HDFC securities

Ujjwal 2019

Presenting a diversified basket of growth and value stocks with promising prospects. Start your New Year by investing in this thematic portfolio, which could outperform the broader markets in 2019!

2018 has been a tough year for making wealth despite Nifty growing 4% (till Dec 20, 2018). The markets got narrower by the day due to various measures of the regulators, some of which were necessary due to disappointments for investors caused by corporate governance issues at some companies. FIIs changed their view on India following rising rates abroad and poor corporate earnings growth in India. Approaching political slugfest also dissuaded some investors.

Economic growth in India is slowing from its 8.2% peak in Q1FY19. The slowdown is likely to persist in the next two quarters as consumption suffers from lending crunch, government tackling a tight fiscal situation and external position remains susceptible to poor exports. Supportive factors like falling oil prices; a stemming of FII outflows and continued disinflationary trend will offset some of these concerns.

Is 2019 going to be any different? We think so. This is an election year in India and 5 of the 7 election years in the past 3 decades have yielded positive returns. Demography remains in our favour, judiciary thankfully is independent and evolving, voters are gradually getting aware of their rights. Rulers at the centre and state are becoming more responsive to the needs of the time (though they keep slipping into populist mode every now and then).

Emerging market equities could outperform developed market equities in 2019. There are three key reasons for this: First, the gap between GDP growth in emerging and developed countries is likely to widen next year. Second, while the Federal Reserve is expected to keep hiking rates, it will do so very gradually. In addition, investors could start to anticipate an end to the tightening cycle later next year. Third, emerging markets are cheap. The prolonged under-performance of emerging market equities has made valuations more attractive compared to other regions, especially the US.

Earnings could pickup among Indian corporates post Q4FY19 and FII flows could resume into India around and post general election time. Mutual Fund inflows in India are on a structural upmove driven by greater financialisation of savings. Softening stance (including a probable rate cut) by the RBI, in early 2019, could help valuations. Participation among large-caps may be more widespread than seen in 2018. Mid and small-caps may perform better in 2019 after a poor run in 2018. However one will have to reduce return expectations in 2019.

Continuation of trade tiffs, resumption of bullishness in crude oil prices, continuation in rate increases by the US Fed and unstable outcome from general elections, remain key risks to achieving the above.

We present below a list of ten stocks that could outperform the broader markets in 2019. These should ideally be bought as a basket (smallcase available on www.hdfcsec.com) in equal weights. Conservative investors can also invest in this basket every month to benefit from averaging of cost.

ACC
LTP: 1490.6

Axis Bank
LTP: 621.1

Coromandel Int.
LTP: 445.1

FDC
LTP: 176.6

ITC
LTP: 276.5

KEC
LTP: 300.7

Muthoot Fin.
LTP: 486.9

Reliance Ind.
LTP: 1098.4

Subros
LTP: 275.3

UltraTech Cement
LTP: 3982.1

For all Stocks: Recommendation- Buy | Time Horizon- 1 Year

LTP as on 21 December, 2018.

ACC Limited

HDFCSec Scrip Code	ACCLTDEQNR
Industry	Cement - Large
BSE Code	500410
NSE Code	ACC
Bloomberg	ACC IN
LTP (as on 21-Dec-18)	1490.60
Equity Capital (Rs Mn)	1877.9
Face Value (Rs)	10
Eq- Sh Outstanding Mn	187.8
Market Cap (Rs Bn)	280.5
Book Value (CY17-Rs)	498.40
Avg. 52 Week Volumes	589,500
52 Week High	1856
52 Week Low	1255

Shareholding Pattern % (Sept 2018)	
Promoters	54.53
Institutions	30.86
Non Institutions	14.61
Total	**100.00**

Fundamental Research Analyst:
Atul Karwa - atul.karwa@hdfcsec.com

ACC Limited is India's 2nd largest manufacturer of cement (capacity 33.5mtpa) and ready mixed concrete with a countrywide network of factories and marketing offices. Established in 1936, ACC has been a pioneer and trend-setter in cement and concrete technology. It operates with 17 modern cement factories, 57 ready mixed concrete plants, vast distribution network of over 10,000 dealers and a countrywide spread of sales offices. In 2005, ACC Limited along with Ambuja Cements Limited became a part of the reputable Holcim group of Switzerland. In 2015 Holcim Ltd and Lafarge SA came together in a merger of equals to form Lafarge-Holcim (LH) – the new world leader in building materials industry.

Key Highlights

- Lafarge-Holcim (parent company of ACC and Ambuja) is targeting increased investments in India to strengthen the leading position. LH's current capacity in India stands at 68mtpa, which it plans to expand by 8.5+mtpa by 2022 (out of which ACC is to add 3mtpa clinker and 5.9mtpa cement capacity over the next three years at a cost of Rs 30,000mn, most of which will be funded out of cash on books). This capacity addition in Central region (MP, UP, Jharkhand) will improve realisations and margins when it goes on stream.
- ACC's 9MCY18 volumes increased by 8% yoy to 20.9mn MT is driven by strong demand across south and east markets. Utilisation expanded to 88% vs 81% YoY on back of strong volume growth. While volume growth remained strong, aggressive pricing as well as seasonal weakness (in monsoon) led to a dip in realisation.
- ACC has started rationalising its SG&A costs in Q2CY18. Going forward, we expect the company's focus on rationalising its fixed and other expenses (currently higher than peers) to further boost margins. It is also targeting to increase the use of alternative fuel, which is expected to rise from the current 3% to 5%, over the next 12 months. ACC has a lot of scope to improve operating costs and return ratios compared to its peers.
- Rising crude prices had a direct impact on freight costs which now account for ~1/4th of the total cost for cement manufacturers. Softening of crude prices is likely to offset muted realisations due to heightened competition to some extent.

- Housing and Real Estate segment demand is expected to grow by around 5% whereas Infrastructure and Commercial sector is expected to grow by 6-8%. Growth in these sectors will create more demand for cement. Rising demand (14% YoY in FY19), improving utilisations and subsiding cost inflation including fuel and freight are tailwinds for the industry. Lower-than-expected supply could come through on account of volatile earnings, stretched balance sheets of certain players and higher costs of funding. As a result, almost half of the FY19-21 pipeline capacity (30-35mtpa) will be delayed, further improving the demand-supply dynamics.

Outlook and view: Cost pressure continues to hurt margins, as cement companies struggle to pass on cost rise in an increasingly competitive environment. However, demand is recovering especially in affordable and rural housing segments which will eventually strengthen cement pricing. ACC's utilization at 88% in Q3CY18 was the highest in 10 years. Non-trade cement prices have recovered in most regions from lows and the gap between trade and non-trade has narrowed to normal levels of 8-10%. Robust growth in value added premium products and better pricing outlook are key positives for the company. The recently announced expansion, made for the first time since 2011, will add visibility to topline over the next few years. Current relative low valuations (CY19 EV/Ton of ~$100 vs $135-190 for its similar sized peers) also offer a reason to get excited.

