

MOST stocks for Diwali Muhurat



TOP FIVE STOCKS FOR DIWALI MUHURAT 2011

We recommend top five stocks for investment on Diwali Muhurat Trading day. These gems have potential to give handsome returns.

Stock Name	Sector	CMP*	Target
AXIS BANK	BANKING	1,119	1,550
BHARTI TELE	TELECOM	388	530
HCL TECH	IT SERVICES	430	516
HERO MOTOCORP	AUTOMOBILES	2,092	2,408
JP ASSOCIATES	DIVERSIFIED	72	80

***Prices as on Tuesday (25th October 2011) closing**

TOP FIVE STOCKS FOR DIWALI MUHURAT 2011

Axis Bank (CMP : 1,119 Target : 1,550)

Axis Bank (AXSB) is a private sector bank in India, with a balance sheet size of INR2.4t+. Over the past 10 years AXSB's assets CAGR stood at 37% CAGR and PAT CAGR at 44% CAGR. The bank has emerged as one of India's best run banks and third largest private sector bank. The stock trades at 1.8x FY13 BV and 9.9x FY13 EPS. We expect RoE of ~20% in FY11-13 and RoA of ~1.5% over FY11-13. **BUY with a target price of INR 1,550 (2.5 x FY13 BV)**

Bharti Tele (CMP : 388 Target : 530)

Bharti is the largest Indian wireless operator with revenue market share of ~30% and population coverage of 86%. Post its acquisition of Zain's Africa business, Bharti has become the fifth largest wireless company globally by subscribers. We expect 25% EBITDA CAGR and 39% PAT CAGR over FY11-13E driven by inflection in tariff trajectory along with continued voice traffic and data growth in India & margin inflection in Africa. The stock trades at proportionate EV/EBITDA of 7.6x FY12E and 5.8x FY13E. **BUY with a target price of INR 530 (SOTP)**

HCL Tech (CMP : 430 Target : 516)

HCL Technologies is one of the largest IT services companies in India with a wide portfolio of services including R&D, enterprise, BPO, infrastructure management and enterprise application services we expect revenue CAGR of 20.8% and earnings CAGR of 22.2% over FY11-13. The stock trades at 14.3x FY12E EPS and 12.5x FY13E EPS. **BUY with a target price of INR 516 (15 times FY13E EPS)**

Hero Motocorp (CMP : 2,092 Target : 2,408)

Hero MotoCorp is the market leader in domestic motorcycle market with ~47% market share, benefiting by a strong dealership network with good penetration in the rural areas as well. With exit of Honda, Hero MotoCorp is free to explore a global market which provides good long term opportunity. The stock trades at 17.2x FY12E EPS and 13.8x FY13E EPS. **BUY with a target price of INR 2408 (16x FY13 EPS).**

JP Associates (CMP : 72 Target : 80)

Jaiprakash Associates is a diversified infrastructure player, with presence in cement, power, roads, real estate and hospitality. It is set to become the third largest cement producer in India, with a target capacity of ~35m tons by FY13. We expect standalone net profit of INR7.7b in FY12 (up 4% YoY) and INR9.2b in FY13 (up 19% YoY). The stock trades at 20.5x FY12E EPS and 16.7x FY13E EPS. **BUY with a target price of INR 80 (SOTP)**

