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Generating Wealth

Greaves Cotton | Shakti Pumps | Ador Welding | Havells India
Aurobindo Pharma | Grasim Industries Ltd | IndusInd bank
PNB Housing Finance | Tata Consultancy Services

Greaves Cotton

CMP Rs 119| Target Rs 171 (20x FY20E Earnings)

Greaves Cotton Ltd. (GCL) is a dominant market player in the 3-wheeler segment with established presence in farm equipment and key auxiliary power market. Given management's focus on expanding its product portfolio, we believe GCL will be a beneficiary of the revival in the domestic capex cycle. We expect GCL to report 8.4% CAGR in its revenues over FY18-20E, while adjusted PAT will witness a CAGR of 16.4% over the same period. EBITDA margin is expected to stabilise around 14-15% level. We remain positive on GCL's future growth prospects, and have a BUY rating on the stock with a target price of Rs 171 (20x FY20E earnings), giving an upside potential of 43.7%.

Investment Rationale

- **Dominant market share in the 3W segment implies stable growth rate**: Greaves Cotton Ltd. (GCL) enjoys dominant position in the 3-wheeler engine segment with more than 75% market share. GCL being the market leader with wide product portfolio will be a key beneficiary of the revival in CV cycle thereby ensuring a stable growth rate in its automotive engine business.
- **After-market segment gaining traction**: The business is seeing good traction, and accounted for 25% revenue share in FY18. GCL is now focusing its energies on channel enhancement & expanding territory coverage in identified regions to strengthen last mile connectivity.
- **Farm equipment business has good headroom for growth**: GCL has already witnessed good traction in its farm equipment business over last few quarters, which has registered double digit growth for multiple products in the segment. We believe with improving demand scenario, the farm equipment business of GCL has good headroom for growth.
- **Focusing on increased penetration in the genset market**: At present GCL is a small player in this segment and hence have a lot of room to grow. In FY18, GCL's genset business registered more than 41% volume growth and its auxiliary power segment market share has increased from 3.5% to 6.5%.

Greaves Cotton

CMP Rs 119| Target Rs 171 (20x FY20E Earnings)

GREAVES
SINCE 1859
Greaves Cotton Limited

Valuations: At CMP of Rs 119, Greaves Cotton is trading at FY19E and FY20E, P/E multiples of 15.5x and 13.9x respectively. We value the stock at a FY20E target P/E multiple of 20x, which yields a target price of Rs 171 per share.

Rs mn	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)	EV/EBITDA (x)
FY16	16134	2671	1747	7.2	16.6	19.7	16.6	10.8
FY17	16343	2434	1781	7.3	14.9	19.3	16.3	11.9
FY18	17921	2553	1545	6.3	14.2	16.1	18.8	11.3
FY19E	19155	2778	1869	7.7	14.5	18.6	15.5	10.4
FY20E	21064	3028	2093	8.6	14.4	20.0	13.9	9.5

Arihant Research

Shakti Pumps

CMP Rs 391 | Target Rs 651 (20x FY20E Earnings)

Shakti Pumps specialises in manufacturing a broad range of energy efficient stainless steel pumps (with special focus on solar pumps) catering to a variety of sectors including agricultural, industrial, domestic and horticultural. Given government's thrust on solar pumps, Shakti having more than 50% market share in solar pumps, will be a key beneficiary of the increased demand for solar pumps. We expect Shakti to report 22.3% CAGR in its revenues over FY18-20E, while PAT will witness a CAGR of 32.5% over the same period. EBITDA margin is expected to stabilise around 17-18% level. We remain positive on Shakti's future growth prospects, and have a BUY rating on the stock with a target price of Rs 651 (20x FY20E earnings), giving an upside potential of 66.4 %.

Investment Rationale

- **With government's thrust on promoting renewable energy – solar pumps to be the next growth driver for Shakti :** With government's thrust on renewable energy and promotion of solar pumps through schemes like KUSUM, Shakti having more than 50% market share in solar pumps will be a direct beneficiary of the same.
- **Expected revival in export revenues to aid Shakti's topline growth:** Due to better acceptance of stainless steel pumps in the overseas markets, Shakti has primarily been an export oriented company. However due to setback faced in its main export market of gulf during FY15-16, export share in total revenue declined from a high of 69% in FY14 to 41% in FY16. As Shakti has diversified into new export markets, we believe export revenues will revive and should contribute meaningfully to Shakti's topline growth over FY18-20E.
- **Increased demand for efficient pumps to facilitate domestic revenue growth:** We expect Shakti's domestic revenue to show strong growth of 22.3% CAGR over FY18-20E, primarily driven by higher demand for energy efficient pumps where Shakti has an edge over its peers as well as due to increased brand awareness and distribution reach of Shakti.