Financial Summary

(Rs mn)	CY15	CY16	CY17	CY18E	CY19E
Net Revenues	114,328	109,364	128,838	145,362	159,983
EBITDA	15,372	14,170	15,555	19,246	22,742
APAT	6,051	6,452	9,155	10,120	12,652
Adjusted EPS (Rs)	32.2	34.3	47.5	54.1	67.5
P/E (x)	48.1	48.3	32.6	28.4	22.7
EV / EBITDA (x)	18.1	19.2	16.9	14.0	11.8
RoE (%)	7.1	6.6	9.8	10.3	12.1

Axis Bank

HDFCSec Scrip Code	AXIBANEQNR
Industry	BFSI- Pvt Bank
BSE Code	532215
NSE Code	AXISBANK
Bloomberg	AXSB IN
LTP (as on 21-Dec-18)	621.10
Equity Capital (Rs mn)	5139.8
Face Value (Rs)	2
Equity Sh Outs. (Mn)	2569.9
Market Cap (Rs Bn)	1596.2
Book Value (FY18-Rs)	247.20
Avg. 52 Week Volumes	9,614,000
52 Week High	676.9
52 Week Low	477.5

Shareholding Pattern % (Sept 2018)	
Promoters	25.01
Institutions	62.98
Non Institutions	8.52
Total	**100.00**

Fundamental Research Analyst:
Atul Karwa - atul.karwa@hdfcsec.com

Axis Bank is the third-largest private sector bank in India. The bank offers an entire spectrum of financial services to customer segments like large and mid-sized-corporates, MSMEs, and Agriculture and Retail Businesses. With its 3,882 domestic branches (including extension counters) and 15,940 ATMs and Recyclers across the country (as on 30 Sept 2018) the bank's network spreads across 2,269 cities and towns, enabling it to reach out to a large cross-section of customers with an array of products and services. The bank also has ten overseas offices, with branches in Singapore, Hong Kong, Dubai (at the DIFC), Shanghai and Colombo, and representative offices in Dubai, Abu Dhabi, Dhaka and Sharjah, and an overseas subsidiary in London, UK.

Key Highlights

- Asset quality had deteriorated over the past couple of years, as industry NPAs jumped from 1.2% in FY16 to 15.2% in FY18. A slowdown in the economy and over-investment in some sectors and RBI's circular to classify all restructured assets as NPAs led to higher recognition. However, the bank reported improved performance on the asset quality front in Q2FY19, with 5.96% GNPAs (down 56bps QoQ) and 2.54% (down 55bps QoQ) net NPAs. Slippages (Rs 27.8bn) moderated to a 10-qtr low of ~2.48% ann., even as 88% of the corp slippages (Rs 10.9bn) were from the BB and below rated book.
- The bank's retail franchise continued to strengthen, reflected by the 20% yoy loan growth in Q2FY19. Retail loans now account for 49% of loans (vs ~40.9% in FY16). Even on the corporate side though the book is not growing, there is a shift from longer duration term loans to working capital loans.
- Bank's strategy of increasing internal sourcing was visible as ~49% of the overall sourcing was done from branches and ~82% was from internal customers. The bank's guidance of opening 350-400 branches over FY19 is aligned with this strategy.
- The increased granularity of the loan book and higher share of retail loans has led to strong growth in the retail fee income. Fee income grew by 12.5% YoY in FY18. Within that, the core retail fee income increased by 22.3% YoY in FY18 to Rs 42.6bn, accounting for 48% of the total fee income. This trend has continued in FY19 as well.
- A much needed change at the top level has boosted Axis Bank's sagging image. Amitabh Chowdhary comes in with a solid track record at HDFC Life Insurance. We can expect some bold changes to follow leading to rerating of the stock.

Axis Bank

- The subsidiaries of Axis Bank continue to perform well and have scaled to a level where they are now able to complement the bank's overall strategy. Axis Finance's loan book has grown to Rs 73.3bn in Q2FY19 with retail loans accounting for 20%. Axis Capital has successfully closed 15 transactions in H1FY19. Axis Securities has one of the highest mobile adoption rates in the country. Its cumulative client base rose 23% YoY to 2.0mn in Q2FY19.
- In Nov-17, the Bank raised Rs 116.3bn by issuing shares and warrants to the Bain Capital-led consortium and LIC of India to help shore up its capital base after a string of disappointing earnings. At the end of Q2FY19, it was comfortably placed, with a healthy CAR of 16.45% and Tier-I capital of 13.04%. RoE normalization, through a decline in credit costs and stronger traction on revenues, is on track.

Outlook and view: Axis Bank remains well-capitalised (Tier-1 ratio of 13%, CET1 ratio of 11.7%) to fund ~17% asset growth over the next two years. The bank has made significant investments to ride the next growth cycle (post near-term asset quality challenges) with strong capitalisation and an expanding liability franchise. With an improving outlook on fresh slippages/credit costs, we expect earnings to start normalising from 2HFY19 onward. The change of guard at the top should bring in fresh perspective and result in rerating for the stock. At the current levels, the worst seems to have been priced in, and the bank is available at attractive valuations.

Financial Summary

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	168,330	180,931	186,177	222,126	265,835
PPOP	161,036	175,845	155,945	186,545	225,345
PAT	82,237	36,793	2,757	51,501	95,339
EPS (Rs)	34.4	15.4	1.1	19.8	36.6
P/E (x)	18.0	40.4	578.2	31.4	17.0
Adj. BVPS (x)	212.1	196.8	183.7	224.8	271.4
P/ABV	2.9	3.2	3.4	2.8	2.3
RoAA (%)	1.7	0.7	0.0	0.7	1.1
Advances	3,387,737	3,730,693	4,396,503	5,165,891	6,095,751
NIMs (%)	3.8	3.6	3.3	3.4	3.5
Net NPAs (%)	0.7	2.1	3.4	2.2	1.1
RoE (%)	16.8	6.8	0.5	7.7	12.9

Coromandel Int.

HDFC Scrip Code	CORINTEQNR
Industry	Fertilizers
BSE Code	506395
NSE Code	COROMANDEL
Bloomberg	CRIN
LTP as on 21 Dec 18	448
Equity Capital (Rs mn)	292.4
Face Value (Rs)	1
Equity Sh. Outst (mn)	292.4
Market Cap (Rs bn)	131
Book Value (Rs)	107
Avg. 52 Week Volumes	200155
52 Week High	586.8
52 Week Low	339.1

Shareholding Pattern	
Promoters	61.80
Institutions	16.56
Non Institutions	21.63
Total	**100.00**

Fundamental Research Analyst:
Nisha Sankhala -
nishaben.shankhala@hdfcsec.com

Cromandel Int. is a flagship company of the Murugappa Group and is a subsidiary of E.I.D Parry (India) Ltd, which holds 60.5% of the equity share capital in the Company. It is one of India's largest integrated Agri solutions providers.

