

MONTHLY STOCKS RECOMMENDATION

OCTOBER 2017



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Monthly Stock Picks – Oct'17

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Company	Recommendation	CMP (Rs)	Target (Rs)	Upside (%)	Time Horizon
Reliance Ind. Ltd	Buy	798	974	22	9-12 Months
Hindustan Zinc Ltd	Buy	313	380	21	9-12 Months
Bajaj Finance Ltd	Buy	1868	2307	24	9-12 Months
IndusInd Bank	Buy	1693	2065	22	9-12 Months
Aurobindo Pharma Ltd	Buy	707	845	20	9-12 Months
Berger Paints Ltd	Buy	247	299	21	9-12 Months
Future Enterprises Ltd	Buy	51	60	18	6-9 Months

Weightage of Investment (10 Lakh)

Company	Amount (Rs)	Weightage
Reliance Ind. Ltd	1,40,000	14%
Hindustan Zinc Ltd	1,40,000	14%
Bajaj Finance Ltd	1,40,000	14%
IndusInd Bank	1,30,000	13%
Aurobindo Pharma Ltd	1,20,000	12%
Berger Paints	1,20,000	12%
Future Enterprises Ltd	1,10,000	11%
Cash/Liquid Bees	1,00,000	10%
Total	10,00,000	100%

Reliance Industries Ltd:

CMP	Sector	NSE Symbol	BSE Code	MCAP (Cr)	Equity (Cr)	Face Value	Book Value	Beta-Sensex
798	Refineries	RELIANCE	500325	505559.22	6332.55	10	455.28	0.89

Reliance Industries Limited is engaged in refining, including manufacturing of refined petroleum products, and petrochemicals, including manufacturing of basic chemicals, fertilizers and nitrogen compounds, plastic and synthetic rubber in primary forms. The Company's segments include Refining, Petrochemicals, Oil and Gas, Organized Retail and Others. The Refining segment includes production and marketing operations of the petroleum products.

- The company has reported its highest GRM during Q1 FY18 quarter which stood at US \$ 11.9 per barrel - outperforming Singapore benchmark by US \$ 5 per barrel as against US \$ 11.5 per barrel in the previous year quarter and quarterly crude throughput was 17.3 MMT compared to 16.8 MMT in Q1FY'17.
- In the recent quarter, RIL reported 28% increase in consolidated net profit to Rs 9108 crore in Q1FY'18 compared to Q1FY'17 which was higher than the estimates while net sales were up 27% to Rs 90537 crore. Increase in revenue is primarily on account of increase in prices and volumes of refining and petrochemical products partially offset by lower prices and volumes from E&P business.
- Company's exports (including deemed exports) from India operations were higher by 11.5% at Rs 37,111 crore as against Rs 33,282 crore in the corresponding period of the previous year.

Reliance's retail segment has added 18 stores during 1Q FY18 and operated 3,634 stores across 703 cities with an area of over 13.8 million sqft as on 30th June, 2017. During 1Q FY18, RIL Jamnagar refineries processed 17.3 MMT of crude. For the quarter, average refinery utilization rate was 88.3% in North America, 85.5% in Europe and 85.3% in Asia. Refinery utilization in North America and Europe were supported by higher product import requirement from emerging economies in Latin America and West Africa. Further with stronger performance with GRM improvements, we expect company to report EPS of Rs 61.81 FY18E, at CMP PE work out to be 12.90x. Hence, stock can be bought at CMP for target price of Rs 974. Time frame should be 9-12 months.

Hindustan Zinc Ltd:

CMP	Sector	NSE Symbol	BSE Code	MCAP (Cr)	Equity (Cr)	Face Value	Book Value	Beta-Sensex
313	Metals-Non ferrous	HINDZINC	500188	132484.88	845.06	2	72.91	1.26

Hindustan Zinc Limited (HZL) is engaged in the mining and smelting of zinc, lead and silver metal in India. The Company's segments are Mining and smelting of zinc, lead and silver, and Wind energy. The Company's operations include approximately five zinc-lead mines, over four zinc smelters, a lead smelter, a zinc-lead smelter, approximately seven sulfuric acid plants, a silver refinery plant and over six captive power plants in the state of Rajasthan.