Shakti Pumps

CMP Rs 391 | Target Rs 651 (20x FY20E Earnings)

Valuations: : At CMP of Rs 391, Shatki Pumps is trading at FY19E and FY20E, P/E multiples of 15.4x and 12x respectively. We value the stock at a FY20E target P/E multiple of 20x, which yields a target price of Rs 651 per share. We are bullish on the future prospects of Shakti Pumps and have a BUY rating on the stock with a target price of Rs 651 (20x FY20E earnings), which gives an upside potential of 66.4%.

Rs mn	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)	EV/EBITDA (x)
FY16	2642	201	11	0.6	7.6	0.5	613.9	36.6
FY17	4290	605	216	11.8	14.1	9.7	33.2	13.0
FY18	4366	774	341	18.6	17.7	13.4	21.1	10.3
FY19E	5614	983	480	26.1	17.5	16.5	15.4	8.3
FY20E	6536	1176	599	32.6	18.0	18	12.0	6.9

Arihant Research

Ador Welding

CMP Rs 359 | Target Rs 517 (25x FY20E Earnings)

With expected recovery in private capex cycle along with domestic demand revival, we expect Ador Welding Ltd (AWL) to report 8.8% CAGR in its revenues over FY18-20E, while PAT will witness a CAGR of 23.6% over the same period. EBITDA margin is expected to expand by 130 bps to 8.7% in FY20E from 7.4% in FY18. We remain positive on AWL's future growth prospects, and have a BUY rating on the stock with a target price of Rs 517 (25x FY20E earnings), giving an upside potential of 44%.

Investment Rationale

- **Demand revival to drive volume growth in consumables:** In India, the welding consumables market is expected to exhibit a CAGR of 5.6% from 2014 to 2020. With gradual recovery expected in the IIP index over FY18-20E, the demand for industrial products will also improve. This in turn will help AWL to clock 10% CAGR growth in welding consumable over FY18-20E.
- **Change in revenue mix towards projects will aid margins:** Over the last few years equipment and project segment's share in AWL's revenue mix has steadily increased from 20% in FY10 to 33.6% in FY18. Going forward we expect AWL's equipment and project segment revenues to contribute 35.6% and 36.9% respectively to its consolidated revenue in FY19E and FY20E. As the equipment and project segment offers better margins compared to consumables, AWL's EBITDA margin is expected to witness decent expansion of 130bps over FY18-20E with higher share of equipment business.
- **Consistent dividend payout with high dividend yield:** The current cash balance of AWL at the end of FY18 stands at Rs 175mn, which is expected to increase to Rs 259mn by FY20E. Further AWL has a track record of paying dividend for more than 15 years with the current dividend yield placed at 1.7%. Going forward with improving EBITDA margins and profitability, we expect AWL's dividend yield to reach 2.2% in FY20E from 1.7% in FY18.

Ador Welding

CMP Rs 359 | Target Rs 517 (25x FY20E Earnings)

Valuations: At CMP of Rs 359, AWL is trading at FY19E and FY20E, P/E multiples of 23.1x and 17.4x respectively. We value the stock at a FY20E target P/E multiple of 25x, which yields a target price of Rs 517 per share, which gives an upside potential of 44%.

Rs mn	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)	EV/EBITDA (x)
FY16	4083	409	224	16.5	10	9.9	21.8	11.7
FY17	4424	301	179	13.1	6.8	7.6	27.4	16.7
FY18	4583	340	184	13.5	7.4	7.5	26.5	16.2
FY19E	4915	413	211	15.5	8.4	7	23.1	12.3
FY20E	5421	473	281	20.7	8.7	8	17.4	10.1

Arihant Research

Havells India

CMP Rs 600 | Target Rs 732 (45x FY20E Earnings)

Havells India is one of the largest and fastest growing manufacturers of electrical components and systems in India. Business divisions includes, Switchgear, Cable, Lighting and Fixtures, Electric Consumer Durables (ECD) like fans, CFLs, and lighting fixtures and LLOYD Consumer Division. In Q2FY19 company has posted healthy 28% YoY revenue growth and 23% YoY revenue growth in H1FY19 led by switchgears and consumer durables. However rising commodity costs has impacted margins adversely mainly in the cable segment. Also rupee depreciation led to volatility in the earnings as significant portion of its AC components are imported. However management expects that from FY20, 60-70% of the sourcing for AC components would be domestic, thereby reducing the exposure to INR fluctuations.