The company operates through two major segments: Nutrients & other allied business and Crop Protection, offering farming solutions comprising of Fertilisers, Crop Protection, Specialty Nutrients and Organic Compost. CIL is India's second largest Phosphatic fertilizer player.

Key Highlights

- Favorable Government policies and especially DBT Roll out are all set to positively change the dynamics of industry and being a market leader CIL has huge opportunities lying ahead.
- CIL has also presence in retail business through Mana Gromor. It operates a network of around 800 rural retail outlets under its retail business across Andhra Pradesh, Telangana, Karnataka and Maharashtra. Through this company provides an entire range of Multi-Brand Farming Solution to farmers. This will help CIL in saving distributor's margin and getting business insights from the ground level.
- During the year, Coromandel Int. acquired the Biopesticide business from E.I.D Parry (India) Limited. This acquisition and strategic investments will help company in getting into new business segments and uninterrupted raw material supply.

Outlook and view: The Company is consistently paying dividend to its shareholders from the last 24 consecutive years. In FY18, it declared dividend of 650%, i.e. Rs 6.5 per share yielding 1.5%.We expect the revenue of the company to grow at 15% CAGR and Net profit to grow at 12% CAGR between FY18-20E. Margins might remain stable at around current level of 11% and Debt to Equity ratio is expected to inch down at 0.6 by FY20 compared to 0.9 in FY18. The stock trades at 15.7x FY20E EPS.

HDFC securities

Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E
Net Sales	100308	109467	130813	145203
EBITDA	10368	12847	14585	15713
APAT	4770	6636	7708	8366
EPS (Rs)	16.4	22.7	26.4	28.6
P/E (x)	27.3	19.7	17.0	15.7
RoE (%)	17.3	22.1	22.6	20.8

FDC

HDFC Scrip Code	FDCLTDEQNR
Industry	Pharmaceuticals
BSE Code	531599
NSE Code	FDC
Bloomberg	FDCLT
LTP as on 21 Dec 18	176.5
Equity Capital (Rs mn)	174
Face Value (Rs)	1
Equity Sh. Outst (mn)	174.4
Market Cap (Rs mn)	30780
Book Value (Rs)	77.75
Avg. 52 Week Volumes	93577
52 Week High	320
52 Week Low	171

Shareholding Pattern	
Promoters	69.07
Institutions	13.32
Non Institutions	17.61
Total	**100.00**

Fundamental Research Analyst:
Kushal Rughani -
kushal.rughani@hdfcsec.com

FDC is a domestic focused pharmaceuticals company with ~1.5% market share of the Indian Pharmaceuticals Market (IPM). The Company is engaged in the manufacturing of Formulations (large part of revenues), APIs and Oral Rehydration Salts (ORS). Its therapeutic areas of focus include Anti-Infectives, Ophthalmological, Vitamins / Minerals / Dietary supplements, Cardiac, Anti-Diabetes, Dermatology and Gynaecology. It has a range of functional foods and beverages. Company's active pharmaceuticals ingredients (APIs) cover a range of therapeutic categories, such as Salbutamol Sulfate, Bromhexine Hydrochloride, Cinnarizine, Dihydrochloride, Flurbiprofen Sodium, Miconazole Nitrate. The major brands include Zifi, Electral, Enerzal, Vitcofol, Pyrimon, Zocon, Amodep, Zathrin, Cotaryl and Mycoderm. FDC is a leading player in Oral Rehydration Salt (ORS) segment, with its well-known brand Electral and Enerzal. It has multi-location manufacturing facilities for APIs, as well as finished dosage formulations (FDFs). The company markets >300 products in India and exports to over 50 countries.

Key Highlights

- FDC's top 10 brands, including Zifi (anti-infective), Electral (oral rehydration salt), Vitcofol (vitamins), Enerzal (energy drink), together registered 12% CAGR over the past five years (source: AIOCD) against the company's overall growth of 7%. The OTC segment contributes > 25% to the company's overall sales, which has grown > 15% over the past five years. India's OTC pharma market is worth > Rs 18,000 cr. OTC, as a segment, is expected to grow faster than prescription drugs on the back of a) the shift in consumer mind-set, driven by the propensity of self-medication and increasing purchasing power and b) increased use of media, particularly digital, to reach and educate consumers in certain categories. In FY18, Domestic Business contribution was at 86% while Exports Business was at ~14%. In the International Business, major revenues were derived from USA, Japan, Denmark Australia and UK. In the Domestic Business, large part of revenues were derived from Anti-Infectives, Gastrointestinal, Ophthalmology, Cradiac and Vitamins therapeutic segments.

- FDC has completed buyback of 34.3 lakh shares at Rs 350 per share aggregating to Rs 120cr. Like MNCs, the company has strong balance sheet with debt free status with cash & equivalents of Rs 20cr, short-term investments to the tune of Rs 429cr and Non-current investment of Rs 125cr as on H1 FY19. Total cash & investments of ~Rs 570cr turns out to be ~18% of its market cap, which gives comfort.

• The Chronic therapies continue to grow in double digit (Cardiac, Dermatology, Vitamins and Anti Diabetes). However, the largest therapy in terms of value i.e. Anti-infectives has stagnated in terms of growth. On the Active Pharmaceutical Ingredients business front, company has filed US DMF for Telmisartan and Cinnarizine and has received CEP Certifications for Dorzolamide Hydrochloride and Salbutamol Sulfate. Company was audited by EDQM and has received EU GMP Certification for the product Bromhexine Hydrochloride Active Pharmaceutical Ingredients. On the finished formulations business front, the US and UK markets have been the main contributors to the export revenues supported by good contributions from African and South East Asian markets. The product portfolios of Ophthalmic and Oral Rehydration Salts (ORS) have been the main contributors to the export sales in this financial year. Similarly for APIs, the main contributions to the export sales turnover have come from US and European markets. Company is currently working on filing additional ANDAs in the US market to support the existing product basket of ophthalmic products. The company continues to export its Anti-Diarrhoeal product range to reputed international institutions worldwide.

Outlook and view: We estimate 8% revenue, 14% EBITDA and 15.5% PAT CAGR, over FY18-20E on the back of lower base and strong growth in domestic power brands, especially from OTC segments. The stock is available at an attractive valuation of 14x FY20E EPS. Company has strong track record and has very well-known brands portfolio in domestic market. Despite resemblance to MNCs, FDC is available at > 30% discount. We expect company would post faster revenue growth led by Exports formulations as company launches its products in US markets and also due to traction from EU markets. Moreover, the company has strong hold on some of its products in ORS, Anti Infectives and Cardiac and those products would continue to do well in domestic market.

Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E
Revenues	10140	10750	11130	12500
Operating Profit	2069	2186	2505	2888
OPM (%)	20.4	20.3	22.5	23.1
PAT	1885	1735	1947	2317
EPS	10.6	9.8	11.1	13.2
PE	17.5	18.9	16.1	13.7
EV/EBITDA	13.0	12.3	10.7	9.3

(Source: Company, HDFC sec)

ITC

HDFC Scrip Code	ITCLTDEQNR
Industry	Cigarettes
BSE Code	500875
NSE Code	ITC
Bloomberg	ITC
LTP as on 21 Dec 18	276.5
Equity Capital (Rsbn)	12.25
Face Value (Rs)	1
Equity Sh. Outst (bn)	12.25
Market Cap (Rsbn)	3385.8
Book Value (Rs)	43
Avg. 52 Week Volumes	12386824
52 Week High	322.9
52 Week Low	252.5

Shareholding Pattern % (Sept 2018)	
Promoters	-
Institutions	54.96
Non Institutions	44.86
Others	0.17
Total	**100.00**

Fundamental Research Analyst:
Nisha Sankhala - nishaben.shankhala@hdfcsec.com

ITC is the market leader of cigarettes in India. Apart from cigarettes, it has a diversified presence in Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business, Packaged Foods & Confectionery, Information Technology, Branded Apparel, Personal Care, Stationery, Safety Matches and other FMCG products.

Key Highlights

- Within a relatively short span of time, ITC has built 25 mother brands in FMCG segments with an annual consumer spending of nearly Rs. 16,000 Cr. Today, ITC's FMCG products reach every 2nd household in India.
- The nagging concern on ITC has been due to punitive tax hikes on cigarettes. Still, ITC has delivered ~10% cigarette revenue CAGR over FY10-18, despite continuous volume cracks over FY12-18. So, this reflects ITC's pricing power. After many years, volume growth has come back in 1HFY19 around 3.5%. Our structural take on cigarette market is that the tax increase will not be as sharp on cigarette in the coming years as it was in the last 5 years and current higher tax will help organized players in fetching market share from illegal imported cigarettes.
- ITC is trying hard to shed its cigarette-maker tag by focusing more on its FMCG segment. ITC is looking to expand products portfolio in its food division to achieve the vision of Rs 1 lakh Cr revenues from FMCG segment by FY2030. The food category, which drives the fast moving consumer durable industry, is expected to contribute around 60-65% of its turnover by 2030. Management has guided that company will boost revenue in the segment by strengthening existing categories and venturing into newer ones.

Outlook and view: We believe ITC can outperform hereon, driven by (1) Recovery in rural consumption which accounts for 2/3 of smokers, many of whom are upgrading themselves from Beedis (2) Expectation of a stable tax environment (3) Favourable base and (4) A clamp down on the illicit trade and (5) Rising contribution from FMCG Business. In such a scenario, ITC can deliver mid-single digit volume growth over FY18-21E. Our 8% revenue CAGR estimate over FY18-21E looks reasonable vs. 10%/9% CAGR in last 10/5 years.

At 24.5x FY20E EPS, ITC trades at an unfair discount of ~35% to the sector.

Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	4,28,036	4,34,489	4,77,791	5,28,886	5,87,486
EBITDA	1,54,359	1,64,830	1,82,679	2,01,800	2,25,100
APAT	1,04,772	1,12,202	1,24,825	1,38,100	1,54,185
Diluted EPS (Rs)	8.6	9.2	10.2	11.3	12.6
P/E (x)	32.2	30.1	27.1	24.5	21.9
RoE (%)	23.5	22.7	22.7	23.0	23.4

(Source: Company, HDFC sec)

KEC International

HDFC Scrip Code	KECLTDEQNR
Industry	Infrastructure
BSE Code	532714
NSE Code	KEC
Bloomberg	KECI
LTP as on 21 Dec 18	300.7
Equity Capital (Rsmn)	514
Face Value (Rs)	2
Equity Sh. Outst (Rsmn)	257
Market Cap (Rsmn)	77300
Book Value (Rs)	85
Avg. 52 Week Volumes	650919
52 Week High	443
52 Week Low	244

Shareholding Pattern % (Sept 2018)	
Promoters	51.2
Institutions	30.7
Non Institutions	18.1
Total	**100.00**

Fundamental Research Analyst:
Kushal Rughani - kushal.rughani@hdfcsec.com

KEC International (KEC) is a global leader in power transmission & distribution EPC space, with significant presence in other verticals including cables, railways, solar and civil. It designs and manufactures power transmission towers and telecom infrastructure. The company's order backlog was at ~Rs 201bn as on Sep-18, Out of total order book, ~71% is from transmission projects (including SAE Tower ON and substations) and ~29% from new businesses like railways, cables & water. KEC derived ~51% revenues from Domestic T&D segment, SAE at 10%, Railways at 16%, Cables at 11% and the balance from others.

Key Highlights

• Over the years, the company has established strong domestic presence with ~25% market share in PGCIL orders and robust market share in select SEBs transmission orders. It has expanded presence in international markets as well with footprint in 63 countries; international projects contribute ~45% to revenues. The steady growth in revenue and profitability coupled with the continuous improvement in working capital management enabled KEC to rationalise its working capital requirements in FY18.

• KEC's T&D order book grew 29% yoy to ~Rs 12300cr due to the strong pick-up in international T&D orders. Cables and Railway orders have also shown strong growth. The order book has grown 44% yoy to ~Rs 20100cr, ~51% from international markets. International T&D orders brought ~53% to revenue driven by strong traction in Africa and new areas. L1 was at Rs 4000cr as on Sep'18. The execution cycle for Railway and Civil orders are higher than in the domestic and international T&D businesses.

• Cables segment contributed ~11% of the revenues. Domestic demand for Cables would largely be driven by Industrial sectors like Auto, Chemicals, Oil & Gas, Cement and Metals. Going forward, demand for EHV Cables is also expected to increase, as utilities migrate to higher distribution voltages to improve efficiency. Also, rapid urbanisation and increasing adoption of underground cabling in urban areas will lift demand for EHV Cables and Turnkey Cabling Solutions.

Outlook and view: The company is expected to be a major beneficiary of railway capex in India as yearly order-inflow from railways increased by 10x over last few years. We recommend 'BUY' on the thesis that: 1) steady domestic transmission capex & buoyancy in international transmission space; 2) Indian Railways' burgeoning capital expenditure; 3) strong order inflows & order book matrix; and 4) improvement in execution & cost efficiency measures. Company sees Rs 30,000cr opportunity from railways. Over 30,000km of tracks are likely to be electrified. The contribution from Railways would accelerate further over the next two years.

