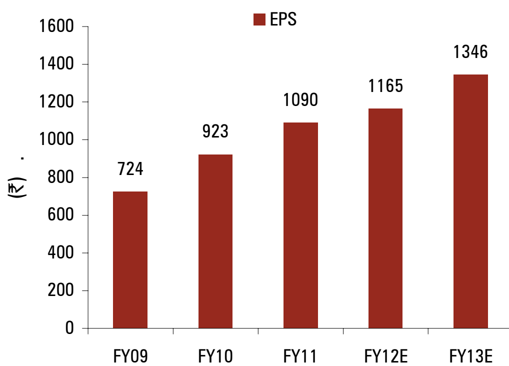
Muhurat Picks 2011-12

Fiscal End (March 2012) Sensex Target	
Scenario	Sensex Levels
Bull Case	20190
Bull case earnings	FY13E
Target P/E	15x
Base Case	18844
Base case earnings	FY13E
Target P/E	14x
Bear Case	16310
Base case earnings	FY12E
Target P/E	14x

Earnings trajectory: CAGR of 11% over FY11- FY13E



Call on Sectors: Leaders and laggards

Sectors to bet on	Neutral Sector
Automobile	Cement
Banking	Infrastructure (Selected Buys)
Pharma	FMCG
Tier 1 IT cos	Capital Goods/Power (Prefer Tier 1 cos)

Sectors to Avoid
Metals
Real Estate
Shipping

Muhurat 2011: Selective stock picking in turbulent times…

The global economy is once again passing through turbulent weather in terms of the growth trajectory. Soft economic data points coming out of western economies (weak PMI readings breaching the critical level of 50 globally, discouraging consumer confidence retesting the 2008 lows and stressed housing sector) coupled with the perplexing sovereign debt crisis in the peripheral Euro zone has once again raised the odds of a double dip recession in the troubled western economies. Hence, the downgrade of US debt (July 2011) by the rating agencies was merely a catalyst for the ruthless sell off that risky asset prices have witnessed post the downgrade, further adding to the odds of a double dip. The impact MSCI Developed Markets were down by 15% from July-September 2011 coupled with huge volatility.

Coming to emerging markets, especially India, the main concern leading to the sell-off was the realignment of growth expectations as the EM central bankers have been tightening to avoid a hard landing. India remains no exception as the RBI has been ahead of the curve and raised rates by 350 bps on 12 counts to tame spiralling price levels. Also, stalled policy reforms from New Delhi have added fuel to the fire as we are entering a moderation period wherein we expect growth rates to cool off from 8.5% levels to 7-7.5% over the next couple of quarters. This, we believe, is clearly reflected in the asset prices (stock markets) over the previous months.

In the beginning of the year, in our strategy report we had put our Bull/Base/Bear Case targets for the Sensex at 25451/23165/16924, respectively, for December 2011. Though our bear case target has materialised given global and local macro headwinds, we are downgrading our Bull/Base/Bear Case targets further for March 2012 to 20190/18844/16310 levels, respectively. **We estimate a base case valuation of 18844 for the Sensex (14x FY13 EPS of ₹ 1346). In case of negative surprises wherein valuation multiples contract and future earnings are ignored, we expect the Sensex to trade at 16310 (14x FY12 EPS of ₹ 1165).**

The main revision in our BSE Sensex target stems from the fact that we have revised down our earnings for FY12E and FY13E by 6% and 5%, respectively, and lowered our target multiple for the base case from 17x to 14x .

We expect more of a time based correction and expect the markets to oscillate in a broad trading range till the time reasonable clarity emerges from the various local and global macro headwinds. In case of a negative outlier event, the markets may fall further in the wake of panic selling. However, we do not expect the markets to sustain at such levels. In such an environment, timing the markets would become extremely difficult. **We believe any sharp cuts should be bought into from a three to five years perspective. Buying is recommended in large caps and selective quality midcaps.**

On the flip side, the BSE Sensex can face further downside given there appears some Black Swan in the global backdrop (bank failure in the Euro area, default contagion in the peripheral Euro zone and policy failure, probable oil shock or some unforeseen domestic political issues) that can lead to debasement of P/E multiples as in 1992 (Harshad Mehta Scam), 1999-2000 (Ketan Parekh scam) and the most recent 2008 US crisis wherein the multiples contracted to as low as 10-11x.

