Grinders, Mixers, Water heater, Electric Iron, Water Cooler, Refrigerators, Washing machine and TV (up to 68 cm or 27 inch) got reduction of 10% from 28% earlier to 18%. This is positive for company's such as IFB, Havells Whirlpool.
- 2. Building Materials:** Paints & Varnishes, Glaziers' putty, grafting putty too got same reductions in GST rates from 28% earlier to 18% now. Positive for paint companies such as Asian Paints, Kansai Nerolac, Akzo Nobel and Berger paints.
- 3. Sanitary Napkins:** Exempted from GST, would aid player like P&G which enjoys ~50% market share in the organised space.
- 4. Footwear Concessional 5% tax rate extended to footwear with MRP upto INR1000 (vs earlier limit of INR500)** positive for Bata and Khadims

MSP Announcement: MSP increases was in line with Union Budget 2018-19 announcement of A2+FL 1.5x costs. This will have a dual impact on one-side inflation would rise however more income in the hand of farmer would aid rural prosperity.

In-terms of results, Asian paints, Kansai, Bata HUL, Dabur, IFB Industries, Jyothy Laboratories all came out with good or better than expected results with strong volume growth on back of lower base last year due to GST introduction.

Outlook

As a sector we remain optimistic and would recommend investors to stay invested for Long-Term.



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Bata	938	1000	7%	1125	20%	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 935 stock trades at 45x FY19e EPS of Rs 21 and 38x FY20e EPS of Rs 24.6.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Trent	358	400	9%	500	40%	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 359 stock trades at 70x FY19e EPS of Rs 5.1 and 47x FY20e EPS of Rs 7.6.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Mahindra Logistics	584	630	8%	690	18%	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 40x its FY19e EPS of Rs 14.5 and 28x 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	1195	1350	13%	1500	26%	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	6326	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 6327 trades at 62x FY19e EPS of Rs 102 and 41x FY20e EPS of Rs 123

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Kansai Nerolac	481	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



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Schaeffler India Ltd	5258	5800	10%	6275	20%	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 5250 trades at 33x CY18e EPS of Rs161 and 27x CY19e EPS of Rs 191

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Jyothy Labs	223	250	13%	275	24%	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, EBIDTA margins 16-17%, PAT growth 20-25%

At CMP of Rs 238 trades at 37x FY19e EPS of Rs 6 and 32x FY19e EPS of Rs 7

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Sarla Perf Fibers Ltd.	44	56	27%	70	59%	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	420	509	21%	558	33%	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	2800	2900	4%	3100	11%	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



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Capital Goods

The order inflows remained strong for the sector, dominantly in the railways electrification, infra, power and hydrocarbon segments. Oder book remains healthy for the companies under coverage.

BHEL results were good and with healthy share of executable orders, visibility on FY19-20 revenues has improved. 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. Among Consumer Durables, we are expecting weak numbers from the room AC industry as the demand in the Northern region was hit by thunderstorms but we feel it has been priced in for the companies. Revenue growth momentum in electrical consumer goods has been good as observed in the recent results, driven by product category as well as distribution network expansion.

Outlook

We remain positive on the sector and anticipate good performance in domestic and overseas in the medium to long term. We except order inflows to improve further going forward 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	79	7%	90	21%	Buy

BHEL results were good and with healthy share of executable orders, visibility on FY19-20 revenues has improved. 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 74 stock trades at 12.6x FY20e EPS of Rs 5.9 and 19.8x its FY19e EPS of Rs 3.7

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Finolex Industries	591	640	9%	731	24%	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 587 stock trades at 22.1x FY19e EPS of Rs 26.6 and 18.5x its FY20e EPS of Rs 31.8.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
KEC International	324	362	12%	430	33%	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 with good order book. Focus on debt reduction and working capital is helping profitability

At CMP of Rs 330 stock trades at 14.7x FY19e EPS of Rs 22.4 and 10.8x its FY20e EPS of Rs 30.6

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Voltas Ltd.	576	620	8%	681	18%	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 sort 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. We feel it has been priced in the stock. 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 576 the stock trades at 28.7x FY19E and 23.7x FY20E earnings.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Engineer's India	135	145	7%	170	17%	BUY

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 136 stock trades at 19.3x FY19e EPS of Rs 7 and 15.9x its FY20e EPS of Rs 8.5.



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Automobiles

Automobiles sector has report a strong growth in Q1FY19 led by strong recovery in rural demand, government spending on infrastructure, new launches, and low base (led by BS1V and GST transitions). Most OEMs are likely to report high double-digit revenue growth, with Ashok Leyland (+51% YoY) Bajaj Auto (+45%) and MSIL (+28%) being the stand out performers in Q1FY19

During the quarter PVs/2Ws segment posted 22/15% YoY volume growth driven by healthy rural sales momentum. CV volume jumped 50% YoY on low base driven by pick-up in construction/mining activities and cyclical recovery in LCVs.

Demand outlook for FY19 is positive across segments, driven by healthy rural sales momentum, expectation of normal monsoon for the third year in a row, and a pick-up in economic activities. Key threats to demand are posed by inflationary fuel prices and higher interest rates. Our top picks are Ashok Leyland, Maruti Suzuki, M&M, Escorts and Hero MotoCorp.