We estimate company to post ~14% revenues cagr led by sustained growth momentum from T&D segment and Strong ramp up from railways. We expect company to deliver ~20% profit cagr led by 50bps margin expansion over FY18-20E. Strong order backlog of ~Rs 200bn (~1.9x FY18 sales), coupled with steady order pipeline in T&D and Railways ensures robust revenue visibility for the next couple of years. Going forward, the focus would be to reduce the receivable days and further improve the interest costs / revenues ratio.

Given the strong order book position, it provides sound visibility for KEC over the next two-three years. At CMP, KEC trades at ~11x FY20E EPS and ~8x EV/EBITDA.

Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E
Revenue	85840	100580	114520	130590
Operating Profit	8170	10070	11840	13720
OPM (%)	9.5	10.0	10.3	10.5
PAT	3030	4610	5320	6690
EPS	11.8	17.9	20.7	26.1
PE	25.4	16.7	14.7	11.5
EV/EBITDA	13	10.4	8.8	7.8

(Source: Company, HDFC sec)

Muthoot Finance Ltd

HDFCSec Scrip Code	MUTFINEQNR
Industry	BFSI -NBFC
BSE Code	533398
NSE Code	MUTHOOTFIN
Bloomberg	MUTH IN
LTP (as on 21-Dec-18)	486.90
Equity Capital (Rs mn)	4005.8
Face Value (Rs)	10
Equity Sh Outs (Mn)	400.6
Market Cap (Rs Bn)	194.9
Book Value (FY18-Rs)	194.0
Avg. 52 Week Volumes	1,065,000
52 Week High (Rs)	509.8
52 Week Low(Rs)	356.6

Shareholding Pattern % (Sept 2018)	
Promoters	73.63
Institutions	22.30
Non Institutions	4.07
Total	**100.00**

Fundamental Research Analyst:
Atul Karwa -
atul.karwa@hdfcsec.com

Muthoot Finance Ltd is India's largest, niche gold finance company with an AUM of ~Rs 323 bn in Sep-2018. Headquartered in Kochi (Kerala), the company is majorly owned by the Muthoot family (73.6% stake as of Sep-2018). It currently has 4,470 branches and presence across 29 states/union territory in the country. However, its footprint is concentrated mostly in the South with ~62% of the branches. While loans are typically disbursed with tenure of 6-12 months, most of the loans are repaid within six months – implying average duration of close to six months for the loans.

Key Highlights

• Muthoot reported strong growth in gold loans AUM of 17.1% to Rs 323.2bn in Q2FY19. Post a muted growth in single digits in FY18 gold loan growth have revived from Q1FY19. This was despite the fact that gold prices have largely remained flat indicating growth in volumes likely fuelled by penetration in newer areas. The company has added 45 branches in H1FY19 as compared to just 40 branches in FY18.

• The Muthoot Group is enhancing its consumer outreach through innovative communication strategies aimed at differentiating its products and services. In Feb-2018, it has roped in Amitabh Bachchan as brand ambassador to represent them in their national campaigns. MFL has also become the principal team partner of IPL cricket team – Chennai Super Kings (CSK) for the next 3 years.

• Over the last few years MFL has diversified into home finance, micro finance, insurance broking and asset finance verticals. The share of non-gold business has increased from ~5% in FY17 to over 10% at the end of Q2FY19. The management wants to increase non-gold portfolio's share to 15% by FY19.

• AUM in home loans has increased from Rs 4.4bn at the end of FY17 to Rs 17.8bn at the end of Q2FY19. Housing book is expected to grow to ~Rs 24bn by FY19. AUM in the micro finance business has increased by over 70% to Rs 13.8bn at the end of Q2FY19 and expected to reach ~Rs 19bn by end of FY19. Insurance broking business is also picking up with number of policies sold in H1FY19 surpassing FY18 figure of 0.84mn policies while PAT stood at Rs 610mn for H1FY19 as compared to Rs 320mn in H1FY18.

• Improvement in collection efficiencies and reversal to exposure-wise classification resulted in improvement in asset quality. GNPAs improved from 4.42% in FY18 to 1.91% in Q2FY19 (with Net

NPA falling to 0.12% from 2.33%). High delinquencies in the 6-months have almost been written-off. Management has highlighted that collections have been strong in the past few quarters and it is carrying Rs 8.1bn of expected credit loss provision in the books. This should provide some comfort and reduce provisioning requirement going forward.

Outlook and view: MFL will continue to benefit from its long standing presence and good knowledge of the gold loan segment. Increasing share of non-gold loans would de-risk its portfolio concentration and provide cushion to AUM growth. Also the same assets would be utilized to cross sell products, leading to lower cost-income ratio. Brand building by roping in Amitabh Bachchan as brand ambassador and partnering with IPL team Chennai Super Kings would give it a pan-India visibility. Resolution of overdue gold loan accounts would bring down the NPA levels in the coming years.

Financial Summary

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
NII	25,418	33,457	41,040	43,343	47504
PPP	14,792	21,845	29,967	30,356	33503
PAT	8,095	11,617	17,304	17,698	19548
Adjusted EPS (Rs)	20.3	29.1	43.3	44.2	48.9
P/E (x)	24.0	16.7	11.3	11.0	10.0
P/ABV (x)	3.5	3.0	2.5	2.2	1.9
RoAA (%)	3.0	4.0	5.6	5.2	4.9
Advances	245,241	274,242	293,082	331,182	375,892
Calc. NIMs	10.6	12.9	14.5	13.9	13.4
Net NPA (%)	2.5	1.7	4.4	0.7	0.9
RoAE (%)	15.1	19.1	24.2	21.2	20.4

(Source: Company, HDFC sec)

HDFC Scrip Code	RELINDEQNR
Industry	Oil & Gas
BSE Code	500325
NSE Code	RELIANCE
Bloomberg	RIL
LTP as on 21 Dec18	1098
Equity Capital (Rs bn)	63.39
Face Value (Rs)	10
Equity Sh. Outst (Rs mn)	6338.6
Market Cap (Rs bn)	6961.95
Book Value (Rs)	497
Avg. 52 Week Volumes	8389868
52 Week High	1329
52 Week Low	871

Shareholding Pattern % (Sept 2018)	
Promoters	46.17
Institutions	35.47
Non Institutions	16.03
Others	2.34
Total	**100.00**

Fundamental Research Analyst:
Kushal Rughani - kushal.rughani@hdfcsec.com

Reliance Industries Ltd. (RIL) is the largest private player in the refining, petrochemical and E&P sectors in India. Company's refining complex in Jamnagar is the largest in the world and among the most complex. It is also among the largest integrated petrochemical producers globally. Over the past 40 years, RIL has periodically transformed its core business through backward integration. First it was textiles, then it was polyester, followed by chemicals and then petrochemicals and Refining. In the past few years, a major lateral shift has happened, with the focus on telecom, data, broadband and retail. Apart from E&P in India, RIL has made significant investments in US shale gas. In terms of revenues, Refining contribution stood at 54%, Petrochemicals at 23%, Retail at ~16% and Telecom (RJIO) at 5.7%. In terms of EBIT, Petrochemicals at 50%, Refining at 33.5%, Telecom at 12% and Retail at 7% while Oil & Gas segment continue to post EBIT losses. RIL is also expanding its presence rapidly in the areas of consumer retailing and telecom. EBIT contribution from Retail and Telecom is at ~19% for H1 FY19 which was at just 2% in FY17.