- The Company reported an 81% growth in the net profit to Rs 1876 crore on the back of 79% surge in income from operation at Rs 5013 crore for the first quarter ended June 2017. The earnings surge was due to strong zinc & lead prices and higher volume. OPM inclined to 720 bps to 47.8%. Thus, operating profit (OP) zoomed by 111% to Rs 2384 crore.
- During Q1FY 2018, Zinc prices inclined 35% to \$2596 per MT, Lead prices rose 26% to \$2161 per MT and Silver prices grew 2% to \$17.2/oz The Company capital mine development increased by 82% y-o-y and 28% q-o-q to 8,828 meters during the quarter.
- The zinc metal cost of production per MT before royalty (COP) during the quarter was at Rs. 62,698 (\$973), higher by 2% over a year (6% in dollar terms). The increase was due to substantial increase in coal & commodity prices and lower acid realization, offset by higher volumes.

The company has maintained the volume guidance for FY18 of ~950 KT (refined zinc-lead production) and 500 MT silver production and are on track to reach mined metal capacity of 1.2 mtpa in FY 2020. The dollar CoP (excluding royalty) in FY18 is expected to be marginally higher compared to FY17 based on current levels of coal and input commodity prices. For FY18, the Company expects the tax rate is expected to be slightly higher than MAT. The Company expects zinc exports constitute ~30% of total volumes. Further, domestic realisations remain at a premium of around US\$100-120 per tonne over exports. We expect HINDZINC to report EPS of Rs 23.89 FY18E, with PE working out at 13.09x at CMP. Hence stock can be bought at CMP for target of Rs 380. Time horizon should be 9-12 months.

Bajaj Finance Ltd:

CMP	Sector	NSE Symbol	BSE Code	MCAP (Cr)	Equity (Cr)	Face Value	Book Value	Beta-Sensex
1868	Finance	BAJFINANCE	500034	107451.30	115.30	2	244.59	1.77

Bajaj Finance Limited is a non-banking finance company (NBFC) which engaged in lending and allied activities. It focuses on consumer lending, small and medium-sized enterprises (SME) lending, commercial lending, rural lending, fixed deposits and value-added services. Its consumer lending products include two-wheelers and three-wheelers finance, consumer durables finance, digital products finance, retailer finance, salaried personal loans, e-commerce consumer finance, e-commerce seller finance and home loan.

- The company has continued to post strong growth, while recording robust 39% growth in the loan book to Rs 68883 crore end June 2017 over June 2016. The customer base of the company has surged 26% to 21.69 million end June 2017 from 17.18 million end June 2016.
- The number of new loans booked has jumped 48% to 37.71 lakh in Q1FY2018 from 25.41 lakh in Q1FY2017.
- The deposit book of the company has crossed a milestone of Rs 5000 crore to touch Rs 5095 crore end June 2017, which consists of 10% of overall borrowings book. Retail deposit average size is at 2.93 lakh with weighted tenor of 33 months.
- The cost of borrowing for the company has declined by 85-90 bps during last one year, which we expects reduction in its cost of borrowing going forward. The company has continued to maintained stable margins, which is facing pressure due to competition.

The company has moved its NPA recognition policy from 120 days overdue to 90 days overdue. GNPA and NNPA ratio, on 90 days overdue basis, stood at 1.70% and 0.53% end June 2017. However, the GNPA and NNPA at 120 days overdue have been lower at 1.44% and 0.42% end June 2017. The company expects its cost-to-income ratio to remain stable at 41-42% for next 15-18 months. We value the company at 10x the FY18E ABV to arrive at target price of Rs 2307. The EPS expected at Rs 42.00 FY18E, which brought up PE at 44.46x. Time horizon should be 9-12 months.

IndusInd Bank Ltd:

CMP	Sector	NSE Symbol	BSE Code	MCAP (Cr)	Equity (Cr)	Face Value	Book Value	Beta-Sensex
1693	Private Banks	INDUSINDBK	532187	101248.23	598.87	10	338.25	1.11

IndusInd Bank Limited is engaged in banking and para-banking services. The Bank is involved in accepting deposits, such as savings accounts, current accounts and fixed deposits, and banking solutions. The Bank is engaged in granting loans to various segments, such as industries and businesses, and retail loans; financing a range of vehicles or equipment to individuals, and priority sector lending. The Bank's segments include Treasury, Corporate/Wholesale Banking, Retail Banking and Other Banking Operations.