Technical View on Market

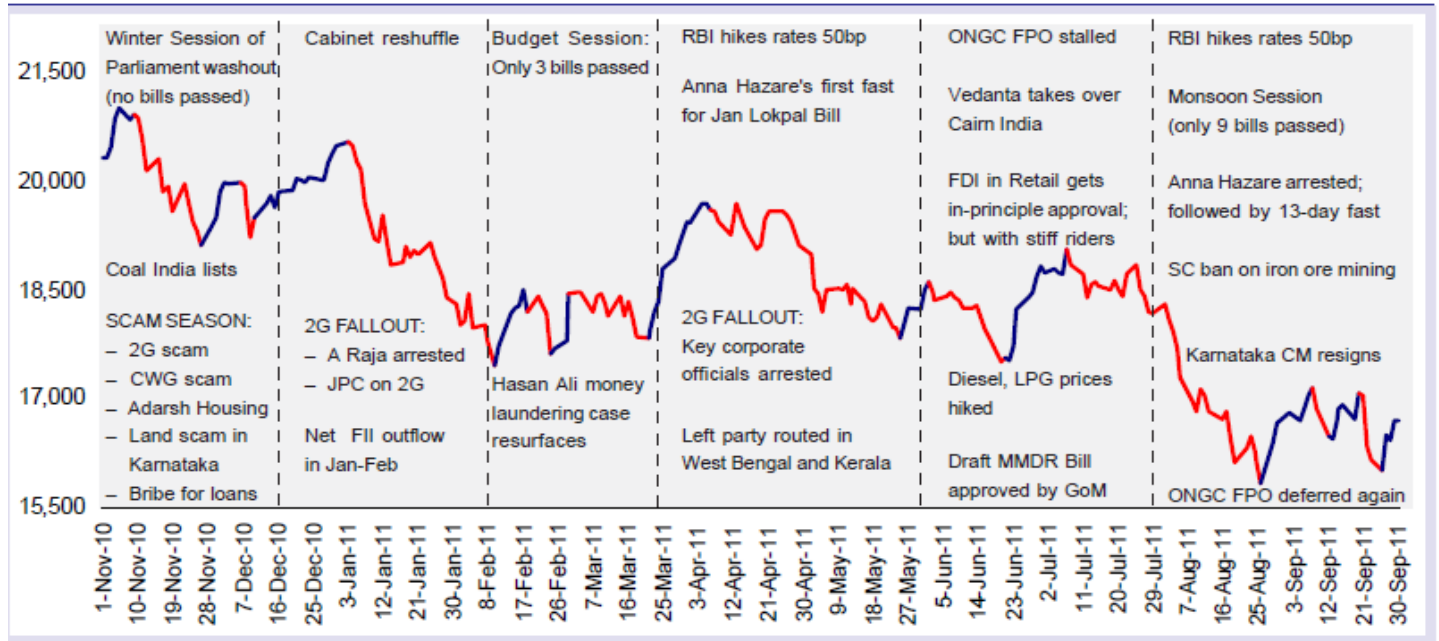
Nifty has given a strong closing at 5192 levels up 10% from multi-month lows in region of 4720-4750 tested thrice consecutively in the months of Aug/Sept/Oct. Nifty has consolidated between 4750 to 5150 levels for 55 days before giving a breakout today closing near to 5200 levels. A break out out of consolidation phase between 4750 to 5150 of 400 points generally leads to equally higher target indicating a potential upside to 5550 on nifty in coming months. As the movement is being sharp on both sides of the market one has to accumulate at regular intervals in small corrective phases of market declines. One can keep a stop loss of 4975 levels for the current upmove towards a new higher expected range of 5550.

Backdrop: A year before

In September 2010, Indian markets were in a euphoric mood. Sensex was at a new high of 20,500, Sensex P/E at 18.5x (rolling 12-month forward) was almost at 25% premium to long-period average (15-year), and CY10 net FII flow at USD29b was an all-time high.

The markets has corrected sharply in the last one year on the back of domestic news flow and global concerns.

