Diwali Picks 2019

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SAMVAT 2076

Key Triggers

- Government taking administrative and structural measures to achieve $5 Trillion GDP target.
- Recent tax reforms key game changer in long run for economy giving opportunity for further earnings upgrades.
- CPI at 3.99% still under RBI's targeted 4% level and low commodity prices is giving room for further rate cuts.
- IBC has forced out the stress in corporate India.
- Monsoon no more a worry giving hopes for better H2FY20.
- Stable Rupee and range bound crude prices provides roots for stronger growth.
- Global central banks easing liquidity and reducing interest rates – positive for Indian economy
- Financialization on increasing spree via penetrating insurance and consistent growth of MF SIPs flow
- Benefits of corporate tax cuts and other tax reforms should augur well in the numbers by FY21 onwards.

Key Risk

- Escalation in trade wars and global tensions
- Sudden rise in commodity prices

WE EXPECT NIFTY TARGET FOR 12300 VALUING 19x FY21E EPS.

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Stock	Investment Target (Rs)
ABB	1800
CREDITACC	749
DMART	2400
HDFCAMC	3800
HDFCBANK	1466
MARICO	467
MCDOWELL-N	785
PNCINFRA	232

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ABB India Limited.

BSE Code: 500002; NSE Code: ABB; Target: Rs 1800

ABB India is a diversified industrial play, with leadership in power and automation space. The company's base orders are growing at 13-14% yoy. The company has maintained steady order book of more than 10000 crs. The Government of India's thrust on railway electrificatons, infra spending, developing renewables and sub T&D investments with digitization focus give nearterm growth visibility. The management has developed strategy on short-cycle and product businesses, alongwith continuous localization is expected to continue supporting the volumes and margins. The company is increasing sourcing for products and services by the parent aids longterm visibility for exports. Revenues and PAT are expected to growth ~10% and 27% respectively over CY2018-20. The company has turned debtfree in CY18 which improves returns ratio given its strong earnings outlook alongwith leadership position.

CreditAccess Grameen Ltd.

BSE Code: 541770; NSE Code: CREDITACC; Target: Rs 749

CreditAccess Grameen Ltd was born out of the need for timely and affordable credit to India's poor and low-income households. Credit Access Grameen has grown at a CAGR of 43% for the last 2 years & going ahead management expects it to continue growing at the rate of 30% CAGR. The rural dominant MFI growth was primarily driven by limited competition and strong credit underwriting. Credit access has been easily passing on some rise in the cost to the customer but the cost of borrowings has not yet declined for the MFI players. In the scenario of liquidity tightness, management plans to increase foreign borrowings. We expect margins to remain at a 10.8% range in the medium term. Credit access has one of the highest operating efficiency in the MFI sector so we expect a very marginal upbeat of the cost to income ratio. Loan growth is expected to remain strong driven by healthy rural consumption further aided by a good monsoon. The loan growth is expected to remain unhindered at 36% YoY as at 2QFY20 by capitalizing on limited competition & strong parentage.

Avenue Supermarts Ltd.

BSE Code: 540376; NSE Code: DMART; Target: Rs 2400

Avenue Supermarts Ltd.(DMART) is the most efficiently managed stock in retail. The company works on lower margins as a result of conscious effort to maintain or bring down prices for consumers across categories. The company has the best supply chain maanagement and the best sourcing of materials in terms of pricing and quality. Most of the stores are owned. The company is consciously going slow in stores addition so as to keep balance sheet healthy.

HDFC Asset Management Company Ltd.

BSE Code: 541729; NSE Code: HDFCAMC; Target: Rs 3800

HDFC AMC is one the best play for growing financialisation theme in India. The company enjoys benefits of strong brand pull (benefiting from parentage), relatively higher proportion of equity assets and continued delivery on fund performance make it one of the best plays to capitalize on the financial savings theme in the country. MF AUM is just 12% of GDP (vs global average of 62%). Longterm AUM growth rates have been healthy (18% CAGR over past 19 years). The growth in the MF AUM is expected to remain buoyant in coming days ahead. The recent data from regulator has seen inflows in Equity SIPs healthy despite corrections in the markets. HDFC AMC being leader in the industry is set to take full advantage of the upcoming growth in the MF industry. The impact of the recent corporate tax cuts will lead to boost in the earnings for asset managers. Lower tax rates will also prop-up equity prices and boost MTM AUM and Fee income there-from. HDFCAMC's debt funds continue to perform better than competition as investors prefer sales schemes in this ongoing corporate default cycle. Decline in tax rates will boost ROEs for AMC business. Even though management may pass on some of the benefits of lower tax rate to the distributions in the form of higher commissions, still it shall maintain its RoE to remain healthy at ~35%.