Automobile July sales Volume Mixed Bag

With the benefit of low base disappearing July 2017 was first month post GST implementation, the Automobile sector growth moderated in July 2018 after reporting strong double digit growth for the past three months. A mixed trend emerged in month of July with 2W and CV segment (new axle load norm impact was not felt) showing double digit growth while PV segment growth was flat. 2W volumes grew 10% driven by higher rural incomes and buoyant farm sentiments backed by a well progressing monsoon.

Outlook

In the 2W segment, Bajaj Auto outperformed the industry reporting a 26% growth for the month lead by market share gains, primarily in the entry motorcycle segment and strong export sales. TVS Motors too outperformed the industry reporting a 17% growth for the month on the back of a strong performance of the scooter segment. Market leader Hero MotoCorp performed broadly in-line with the industry growing 9%, while another multinational player substantially underperformed the industry.

In the CV segment, Eicher Motors and M&M outperformed the industry reporting a strong growth of 36.7% and 28.4% for the month. The outperformance is on the back of a higher share of LCV's in the mix and points toward market share gains. Ashok Leyland performed in line with the industry reporting a 26.9% growth while Tata Motors underperformed the industry marginally reporting a 25% growth.

In the PV segment, Tata Motors outperformed the industry reporting a 14% volume growth for the month attributable to a sustained demand for the Tiago, Tigor, Hexa & Nexon and pointing towards market share gains. Maruti Suzuki performed in- line with the industry reporting flat volumes. M&M underperformed the industry reporting a decline of 6% for the month.



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In the tractor segment, M&M outperformed the industry reporting a 20% growth on account of a normal monsoon and a slightly low base in July 2017. Escorts underperformed reporting a 4% growth for the month primarily on account of a high base in the corresponding month of the previous year.

Dalal & Broacha Recommendation

August 7, 2018



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Bajaj Auto	2688	2800	%	2910	%	Hold

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 2688 stock is trading at 18.8x of FY19E EPS of Rs 142.3 and 16.6x and FY20E EPS of Rs 161.7.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Mahindra & Mahindra	933	980	5%	1000	7%	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 919 stock is trading at 20.6X FY20E EPS of Rs 44.56

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Maruti Suzuki	9287	9900	7%	10475	13%	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 9188 stock is trading at FY19E EPS of Rs 348 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	6790	7500	10%	8346	23%	Buy

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 6710 stock is trading at 37.4x FY19E EPS of Rs 179 and 31.3x FY20E of Rs 214

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Ashok Leyland	118	158	34%	173	46%	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 118 stock is trading at 15.1x 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%	690	31%	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 519 stock is trading at 22.6x FY19E EPS of Rs 22.9 and 18.4x FY20E of Rs 28.1



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Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
JK Tyres	132	158	20%	185	40%	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.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Hero Motocrop	3302	3944	19%	4176	26%	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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Power sector

Power demand growth: All-India power demand grew by 8.7% yoy in June 2018 as against a growth of 6.1% in June 2017. Among states, Odisha reported demand growth of 26.3% yoy followed by Rajasthan (+20.4% yoy) and Haryana (+19% yoy) for June 2018. Andhra Pradesh and Rajasthan have shown 15% and 13% yoy increase in peak demand respectively. PLF for coal based facilities reported at 61% while for gas based power plants is reported at 23%.

New capacity added- 3.4GW in FY19: New capacity additions have been 3.4GW till date for FY19. However, no new capacity is added during July. All-India installed capacity remained at 344 GW (+4% yoy).

Short term trading on IEX: In June 2018, IEX traded 5,052 MU (up 28% y-o-y) in electricity market both DAM and TAM combined as against 5,169 MU traded in May 2018 and 3,948 MU traded in June 2017. The Day Ahead Market saw the highest ever monthly trade of 4,965 MUs in June'18 registering 1% m-o-m and 27% increase y-o-y.

Average MCP: The average Market Clearing Price (MCP) discovered in the Day Ahead-Market was Rs. 3.73 per unit saw a decline of 20% over 4.67 per unit price in May'18 and 44% increase over Rs. 2.59 per unit in June 2017.

Stressed assets Resolution: Of the 42GW government-identified stressed assets, 9.9GW is currently under NCLT. 8.8GW has been resolved with awarding of coal linkage under the SHAKTI scheme. With increase in coal production, utilization of these plants is likely to increase. Of the balance 23GW, 14.8GW is under various stages of bidding. RBI's recent circular regarding recognition of stressed assets as defaulters, could result in potential cancellation of existing PPAs by discoms. Hence, there is a need for urgent resolution so as to avoid distress sale of otherwise good assets.

Coal: Production and dispatch: Coal production increased by 13.2% yoy while dispatches increased by 8.6% in June 2018. Coal India's dispatched to power sector increased by 26% yoy.

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	85	90	6%	110	29	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.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Skipper	154	208	35%	240	56%	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
IEX	1592	1850	17%	2027	28%	BUY

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	936	1150	23%	1340	43%	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.



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Miscellaneous Sector

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
Zuari Agro Chemicals	334	380	14%	400	20%	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	142	180	27%	225	58%	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 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	95	125	32%	145	53%	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	499	491	-2%	512	3%	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
Petronet LNG	229	271	18%	289	26%	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
Vijaya Bank	63	62	-2%	69	10%	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	305	340	11%	375	23%	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.

Scrip Name	CMP	Short Term Target	% Upside	Long Term Target	% Upside	Recommendation
MGL	968	1170	21%	1300	34%	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.