Domestic Events

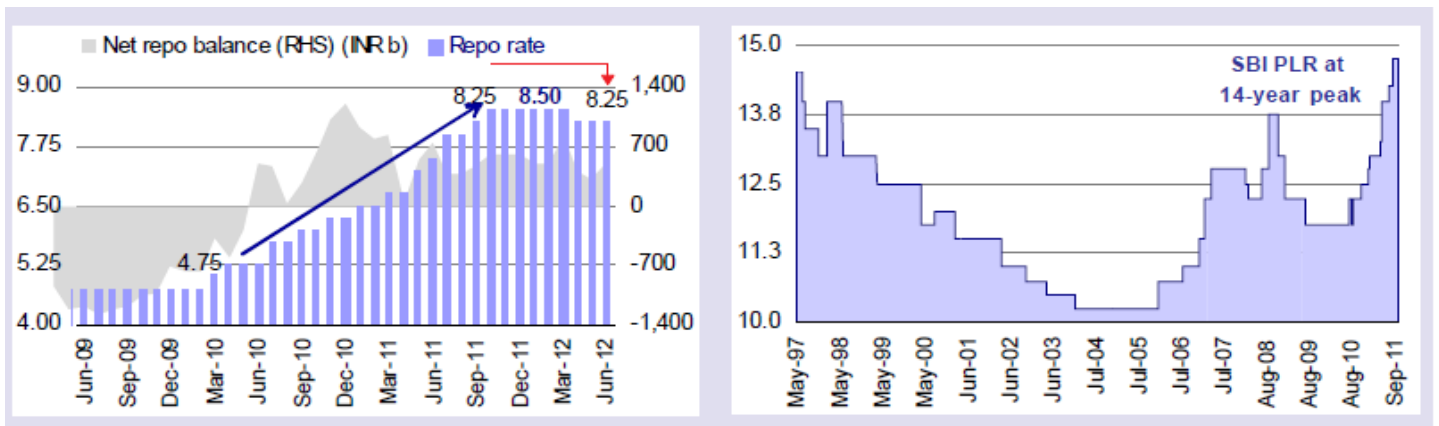


Global Events



Inflation concerns led to higher interest rates

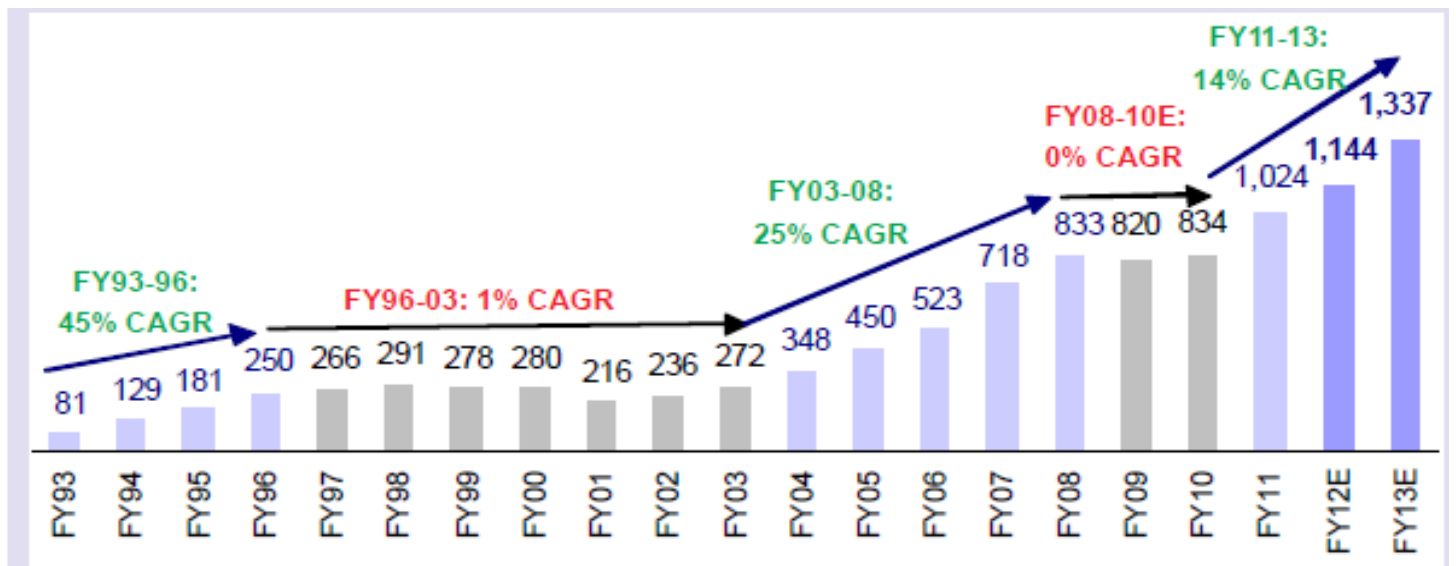
Twenty consecutive months of 8%+ inflation led the RBI to resort to 12 consecutive hikes in the repo rate, aggregating 350bp, taking it to a 36-month high of 8.25%. Rate hikes apart, the RBI has also kept a tight leash on the liquidity situation. This ensured effective transmission of rate hikes by way of banks raising base rates/PLR nearly synchronously. SBI's PLR rules at a 14-year peak.



