# Stocks for 2012

## Banking

### Syndicate Bank Limited

**Investment Profile: Aggressive** **Horizon: 1-1.5 Yrs**

**Business Summary**

Syndicate Bank Limited (SBL) is a Karnataka based public sector bank that has a strong presence in the rural and semi urban locations of the country. SBL seeks to position itself as "A Small Man's Big Bank".

**Investment Rationale**

SBL has quite a strong branch network of 2494 branches but what needs to be emphasized is that a majority of these branches are in the Semi-urban and rural territories of the country-territories where new generation banks lack a presence and where competition is less prevalent. SBL is well positioned to develop a loyal customer base. At the end of FY11, SBL's branch network included 80 rural branches and 2494 semi-urban branches. The SBL stock is quite remunerative from a dividend perspective with a dividend yield of around 3.5%. We have employed a weighted average valuation approach of determining our share target price of Rs.128. We have assigned 40% weights to our DCF and PBV targets with a 20% weight for the PE target. Our buying level of <Rs.88 is computed taking a 45% margin of safety on our weighted average target price

### Yes Bank Limited

**Investment Profile: Aggressive** **Horizon: 1-1.5 Yrs**

**Business Summary**

Yes Bank Limited (YBL) is a new generation private bank that is based on the 'One bank' model that seeks to provide a slew of value added services (rather than plain vanilla transactions) over the lifecycle of its clients. Its business model is based on three key pillars namely: - Product, Knowledge and Relationship. Currently it mainly services institutional clients but is looking to become a more granular bank by 2015.

**Investment Rationale**

YBL has an exceptional breed of human capital, which enables its unique knowledge based lending approach to flourish. It also has useful and well-diversified fee based services. YBL has a very impressive set of historical financials both from an income statement perspective as well as balance sheet perspective. Return ratios have been consistently good for over 3 years. Also the asset quality is the best in the listed Indian banking landscape with Net NPAs of 0.01%. This is mainly due to prudent credit disbursements, regular follow-ups and a meticulous risk management approach. We have employed a weighted average valuation approach of determining our share price of Rs. 337. We have assigned 40% weights to our DCF and P/BV targets with a 20% weight for the PE target. Our buying level of < Rs.244 is computed using a 40% margin of safety on the DCF fair value

## Axis Bank Limited

**Investment Profile: Moderate** **Horizon: 1-1.5 Yrs**

**Business Summary**

Axis Bank Limited (ABL) is considered to be India's third largest private sector bank in the country with strengths in both retail banking as well as corporate banking. It has a widespread pan-India network of 1390 branches and 6270 ATMs.

**Investment Rationale**

ABL has a rather balanced business model with corporate banking accounting for 53%, while SME and retail banking account for 27% and 20% respectively. A healthy retail banking component also enables it to have a strong CASA ratio of 40% + levels. This has consequently enabled the bank to maintain attractive NIMs of 3.5%. ABL has a very healthy fee based income with key strengths in 3rd party distribution services, loan syndication and debt private placement

We have employed a weighted average valuation approach of determining our share target price of Rs.1276. We have assigned 40% weights to our DCF and PBV targets with a 20% weight for the PE target. Our buying level of <Rs.1012 is computed taking a 40% margin of safety on our DCF fair value.

# NBFC

## Shriram Transport Finance Company

**Investment Profile: Aggressive** **Horizon: 1-1.5 Yrs**

**Business Summary**

Shriram Transport Finance Company (STFC) is a deposit taking NBFC primarily involved in the financing of 2nd hand and new Commercial Vehicles. It enjoys the distinction of being India's largest Asset Financing NBFC with a market share of 25% in the pre-owned CV (Commercial Vehicle) financing segment and a market share of 8% in the new CV financing segment.

**Investment Rationale**

STFC possesses a very unique business model and is functioning in an environment where organized competition is low and entry barriers are high. STFC has been able to develop strong competencies in the areas of loan origination, valuation of 2nd hand CVs and collections since it has been involved in this Business for over three decades STFC has a diversified borrowing profile and has reduced its dependence on floating rating liabilities thereby making it less prone to the rising interest rates cycle employed by the

RBI. Our SOTP Discounted earnings+ depreciation model for STFC suggests that the fair value of the share is Rs.700. Investors can consider buying the stock at Rs.<530

# IDFC

**Investment Profile: Aggressive** **Horizon: 1-1.5 Yrs**

**Business summary**

IDFC was incorporated on January 30, 1997 in Chennai; it was set up on the recommendations of the 'Expert Group on Commercialization of Infrastructure Projects' under the Chairmanship of Rakesh Mohan. The company focuses on developing and leveraging its knowledge base in the infrastructure space to devise and provide appropriate financing solutions to their customers. The company's strong capitalization reflects the crucial role that it plays in infrastructure development. It provides financial assistance to various segments such as power, roads, and ports, telecommunications, Information Technology, Urban Infrastructure, Health care, education Infrastructure, food and agri business infrastructure, health care and tourism. IDFC provides financing through various routes such as Senior Debt-Financing through Debentures, Mezzanine products-Subscribing to preference capital or debts, proprietary equity, private equity, Debt Capital, are amongst its product offerings.