- The bank has maintained NIMs at strong level of 4.0% in Q1FY2018. The consistent improvement in CASA ratio to 37.8% end June 2017, has supported the margins at healthy level. The bank expects to maintain it NIMs at healthy level, going forward.
- The bank has target to improve the CASA ratio to 40% by FY2020, while expects to revise upward its CASA ratio target for FY2020.
- The bank has recorded healthy loan book growth of 24%, of which retail book grew by 22% and corporate by 26% end June 2017. Of retail book, vehicle portfolio increased 17%, while non-vehicles retail loan book jumped 35%. As per the bank, the vehicle loan book growth was impacted due to demonetization, shift to BS-IV fuel efficient vehicle and implementation of GST. The bank expects slower vehicle loan growth in Q2 and expects healthy pick up in H2FY2018.

Business of the bank increased at strong pace of 28% to Rs 250080 crore at end June 2017, driven by advances rising 24% to Rs 116407 crore. Deposits also increased at robust pace of 31% to Rs 133673 crore at end June 2017. The bank has targeted to reduce the cost-to-income ratio by 2 percentages points by FY2020. Bank has shown stable asset quality with Gross NPA ratio in the corporate book rose to 0.98%, while in the retail book GNPA moved up to 1.25% at end June 2017 from 0.81% and 1.12% end March 2017. We value bank at 4.2x the FY18E ABV to arrive at target of Rs 2065. The EPS expected at Rs 58.63 FY18E, which brought up PE at 28.87x. Time horizon should be 9-12 months.

Aurobindo Pharma Ltd

CMP	Sector	NSE Symbol	BSE Code	MCAP (Cr)	Equity (Cr)	Face Value	Book Value	Beta-Sensex
707	Pharmaceuticals	AUROPHARMA	524804	41459.97	58.59	1	143.99	1.37

Aurobindo Pharma Limited is a pharmaceutical company which engaged in producing oral and injectable generic formulations and active pharmaceutical ingredients (APIs). Its product portfolio is spread over seven therapeutic/product areas, including antibiotics, anti-retrovirals, cardiovascular, central nervous system, gastroenterologicals, anti-allergies and anti-diabetics. It is engaged in developing a range of oncology and hormonal products. It is also developing inhalation and dermatology products, such as pressurized metered-dose inhaler (pMDI). The Company, in addition to marketing its products domestically, also markets its products globally in over 150 countries.

- In FY17 Company's net profit rose 13.66% to Rs 2301.67 crore in the year ended March 2017 as against Rs 2025.09 crore during the previous year ended March 2016. Their sales rose 8.28% to Rs 14844.79 crore in the year ended March 2017 as against Rs 13709.75 crore during the previous year ended March 2016.
- During the year FY17, company's sales in US have crossed US\$ 1billion, also received final approval for 14 ANDAs in Q4FY17 and 61 ANDAs in FY17 from FDA. They have also launched 35 products during the year and 6 products in Q4FY17 in US.

The company Forayed in biosimilars through acquisition of 4 molecules from TL Biopharmaceutical AG and Commissioned dedicated R&D centre and in the process of setting up a manufacturing facility. The company has reported growth of 8.9% in FY17 in their Formulations segment (which contributes about 80% of their sales) while API shown growth of 5.5% in FY17 vs FY16. Further considering the robust performance in upcoming year we expect company to report EPS of Rs 46.99 FY18E. At CMP PE works out to be 15.04 times. Hence stock can be bought at CMP for target price of Rs 845. Time horizon should be 9-12 months.