Key Highlights

- Management commented that as the oil & petrochemical sector moves into a steady-state zone, the doubling of Reliance Group's size in the next seven years would come from the consumer businesses and Telecom. "Data is the new oil and India doesn't need to import it". "Our consumer businesses will contribute nearly as much to the overall earnings of the company as energy and petrochemical businesses in the coming years". Company will extend fibre connectivity to homes, small businesses, traders and small businesses.
- RIL's strength lies in its ability to build businesses of global scale and execute complex, time critical, and capital-intensive projects, which are giving them fruits as it embarks on large investments in all core segments.
- RIL has incurred large part of capex in all the segments and will continue to invest in retail and Telecom as company wants to be larger and larger in the segments. Company has invested in world-scale projects like petcoke gasification, off-gas crackers and telecoms, which are expected to drive future growth.
- Reliance Digital is the largest retailer of consumer electronics in the country. Reliance Trends continues to be the largest fashion retailer in India.

- In Q2 FY19, RJIO clocked EBITDA margin of 38.7%, almost flat qoq. Subscribers grew robust 17% qoq to 252mn. In the first half, Jio added 65mn subscribers. ARPU for Q2 FY19 was at Rs 132, which is highest among the telecom players currently. Capex during the first half in the telecom segment was at Rs 330bn. Retail sales surged 122% YoY led by higher store count and revenue per store. Petchem, Jio and Retail business did very well in H1 FY19.
- Jio's parent RIL has announced acquisition of leading MSOs Hathway (51%) and Den Networks (66%) primarily through fresh issuance of shares for Rs 53bn. It would also make open offer for these companies. Jio is having robust product propositions for home security and solution.

Outlook and view: We believe company may post 11.2% revenue and 15.4% PAT cagr over FY18-21E. As Consumer and Telecom segment gets bigger, they would post better earnings growth. Telecom (RJIO) is expected to see ~27% revenue and 77% PAT cagr over FY19-21E. By end of FY21, RJIO may end up with around 41cr subscribers for the Jio. Reliance trades at 14x FY21E earnings.

Financial Summary

(Rs bn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	2420	2900	3968	3964	3993
Operating Profit	433	518	617	690	709
OPM (%)	17.9	17.9	15.5	17.4	17.8
PAT	314	336	424	479	517
EPS	49.6	53	67	75.5	81.4
PE	22.2	20.8	16.4	14.6	13.5
EV/EBITDA	18.6	15.4	12.3	10.4	9.5

(Source: Company, HDFC sec)

Subros Limited

HDFCSec Scrip Code	SUBLTDEQNR
Industry	Auto Ancilliaries
BSE Code	517168
NSE Code	SUBROS
Bloomberg	SUBR
LTP (as on 21-Dec-18)	276
Equity Capital (Rs mn)	120
Face Value (Rs)	2
Equity Sh Outs (Mn)	60
Market Cap (Rs Bn)	16.6
Book Value (FY18-Rs)	67.5
Avg. 52 Week Volumes	97480
52 Week High (Rs)	442
52 Week Low(Rs)	234

Shareholding Pattern % (Sept 2018)	
Promoters	40
Institutions	7.27
Non Institutions	52.73
Total	**100.00**

Fundamental Research Analyst:
Nisha Sankhala -
nishaben.shankhala@hdfcsec.com

Subros Limited, founded in 1985, is a joint venture public limited company with 40% ownership by Suri family of India and 13% ownership each by Denso Corporation & Suzuki Motor Corporation of Japan. It is the largest automotive air conditioning systems company in India, with around 42% market share in the domestic Passenger Vehicle (PV) industry. It also supplies its products to CVs segment i.e. Trucks, Buses, Reefer transports and Off-roaders. Recently it forayed into the Railways and Home AC segment to diversify further.

Key Highlights

- Their main clientele include: Maruti Suzuki, TATA Motors, Mahindra & Mahindra, Force motors, Ashok Leyland, Nissan, Whirlpool for home ACs and Indian railways. It has 42% market share in domestic PV segment.
- According to SIAM, Indian PV sale is expected to grow at 10.7% CAGR over FY18-21E. Being Market leader in the Indian auto air-conditioning segment, Subros is well poised to ride the growth.
- Rule of mandatory ACs or truck blowers from Jan-18, opened up another revenue stream for Subros.
- Subros has raised fund of ~Rs 200cr through issue of 5.2mn equity shares on preferential basis to Denso, at the Price rate of Rs. 400 per share. Post allotment Denso's holding will increase to around 20% in the company. This money will be used for repayment of Debt and capacity addition.

Outlook and view: We expect Subros' core PV AC business will continue to deliver strong growth led by steady volume growth of MSIL, shift in demand towards petrol variants plus rising wallet share in other key OEMs. More importantly, growth visibility of new businesses like Truck/Bus Aircon, radiators and Condensers is strong and provides scale and diversification.

Total revenue of the company is expected to post 14.3% CAGRover FY18-21E. We expect EPS CAGR growth of 32% over FY18-21E. The stock is trading at 18.8x/13.9x of FY19E/FY20E EPS

Financial Summary

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	15,349	19,129	21,815	25,516	28,588
EBITDA	1,678	2,100	2,400	2,883	3,288
APAT	341	624	883	1,188	1,423
Diluted EPS (Rs)	5.7	10.4	14.7	19.8	23.7
P/E (x)	48.4	26.5	18.8	13.9	11.6
RoE (%)	10.0	16.6	20.1	22.8	22.8

(Source: Company, HDFC sec)

UltraTech Cement

HDFC Scrip Code	ULTCEMEQNR
Industry	Cement
BSE Code	532538
NSE Code	ULTRACEMCO
Bloomberg	UTCEM
LTP as on 21 Dec 18	3989
Equity Capital (Rs bn)	2.75
Face Value (Rs)	10
Equity Sh. Outst (Rs mn)	274.6
Market Cap (Rs bn)	1095.6
Book Value (Rs)	967.9
Avg. 52 Week Volumes	299431
52 Week High	4594
52 Week Low	3264

Shareholding Pattern % (Sept 2018)	
Promoters	61.69
Institutions	28.14
Non Institutions	10.17
Total	**100.00**

Fundamental Research Analyst:
Kushal Rughani -
kushal.rughani@hdfcsec.com

UltraTech Cement is the largest manufacturer of Grey cement, Ready Mix Concrete (RMC) and White cement in India. It is also one of the leading cement producers globally. The company has consolidated capacity of 96.5 Million Tonnes Per Annum (MTPA) of grey cement. UltraTech Cement has 19 integrated plants, one clinkerisation plant, 25 grinding units and 7 bulk terminals. Its operations span across India, UAE, Bahrain, Bangladesh and Sri Lanka. UltraTech Cement is also India's largest exporter of cement reaching out to meet the demand in countries around the Indian Ocean and the Middle East. With 100+ Ready Mix Concrete (RMC) plants in 35 cities, it is the largest manufacturer of concrete in India. Ultratech's capacity has increased 4% in the last quarter and domestic sales have gone up 21% on QoQ basis however PAT dropped 11% on consolidated basis. This was mainly due to higher transportation and energy costs this year. As the utilization levels rise for the company, and the costs stabilize, the pricing power will come leading to an upcycle.