Bharti Airtel

Bharti Airtel		FY11	FY12E	FY13E
P/E	x	24.4	26.7	16.6
EV/EBTIDA	x	10.4	8.5	6.6
RoE	%	12.4	10.3	14.3
RoCE	%	8.6	9.5	13.2

Source: ICICIdirect.com Research

- The industry scenario has improved over the past few quarters with the ongoing CBI enquiry into the 2G scam. The recent price hike by incumbents signifies reducing competitive intensity and returning pricing power. Airtel is expected to post an improvement in ARPMs in the coming quarters on the back of the recent price hike and traction in 3G services. With the withdrawal of unsustainable customer acquisition offers from the market and reducing dual SIM phenomena, margins in the domestic market are expected to improve, going ahead

- Africa operations have shown continual improvement in key metrics. EBITDA margins have expanded by 276 bps in the past three quarters. With outsourcing agreement in place, the benefit in terms of further margin expansion is expected to kick in from FY13 onwards

- DoT expects NTP 2011 to come into effect by December 31, 2011. Most of the negatives related to one-time spectrum fees seem to be already priced in. Spectrum trading, pooling and sharing would help larger players like Bharti Airtel. At the CMP of ₹ 385, the stock is trading at 16.1x FY13EPS against its long-term average of 19.3x. Also, with most of the capex already incurred, return ratios would also improve, going ahead

Biocon

Biocon		FY11	FY12E	FY13E
P/E	x	18.9	18.0	14.5
EV/EBTIDA	x	11.5	10.4	8.5
RoE	%	18.1	16.5	17.4
RoCE	%	19.3	18.6	20.7

Source: ICICIdirect.com Research

- The out-licensing deal with Pfizer to launch four human insulin products in emerging and advanced markets post patent expiry augurs well for Biocon. It has started supplying Fidaxomicin (anti-infective) API to US based Optimer's patented product Dificid for which the company is a sole supplier. The recent launch of reusable pen in the domestic market is a promising move for the company. Divestment in Axicorp is expected to boost EBITDA margins

- The R&D services business is witnessing a consistent improvement both in terms of revenues and profitability over the last three quarters. The key trigger will be the unlocking of R&D business through IPO.

- We expect sales and profits (after adjusting Axicorp numbers in FY11) to grow by 22% and 20%, respectively, between FY11 and FY13E. Biocon is currently trading at ~18x FY12E EPS of ₹ 19.3 and ~15x FY13E EPS of ₹ 24

HDFC Bank

HDFC Bank		FY11	FY12E	FY13E
P/E	x	28.9	22.4	17.2
P/ABV	x	4.5	4.0	3.5
RoE	%	16.7	18.7	21.3
RoA	%	1.6	1.7	1.9

Source: ICICIdirect.com Research

- We expect healthy business growth of 20% CAGR over FY11-13E with a well diversified loan book (~50:50 between retail and wholesale) and strong liability franchise (CASA ratio of ~48%)
- Margins will be protected at over 4% (one of the best across industry). Healthy asset quality will lead to lower credit costs
- The bank commands a premium multiple of 3.8x FY13E ABV because of consistent track record of 30% YoY growth in PAT, higher margins and healthy asset quality. We expect PAT growth of 30% CAGR over FY11-13E and RoA of ~1.9% and RoE of 21% by FY13E

HPCL

HPCL		FY11	FY12E	FY13E
P/E	x	7.5	7.5	6.3
EV/EBTIDA	x	8.4	7.2	5.8
RoE	%	12.4	11.5	12.6
RoCE	%	7.2	7.7	9.5

Source: ICICIdirect.com Research

- Hindustan Petroleum Corporation (HPCL), a Fortune 500 company, is engaged in refining and marketing of petroleum products in India. It operates two refineries with 16.3 mmtpa capacity in FY11 and has ~18% share in marketing of petroleum products. HPCL, in a joint venture with Mittal Energy, is setting up a 9 mmtpa refinery at Bhatinda, which would be operational in FY12E
- We believe capacity expansion, increase in retail sales volume and higher refining margins would create value for investors, going forward. Also, government policy and reforms in the pricing of sensitive petroleum products could reduce net under-recoveries of the company. We have assumed Brent crude oil prices of US$100 per barrel and net under-recoveries of 8.8% for OMCs in FY13E
- HPCL is trading at 7.5x FY12E and 6.3x FY13E EPS of ₹ 46.1 and ₹ 55.2. HPCL's book value of ₹ 439 in FY13E also offers good risk reward ratio to long-term investors. Sustained higher crude oil prices and adverse government policy remain risks to our recommendation