Investment Rationale

- **Segment performance:** 25% volume growth in Q2FY19 in cables & wires ,led by industrial demand and real estate projects. 10% volume growth and 28% revenue growth in Switchgear which has majorly come from increased government demand from electrification projects. Electrical Consumer Durables witnessed growth of 42.4% yoy with base effect and on a new product launches (water purifiers and personal grooming products).
- **Manufacturing facilities:** Company did Capex of Rs 5bn (Rs 3bn for the Lloyd plant) in FY19 and company plans to continue to make investments in the segment in the coming years of Rs2–2.5bn. From FY20, 60-70% of the sourcing for AC components would be domestic, reducing the exposure to INR fluctuations.
- **New source of growth:** Over recent years Havells has forayed into new categories like air coolers ,personal grooming (targeting 25% market share in three years, market size Rs20bn), water purifiers and niche segments like air purification and home automation. After the successful integration of Loyds by company, the new launches in consumer durable business in addition to the electrical business offers new sources of growth.

Havells India

CMP Rs 600 | Target Rs 732 (45x FY20E Earnings)

Valuations: At CMP of Rs 600, Havells India is trading at FY19E and FY20E, P/E multiples of 44x and 37x respectively. We value the stock at a FY20E target P/E multiple of 45x, which yields a target price of Rs 732 per share, which gives an upside potential of 22%.

Rs mn	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)
FY16	75700	7590	6970	11.17	10.2	53	53
FY17	61070	8200	5580	8.94	13.4	15	67
FY18	80990	10450	6280	10.05	12.9	18	59
FY19E	96880	12540	8440	13.58	12.9	21	44
FY20E	111180	14810	10120	16.28	13.3	23	37

Bloomberg Research

Aurobindo Pharma

CMP Rs 719 | Target Rs 910 (14x FY20E Earnings)

AUROBINDO

Aurobindo is a leading global pharmaceutical company producing oral and injectable generic formulations and active pharmaceutical ingredients (APIs). Strengthened by several large manufacturing facilities approved by US FDA, UK MHRA, MCC-SA, ANVISA Brazil for both APIs & formulations and with strategic alliances with 46 subsidiaries & joint ventures, Aurobindo features among the top 5 companies from India in terms of con-solidated revenues. Aurobindo has been ranked as #7 prescription supplier in the US as per IMS total prescriptions. The Company is among the top 15 generics companies by sales in Europe.

Investment Rationale

- With Pharma industry facing a lot of head winds and price erosion hitting the margins of many US focused pharma companies, Aurobindo Pharma (APL) is able to maintain its EBITDA margins in the range of 22-25% from FY15-FY17. FY19 growth should be driven by injectable launches as well as ramp-up in the OTC business. The EU business now operates at low double-digit margins but can continue to improve on the back of India site transfers. The company has implemented a fairly comprehensive de-risking strategy in manufacturing, which will limit downside in the event of a negative compliance event.

- **Key Growth drivers for the next 4-5 Years**: APL is working on specialized segments such as Injectables including Penam & Microspheres, Hormones, Oncology, Vaccines, Neutraceutical, Depot injections and Peptides which would improve margins due to complexity in the manufacturing & better pricing.

Aurobindo Pharma

CMP Rs 719 | Target Rs 910 (14x FY20E Earnings)

Valuations: At CMP of Rs 719, APL is trading at FY19E and FY20E, P/E multiples of 18.4x and 11x respectively. We have a Buy rating on the stock with a target price of Rs 910, valuing the stock at 14x PE of FY20E EPS of Rs 65.

Rs mn	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)	EV/EBITDA (x)
FY16	137720	31880	20250	34	23.0	32.5	21.3	14.1
FY17	150900	34340	23010	39	22.8	24.5	18.3	12.2
FY18	165000	37890	24400	42	23.0	20.9	17.3	11.0
FY19E	175850	35520	22930	39	20.2	16.7	18.4	11.7
FY20E	250430	58100	38190	65	23.2	22.0	11.0	7.3

Grasim Industries

CMP Rs 831| Target Rs 1086

Grasim Industries Q1FY19 standalone revenue grew by 60% YoY at Rs.47.89bn.EBITDA grew by 89% at Rs.10.5bn. The Free Cash Flow for the quarter was 4.0bn after a capex of over 3.05bn. At consolidated level, the revenue for Q1FY19 rose by 53% YoY to Rs 168.5bn (Exc-inter-segment) and EBITDA at Rs 32.1bn was up by 33% YoY.