Key Highlights

• The cement sector has shown double digit growth every month for the past 12 months as per the government core sector IIP data. The coming years are expected to be very good with 2019 possibly being a phoenix year for the industry. One of the main reasons for this is the low per capita cement consumption, especially in the Central and East India regions, where the states capital allocation for the infrastructure sector is up in double digits.

• Power is very important for the sector. UltraTech cement is consistently adding to its Waste Heat Recovery Systems (WHRS) in order to bring down its power costs. WHRS can lead to 3-4 Cr. MW savings annually for the company which translates to ~800 Cr. in cost savings. UltraTech currently has 59 MW of WHRS installed at its various facilities with plans to add another 13 MW plant. Petcoke is another option for power generation and a good alternative to the traditional coal. While there was a Supreme Court ban on the import of petcoke, the cement industry is exempt from it. Petcoke prices have gone down around 20% recently. Also due to the International Maritime board's ban on the usage of high Sulphur content to crude from 19-20 and China's ban on petcoke, the global petcoke prices are expected to drop even further. Apart from these factors, the government's announcement of increasing the axle load specifications of trucks, the freight costs are thus expected to go down for UltraTech.

• The top 5-6 players in the cement cement industry control 80-85% of the liquidity in the sector but only account for 57% of the total debt as per a CRISIL Report. This means that the bigger players have more scope of expansion. As of H1FY19, UltraTech is working at ~73% utilization levels. Clinker utilization levels are expected to touch 90% in the north and central regions this year. The demand growth for the North india market is 7-8% but capacity additions are only at ~3%. Also the cement prices in the central region are up ~7-8%. All the factors will lead to even higher utilization levels for UltraTech which will benefit the most due to its Pan India presence. The bigger players are acquiring assets of the smaller players to increase their production and to cater to more markets.

• Some recent acquisitions include UltraTech acquiring assets of JP Associates, Acquisition of Century Textiles' cement business, and the acquisition of Binani Cement. Fewer players would eventually mean more pricing power as the utilization levels rise for the industry.

Outlook and view: We expect 16% revenue and 29% PAT CAGR over FY18-20E. Strong revenues and margin expansion in FY20 would drive robust growth in profitability. The Stock trades at ~15x FY20E EV/EBITDA and ~US$ 165 FY20 EV/MT. Given the fact that Ultratech is one of the largest cement player in India and strong sustainable financials we believe company would continue to trade at premium over mid-sized cement companies.

Key Risks:

- Availability and proximity of Raw Materials and other input materials (Limestone, Gypsum, Coal, Petcoke, Chalk, Clay, Etc.).
- High Transportation Costs
- High Energy Costs: Coal is one of the major raw materials needed by the industry both in the manufacturing of cement and also for generating power.
- Demand-Supply Mismatches due to delay in ordering and slow of implementation in projects
- High Taxes: The levies and taxes on cement in India are far higher compared to those in the countries of Asia-Pacific region or even compared to the developing economies like Pakistan and Sri Lanka.

Financial Summary

Rs bn	FY17	FY18	FY19E	FY20E
Revenues	253.75	314.11	357.92	420.84
Operating Profit	52.1	61.5	66.7	83.2
OPM (%)	20.5	19.6	18.6	19.8
PAT	27.2	22.3	27.1	37.3
EPS	98.8	81.0	98.7	135.8
PE	40.5	49.4	40.5	29.5
EV/EBITDA	24.4	20.7	19.0	15.0

(Source: Company, HDFC sec)

The Basic Financial Details Of These Ten Stocks Are As Under:

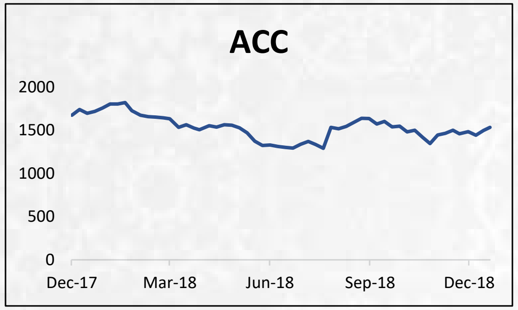
Co_Name	Industry	Net Q2 Sales Sep 18	Adjusted Q2 PAT Sep 18	Equity	LTP 211218	Latest Book value	FV	TTM EPS	P/E on TTM EPS	P/BV	Div Yield - Latest	Market Cap	Average daily volume (BSE+ NSE)	Promoters Stake % Sep 18
ACC*	Cement Large	33640	2091	1880	1490.6	511.2	10	52.9	28.2	3	1.70%	288,430	718,592	54.5
Axis Bank	BFSI – Pvt Bank	132810	7896	5138	621.1	253.2	2	0.1	5618.5	2.5	0.00%	1,626,740	9,831,598	25
Coromandel Int.*	Fertilizers	50083	3784	292	445.1	111.2	1	25	17.8	4	1.50%	130,290	178,709	61.8
FDC	Pharmaceuticals	2681	431	175	176.6	77.8	1	9.6	18.4	2.3	0.00%	31,340	93,577	69.1
ITC	Cigarettes	108912	29547	12242	276.5	41.1	1	9.4	29.4	6.9	1.80%	3,456,080	10,281,257	0
K E C Intl.*	Infrastructure	24085	978	514	300.7	84.6	2	19.2	15.7	3.6	0.80%	78,420	538,717	51.2
Muthoot Finance	BFSI - NBFC	16496	4838	4002	486.9	219.5	10	47.2	10.3	2.3	2.00%	200,430	1,940,222	73.6
Reliance Inds.*	Refineries	1433230	95160	63384	1098.4	513.4	10	63.8	17.2	2.2	0.50%	7,145,140	6,754,701	46.2
Subros	Auto Ancillaries	5640	238	120	275.3	99.6	2	13.4	20.6	2.8	0.40%	17,940	32,941	40
UltraTech Cem.*	Cement - Major	81515	3768	2746	3982.1	967.9	10	76.6	52	4.2	0.30%	1,111,530	454,830	61.7