ITC

ITC		FY11	FY12E	FY13E
P/E	x	30.1	26.6	22.5
EV/EBTIDA	x	19.3	17.0	14.4
RoE	%	31.3	33.4	36.6
RoCE	%	42.3	46.0	50.8

Source: ICICIdirect.com Research

- With a leading position in its various businesses, we expect ITC to sustain its gross revenue growth at 12.6% (CAGR from FY11-14E), driven by healthy growth in FMCG (18.6%), agri business (16.3%) and paperboards (13.7%) with a moderate growth in cigarette (10.1%) and hotel (8.8%) revenues
- ITC is the market leader in the Indian cigarettes industry and enjoys ~75% volume share (FY11). Its cigarette revenues (gross) have grown by ~1.5x, from ₹ 12833.7 crore in FY07 to ₹ 19827.6 crore in FY11, largely driven by price growth of 11.3% with volume growth remaining flat. Being a dominant player, passing on the impact of higher taxes through price increases has not been tough for ITC. Therefore, we expect revenues from cigarettes to continue growing at a CAGR of 10.1% (FY11-14E) driven by 5.3% price growth and a lower volume growth of 4.5%
- Comparing with global peers like British American tobacco (BAT), Philip Morris and Japan Tobacco, ITC should trade at a premium given the opportunity size of the Indian market and expected higher earning growth. Simultaneously, a substantial reduction in FMCG losses and visibility of break-even would result in the FMCG segment commanding a higher valuation than the historic average. We remain positive on the stock from a 9 to 12 months perspective

Performance Review of Muhurat Picks 2010 and the way ahead…

Company	Reco Price	Target Price	CMP	Return %	Comment
Dish TV	56.0	70.0	76.1	25.0	**Target price achieved**. Though the subscriber addition has slowed down in the last two quarters, we expect good traction, going ahead, backed by the festive season and mandatory digitisation ordinance passed by the government. Also, the upward trend of ARPU is expected to continue backed by price hikes and increasing traction in HD packages. We expect the company to become PAT positive in Q3FY12 and, hence, we continue to be positive on the stock
IDFC	200.0	240.0	122.0	-39.0	IDFC has corrected significantly and we believe that negatives like lower growth and profits have been priced in. Even though we expect the overhang to remain for some time, we believe current valuations are attractive with standalone business valued at 1.3x FY13E ABV and IDFC's strategic investments like NSE and AMC business being value accretive. We recommend that investors who entered the stock average on dips
Glenmark Pharma	338.0	413.0	287.4	-15.0	In case of Glenmark, we advise clients to average the same on account of focus on niche therapies and limited competition opportunities. With strong traction in the generic space and rekindling of the R&D business, Glenmark is well poised to improve on the leverage position and sustain the growth trajectory
Maruti Suzuki	1,551.0	1,783.0	1,077.5	-30.5	Maruti Suzuki India Ltd remains the market leader in the passenger vehicle segment. However, a recent spate of concerns ranging from labour strife, slowing demand to rising interest rates have led to price declines in the stock. The stock is trading at 11x FY13E EPS. We advise clients who have entered the stock to average on dips.
Reliance Industries	1,096.0	1,260.0	838.7	-23.5	Reliance Industries has shown a strong refining performance over the past year. However, a reduction and uncertainty in gas supply volumes and entry in new areas had an impact on its stock price. We believe a strong balance sheet, high gross refining margins and better visibility in E&P business with BP's technical expertise offers excellent risk-reward to investors at current market prices
TCS	1,052.0	1,210.0	1,044.9	15.0	**Target price achieved**. Risk-reward for the IT sector could likely remain unfavourable in the near term due to macro uncertainties. However, TCS could report broad based revenue/earnings CAGR growth of 19%/18% over FY10-FY13E period. Sharp sell-offs could be used as a buying opportunity by long term investors

Source: ICICIdirect.com Research

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