Investment Rationale:

Viscose Business:

- The VSF business reported its highest ever quarterly production and sales volume of 134KT and 132KT respectively. The debottlenecking of the VSF capacity at multiple plant locations is almost complete and is reflected in the production volumes of the current quarter (Q1FY19).The Net Revenue for Q1FY19 at 24.80 bn was higher by 35% YoY and EBITDA at 5.86 bn by 68% YoY.
- Grasim's strategic initiatives around LIVA brand (domestic market expansion), mix improvement (domestic/specialty fibers) & backward integration seem to be yielding positive results

Chemical Business:

- Net Revenue rose by 45% YoY to 15.78bn and EBITDA by 103% YoY to 4.95bn. driven by better realization and higher sales volume.
- The caustic soda prices in India moderated during the quarter led by temporary softening in global caustic soda prices. The management expects demand for Caustic Soda to be strong going forward, supported by growth in the user industries (Textiles, Aluminum, Paper, Soap and Detergent etc.).
- Given recent large capacity expansion (200K) and debottlenecking capex announced (Rs11B), this segment offers strong volume & EBITDA growth over the next two to three years.
- Higher **integration in chlorine** is expected to drive a healthy margin profile for the Chemicals segment and its realization turns positive this time.

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HAPPY Diwali

ADITYA BIRLA GRASIM

Grasim Industries

CMP Rs 831| Target Rs 1086

Valuation: Combined standalone estimated EBITDA for FY20 is Rs.52.48bn and if we value standalone business at EV /EBITDA Multiple of 5.5x then we arrive at EV of 288.64bn, on standalone basis debt is 30.58bn. By subtracting debt we arrive at market cap of **258.06bn from standalone business** and factors in a **40% hold co discount for subs(UltraTech cement and AB Capital).** we arrive at Target of Rs 1,086.

Rs mn (Consolidated)	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)
FY16	340842	64044	24047	10.30	18.8	12.93	80.58
FY17	356282	73851	31042	66.42	20.7	14.02	12.51
FY18	549690	121903	26035	42.93	22.2	9.97	19.35
FY19E	688541	126889	32598	49.57	18.4	6.00	16.76
FY20E	780385	148060	40714	61.95	19.0	6.78	13.41

HAPPY Diwali

IndusInd bank

CMP Rs 1485| Target Rs 1742 (3.3x FY20E Book Value)

IndusInd Bank

IndusInd Bank has emerged as one of the fastest-growing banks in the banking sector in India. The products and services offered by the company includes personal banking – offers a wide range of products and services like deposits, loans, investments, insurance, forex services, demat services, online services and wealth management services. NRI banking – offers money transfer, investment products such as international deposits, mutual funds, online share trading, etc. The bank also offers property solutions and insurance loans. Business banking – caters to SMEs, retail, NRI and other corporates, offering spectrum of products and services.

Investment Rationale:

- **Healthy business growth:**
  IIB is a growth stock and we see the loan growth at just ~25% for the next four to five years as it takes market share away from PSU banks. The growth is underpinned by a diversified product base across retail and corporate segments.

- **Stable margins:**
  The bank has enough levers across product mix and funding patterns to keep margins stable at ~4%. Cost-to-income should improve as efficiencies are starting to kick in. The de-risking of the corporate book should support the asset quality in the longer term.

- **Network expansion:**
  The bank's shifted focus to network growth will continue to do well. The bank began FY11 with 210 branches and should end FY21 with 2000 branches. This is tried and tested strategy. Both Axis and HDFC Bank expanded their branch network without hurting their profitability. Network expansion was, infact, accompanied by improving branch productivity and CASA generation , while cost to income ratios remained broadly stable.

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IndusInd bank

CMP Rs 1485| Target Rs 1742 (3.3x FY20E Book Value)

IndusInd Bank

Valuation: IndusInd Bank has continued to show sustained progress across all sectors. At current growth rates bank will achieve Phase-4 targets well in time. At CMP of Rs.1485 the stock is trading at 2.8(x) its FY20E ABV. We have a **ACCUMULATE rating with a price target of Rs 1,742 based on 3.3(x) its FY 20E ABV. That is an upside of 17.3%.**

Rs mn	Net interest income	EBITDA Operating Profit	PAT	EPS	ABV	ROE (%)	P/EBV(x)
FY16	45170	78140	22860	40.7	302	16	4.90
FY17	60630	102340	28680	48.1	332	15	4.47
FY18	74970	122480	36060	60.1	385	16	3.85
FY19E	87140	145840	45070	75.1	449	17	3.30
FY20E	103470	173580	54780	91.3	528	18	2.81

PNB Housing Finance

CMP Rs 835| Target Rs 1418 (3.1x FY20E Book Value)

PNB Housing Finance Ltd provides housing loans to individuals and corporate bodies for construction, purchase and repair of houses. It also provides loans for commercial space, LAP and loan for purchase of residential plots. PNBHF has effectively leveraged on a unique hub-and-spoke model, where customer acquisition happens at the branch level while underwriting takes place at the hub. The company has incurred significant technology and branch infrastructure costs over the past few years and we expect operating leverage benefits to accrue with stron growth.