Berger Paints Ltd:

CMP	Sector	NSE Symbol	BSE Code	MCAP (Cr)	Equity (Cr)	Face Value	Book Value	Beta-Sensex
247	Paints/Varnishes	BERGEPAIN	509480	24036.77	97.10	1	19.80	0.99

Berger Paints India Limited is engaged in the manufacture of paints and varnishes, enamels or lacquers. The Company offers products in categories, including interior wall coatings, exterior wall coatings, Berger metal and wood paints, protective coating, undercoats and construction chemicals. Its designer finishes include Silk Illusions Design Metallica, Silk Illusions Non Metallic, Silk Illusions Metallica and Silk Illusions Marble Finish. Its interior emulsions include Silk Luxury Emulsion, Easy Clean, Rangoli Total Care and Bison Acrylic Emulsion. Its interior wall distempers include Bison Distemper.

- For quarter ended June 2017, company's net sales (net of excise duty) rose 12% to Rs 1247.12 crore compared to corresponding previous year period.
- Decorative business showed healthy performance for the quarter in spite of some slow down in off take immediately prior to GST implementation driven by distribution expansion and strong growth in advertised products in June 2017.
- The company has added 800 tinting machine during the quarter and has taken the total count to 24,800 dealers. The company has taken a price hike of around 5.5% in 2017 to offset increase in inputs.

Recently company's wholly-owned subsidiary, Bolix, S.A. Poland and NBCC signed a memorandum of business exploration in furtherance of a joint initiative to bring to India External Thermal Insulation and Composite Systems (ETICS), a proven solution for improving energy performance of temperature controlled buildings. ETICS is a very cost effective and efficient solution and much used in Europe. Germany and Poland are the pioneers in this technology though ETICS is now in use in over 15 countries in Europe. NBCC and Bolix will jointly promote, develop and facilitate the use of ETICS solutions in building projects in India with the principal objective of reducing significantly the energy requirements for cooling or heating in these buildings which is expected to result in gains in environmental sustainability. We expect company to report EPS of Rs 5.90 FY18E, at CMP PE works out to be 41.83x. Hence stock can be bought at CMP for the target of Rs 299 for 9-12 months.

Future Enterprises Ltd

CMP	Sector	NSE Symbol	BSE Code	MCAP (Cr)	Equity (Cr)	Face Value	Book Value	Beta-Sensex
51	Retail	FEL	523574	2408.31	86.69	2	87.71	1.14

Future Enterprises Limited, formerly Future Retail Limited, is engaged in the business of multi brand retail trading. The Company's retail business consists of Hypermarket and Supermarket, and Home Solutions. The hypermarket and supermarket business is led by Big Bazaar, fbb, Food Bazaar and Foodhall, and the Company operates over 300 Big Bazaar, fbb and food bazaar stores across the country. The home solutions business includes HomeTown and Ezone. HomeTown is a one-stop destination for home-making solutions. Ezone is a lifestyle format that consists of consumer electronic and durables brands.

- The company is engaged in owning, investing, operating and maintenance of the retail infrastructure that runs some of India's most popular retail brands such as Big Bazaar, easyday, fbb, eZone and Home Town. 765 retail stores are managed by the company and these stores covers more than 13 million sq fts of retail space in over 240 cities and towns spread in 26 states and union territories across the country.
- The company has reported revenue of Rs 3782 cr in FY17 with gross margin of Rs 1107 cr and EBITDA of Rs 1184 cr. Reported profit of FEL for FY16-17 was Rs 44 crore.
- Company is also concentrating on its other businesses, viz. manufacturing and trading. In trading, the Company is in process of creating a fashion hub, catering to the requirements of various retailers in the fashion segment.

The Company is proposing to widen its customer base for the retail infrastructure provider business, by reaching out to other group companies as well as external retailers. The capital employed (net of cash) in the business is Rs. 8,962.24 Crore as at March 31, 2017. Return on capital employed (EBIDTA / average capital employed) during 2016-17 is 13.79% as compared to 11.83 % during 2015-16. We are optimistic on the performance of the company for FY18 and expect company to report earnings of Rs 0.87 per share in FY18E. At CMP PE works out to be 58.4 times. Hence, stock can be bought at CMP for the target of Rs 60. Time frame should be 6-9 months.

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Analyst Certification (For Reports)

Manoj Vijay Shinde, Elite Wealth Advisors Limited, manojshinde@elitewealth.in

Israil Khan, Elite Wealth Advisors Limited, suhail@elitewealth.in

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