HDFC Bank Ltd.

BSE Code: 500180; NSE Code: HDFCBANK; Target: Rs 1466

HDFC BANK is the largest private bank in India with the assets base of Rs 13250 Billion as of September, 2019. Retail and wholesale lending constitute 52% and 48% of the total loan book of Rs 8969 Bn respectively. The Bank's distribution network was at 5,314 banking outlets. Liquidity pressure under NBFCs provides opportunity to gain market share for retail assets in the near to midterm. Assets quality is best among peers. NIM is likely to see marginal improvement with the expected increase in pricing power. Further CASA near at 40% and increasing high yield unsecured loan (share at 17%) will further aid the margin. We expect loan book growth of 19%+ growth going forward. RoE is likely to improve by more than 140 bps and RoA to improve by 18 bps to 18% and 2% respectively in FY21 driven by income CAGR of 25% over the next two years. Management expects C/I ratio to improve by 300 bps over the next 3-5 years due to Improvement in operational efficiency.

Marico Ltd.

BSE Code: 531642; NSE Code: MARICO; Target: Rs 467

Marico is leader in the domestic hair oil and wellness market. The company enjoys market share of 59% in branded hair oil, 26% of value added hairoil (VAH) and 70% in branded edible oil. The company has three-pronged strategy of driving growth through key categories, innovations/ entrance into niche category and scale up its presence in the key international geographies. In recent times it has entered into niche categories such as male grooming, premium hair nourishment and healthy foods, which will not only improve the revenue growth trajectory but would help in boosting margins in long run due to premium in nature. In Foods division, the Company will continue to innovate and launch tasty and healthy dietary options for the consumer, thereby maintaining 20% plus CAGR over the medium term. Going forward the company is expected to post domestic volume growth of 7% YoY, which would be led by segmental growth of 6%, 8% & 7% in Parachute rigid, Saffola & Hair oil respectively. The Company's sales growth is expected to be 8.3% YoY at Rs 1990 cr on back of moderate demand conditions in market and the higher base. International business CC growth is expected to be 6% on back of better growth coming from Bangladesh and Vietnam. In Foods division, the Company will continue to innovate and launch tasty and healthy dietary options for the consumer, thereby maintaining 20% plus CAGR over the medium term.

United Spirits Ltd.

BSE Code: 531642; NSE Code: MCDOWELL-N; Target: Rs 785

United Spirits (Mc Dowell-N) is a subsidiary of Diageo and is the second largest spirits company in the world in terms of volume. 20% Sales growth is expected for the company for the next 3-5 years with sustainable margins. Moreover, Company has enough room for Margin expansion from current 8-9% when compared to global parent- Diageo which has Net margin of 20-25%. Per capita Consumption of India is rising, lower penetration and expected increases in affluent segment in total demographics will lead to higher growth in premium & prestige segment. Premiumisation is happening as Spirit Industry is growing @1% while premium and prestige category of USL is growing by over 8% since 2015 (lot of scope to cover up Realisation differential vis a vis global on the back of product mix change). USL dominates the liquor market in India with 38% market share. Distributes Diageo products and also bottles and manufactures certain brands here locally. Franchise model with fixed fee arrangement in specific states will aid margin expansion with low working capital needs. The Company can expand the implementation of this model in other states especially for its Popular segment brands.

PNC Infratech Ltd.

BSE Code: 539150; NSE Code: PNCINFRA; Target: Rs 232

PNC Infratech is the infrastructure construction, development and management company based in Agra,UP. Currently, 1 lakh Cr worth of projects are in pipeline majorly on EPC and HAM mode for which the bidding is expected to pick up from H2FY20. The current order book of the company is Rs 13145 Cr i.e 4.2x of TTM revenue which is highest ever in the company’s history and also one of the highest in the industry. 93% orders of the total order book are under construction. 6 HAM projects out of 7 have already received appointment date. The remaining 1 project Challakere to Hariyur is expected to receive appointment date in Q2FY20. FY20 and FY21 revenues are expected to grow by 64% and 30% respectively.

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Analyst's ownership of the stocks mentioned in the Report	NIL

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