Moderation in inflation can provide the necessary headroom to the RBI to soften its anti inflationary stance particularly when global growth and financial stability concerns are resurfacing. However, as headline inflation may remain in high single digits until end CY11, we believe the RBI could do one last 25bp hike in its October 2011 mid-term policy before taking a pause.

Attractive valuations, below historical averages & risk-reward favorable

We believe that most of the negatives on the domestic side have largely played out with inflation and interest rates expected to peak in 3QFY12. Also, we expect the GDP and corporate earnings downgrade cycle to be largely complete. Sensex earnings are in a growth phase after a 3 year consolidation as it will support markets at lower levels and move higher once sentiments improves from current levels. The Sensex is trading at 14.4 times 12-month forward PE and 12-forward P/B at 2.5x.



8-year Sensx P/E (12-month forward): Valuations are down 28% YoY



Any further risk / downside to valuations now emanate largely from global. The historical low valuations (PE of 9-11x and P/B of 1.6-1.7x) have followed global events that drove large scale risk aversion like the 9/11 and the global financial crisis post the collapse of Lehman.

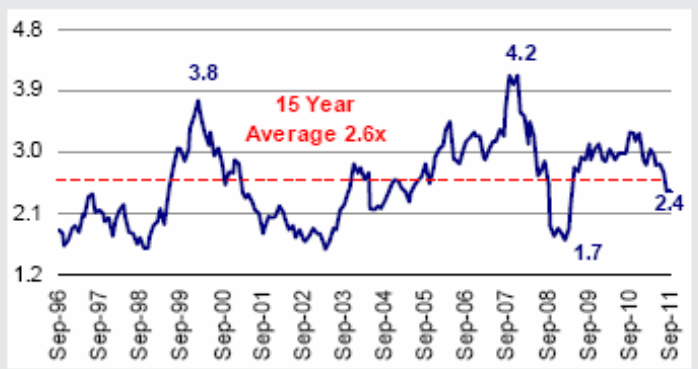
While it is tough to forecast the sequence of global events, going forward, risks have risen and an adverse turn of events could push the markets further below historical averages.

Sensex valuations below long-term averages,

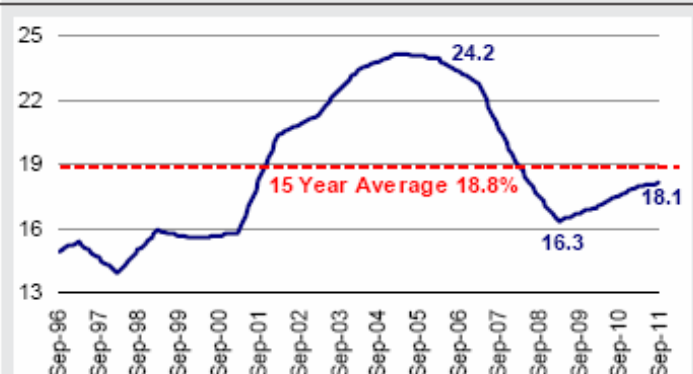
PER (x)



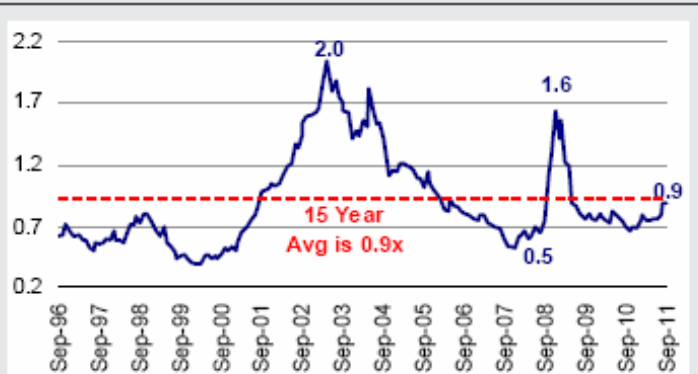
P/BV (x)



RoE (%)



Earnings yield v/s bond yield (%)



WISHING YOU & YOUR FAMILY A VERY HAPPY DIWALI
& PROSPEROUS NEW YEAR

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