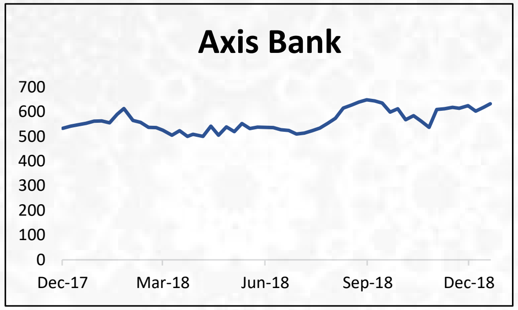
Amount in Rs.mn. except LTP, BV, EPS, Volumes,FV * Consolidated nos

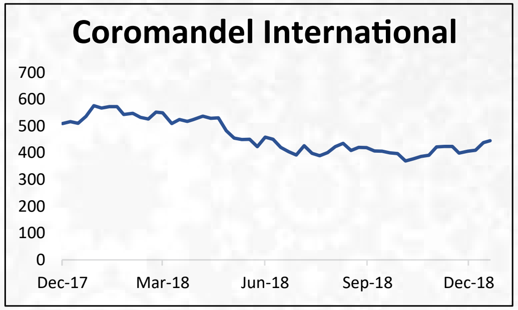
Source: Capitalline

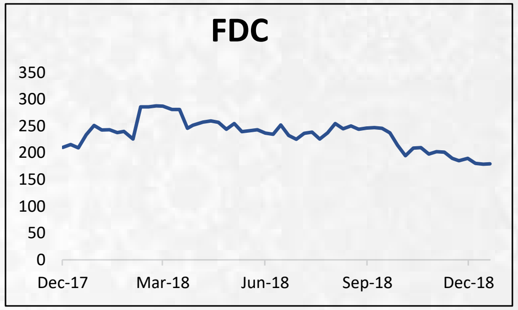
PAT = Profit After Tax, LTP= Last Traded Price, FV = Face Value, EPS = Earming Per Share, PE= Price to Earning , P/BV = Price to Book value

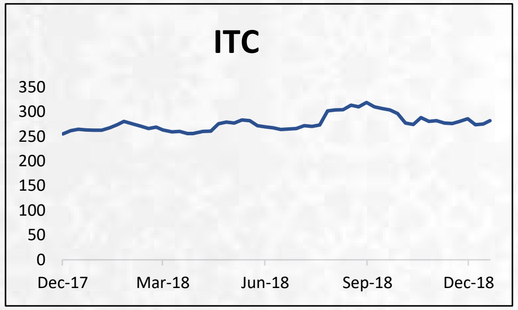
Price Charts

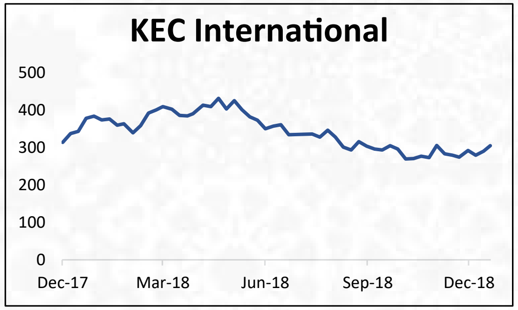


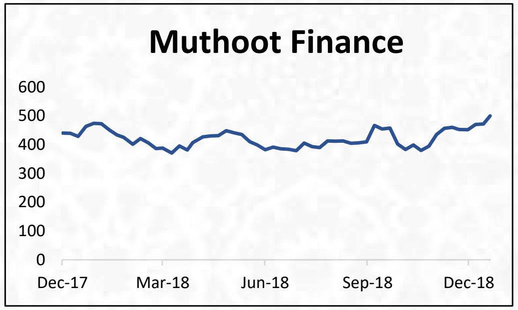


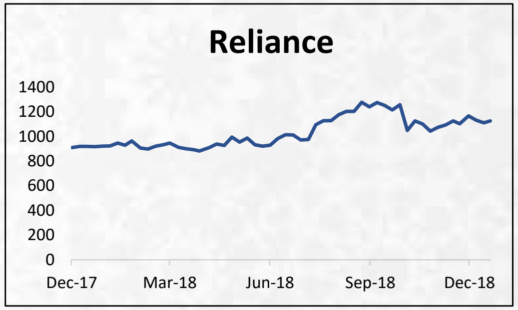


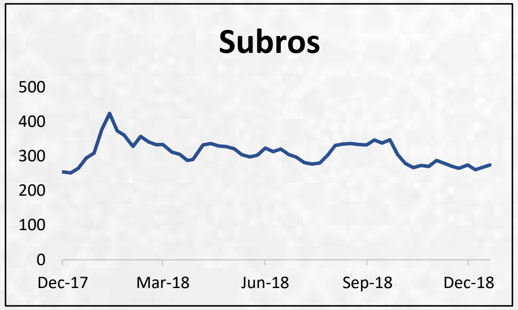


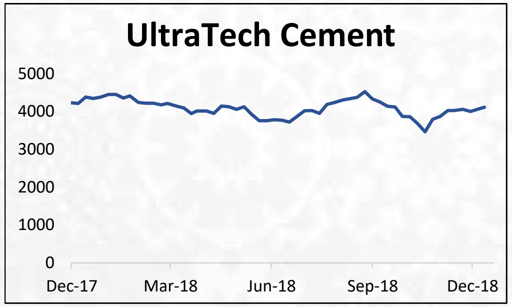












Disclosure

Company	Analyst	Team	Holding
ACC Ltd	Atul Karwa, MMS	Retail Research	No
Axis Bank	Atul Karwa, MMS	Retail Research	No
Coromandel Inter	Nisha Sankhala, MBA	PCG Research	No
FDC	Kushal Rughani, MBA	PCG Research	No
ITC	Nisha Sankhala, MBA	PCG Research	No
K E C Intl.	Kushal Rughani, MBA	PCG Research	No
Muthoot Finance	Atul Karwa, MMS	Retail Research	Yes
Reliance Inds.	Kushal Rughani, MBA	PCG Research	No
Subros	Nisha Sankhala, MBA	PCG Research	No
UltraTech Cem.	Kushal Rughani,MBA	PCG Research	No

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 3075 3450 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

SEBI Registration No.: INZ000186937 (NSE, BSE, MSEI, MCX) |NSE Trading Member Code: 11094 | BSE Clearing Number: 393 | MSEI Trading Member Code: 30000 | MCX Member Code: 56015 | AMFI Reg No. ARN -13549, PFRDA Reg. No - POP 04102015, IRDA Corporate Agent Licence No.-HDF2806925/HDF C000222657 HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.