PNBHF operates largely in Tier I/II cities, its average ticket size in home loans of INR 3.2m is almost 30% higher than that of its peers like HDFC and Indiabulls. Also, unlike some of its peers, the company is not focusing a lot on affordable housing finance. However, in LAP, the company chooses to cater to the lower end of the spectrum in terms of the ticket size, with average ticket size of INR 5m.

Investment Rationale:

- **PNBHF registered strong loan growth across segments with a loan book CAGR of 53% over FY15-18E –** Strong loan growth, stable margins and moderating cost-to-income ratio should drive 13% PAT CAGR over FY18-20E. Overall we expect stable RoAs and improving RoEs.
- **PNBHF's asset quality has been one of the best among peers, with a GNPA ratio of 0.33% as of FY18.** Despite strong growth witnessed in the past 5 years, PNBHF did not face any asset quality issues. The strength of its underwriting practices is evident from the fact that its GNPL in the corporate segment is nil.
- **Average cost of borrowing had come down by 84 bps during FY18** - One of the PNBHF's biggest strength is its well diversified liability franchise, which makes its cost of funds competitive versus largest players in the industry.

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PNB Housing Finance

CMP Rs 835| Target Rs 1419 (3.1x FY20E Book Value)

pnb Housing Finance Limited Ghar Ki Baat

Valuations: At CMP of Rs 835, PNBHF is trading at FY19E and FY20E, P/ABV multiples of 2x and 1.8x respectively. We value the stock at a FY20E target P/ABV multiple of 3.1x, which gives a target Rs 1419 , an upside of 70%.

Rs mn	Net interest income	Operating Profit	PAT	EPS	ABV	ROE (%)	P/BV(x)
FY16	6830	8364	3265	25.7	169	19.7	4.9
FY17	9960	13271	5866	31.6	337	19.3	2.5
FY18	19860	19862	8306	49.9	370	16.1	2.3
FY19E	23830	23834	9502	57.0	424	20.5	2.0
FY20E	213430	28521	10652	60.3	458	23	1.8

Tata Consultancy Services

CMP Rs 1936| Target Rs 2116 (23x FY20E Earnings)

Tata Consultancy Services is an IT solution provider. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled services delivered through its unique Global Network Delivery Model, recognized as the benchmark of excellence in software development..The company also engagged in the business of Telecom, Retail and Distribution, Banking, Financial Services and Insurance.

Investment Rationale:

- The growth in revenue is driven by digital business. It recorded a growth of 60% on YoY basis .
- Europe and UK continue to perform strongly.
- Company's block-chain solution is experiencing high volume growth .
- The company is on track to achieve a double digit growth rate in FY19.
- Business 4.0 thought leadership framework, contextual knowledge, and full stakeholder capabilities differentiate TCS, and drive demand for solutions and services.

Tata Consultancy Services

CMP Rs 1936| Target Rs 2116 (23x FY20E Earnings)

Valuations: Management is confident on improving the growth momentum in FY19 backed by strong order book. The management expects the digital revenue to grow in the upcoming quarters, and to be one of the key growth drivers. The management is confident of achieving a double digit growth in FY19. TCS business has evolved faster than peers in the changing environment by building differentiated digital offerings and agile delivery capabilities. We believe that TCS can deliver industry-leading growth and have valued TCS at PE of 23x of our FY20E EPS of Rs 92 and arrived at Target Price of Rs 2116. We have a Hold rating on the stock.

Rs mn	Net Sales	EBITDA	PAT	EPS	EBITDA Margin %	ROE (%)	P/E (x)	EV/EBITDA (x)
FY16	1086460	337610	243380	61.60	31.0	41.8	31.4	14.4
FY17	1179660	365320	263570	66.72	30.9	33.2	29.0	13.0
FY18	1231040	325160	258800	67.61	26.0	32.9	28.6	14.8
FY19E	1395840	381060	308190	82.00	27.0	32.7	23.6	18.8
FY20E	1499710	419920	346130	92.00	28.0	28.6	21.0	17.0

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