**Rationale**

Over the next five years, India would need billions of dollars in infrastructure to ensure that it is able to sustain its fast growing economy and the government alone cannot find this type of money. The notion that only government can and should provide all public infrastructure service has been gradually abandoned in India over the course of past decade. With private sector participation in telecom, roads, ports, civil aviation and airports leading visible improvements in service quality, time and cost, there is growing acknowledgement of the benefits that private sector bring to infrastructure sector. For an investor, there are numerous opportunities for being a part of this infrastructure growth momentum in the country. One could invest either directly in the infra players or through infra financing companies. The latter seems to be more promising as it provides the synergies of being in both infrastructure and financing. Meantime, it protects from the risks of infrastructure investment since is not a direct infra betting. Here comes the IDFC. IDFC has been a leading catalyst for providing private sector infrastructure development in India. The company, with its current cheaper valuation and strong business fundamentals, gives a clear investment avenue for the investing community. IDFC seems to be valued reasonably with our DCF model suggesting a value of Rs. 122 against the CMP of Rs. 102, which says the stock, is attractive in a long-term point of view. One could enter the stock at current levels as it, recently, has corrected drastically making the valuation to impressive levels.

## Auto

# Maruti Suzuki India Limited

**Investment Profile: Moderate** **Horizon: 1-1.5 Yrs**

**Business Summary**

Maruti Suzuki India Limited (MSIL) is India's largest passenger vehicle maker with a market share of 45%. Primarily known for its expertise in the manufacture of low cost and fuel-efficient cars, it has gradually expanded its portfolio across the 4-wheel automobile value chain with 14 brands and 150 variants.

**Investment Rationale**

MSIL is perhaps one of the best proxies on the long-term outlook of the Indian automobile industry that is expected to double in size over the next 4-5 years. The company is the market leader in the manufacture of passenger vehicles, it has an unrivalled sales and service network across the country, has the support of its Japanese parent for R&D and is largely considered to be the preferred choice for car buyers as exemplified by the fact that it has won the JD Power Customer Satisfaction Survey for 11 successive years. MSIL is looking to address capacity additions by increasing its capacity by 2.5 lakh units in H2FY12 and a further 2.5 lakh units in FY13. Capex to the tune of Rs.4000 crore has been budgeted.

What's most impressive about MSIL is its strong balance sheet with huge cash resources, income generating investments and miniscule debt component. At the end of FY11, the company had a cash balance of more than Rs.2500 crore. Valuations of the stock as well are quite conducive with the stock currently trading at 15-20% discount to its 5 year historical trailing PE of 17.5 and a discount to the industry trailing PE of 14. Forward valuations in the current year look good as well from an EPS perspective due to a low base.

We continue to remain optimistic on MSIL, as we believe H2FY12 will be a better year for them. Market share will continue to be an issue and but MSIL enjoys strong brand equity as exemplified by the 100,000 bookings it has received for its new Swift. Besides interest rates could come off post 2011 and this will boost sales again. We continue to recommend a 'BUY' on MSIL with a lower price target of Rs.1282.

# Exide Industries Limited

**Investment Profile: Aggressive** **Horizon: 1-1.5 Yrs**

**Business Summary**

Exide Industries Limited (EIL) is the biggest lead acid battery manufacturer in the country. The company manufactures a wide range of storage batteries for industries such as automobiles, railways, telecom, power plants, solar cells and submarines (incidentally

EIL is just one amongst 5 companies in the world that can manufacture submarine batteries).

**Investment Rationale**
EIL has pretty much all the characteristics that are becoming of an industry leader right from dominant market share both in the OEM market as well as replacement market, 7 manufacturing plants diversified across the country, a pan-India distribution network of 4000 dealer outlets, 202 area offices and 40 branches spread over 9 regions, pricing power, resplendent brand equity and preferred supplier status. One of the most attractive features of EIL is that in possesses 2 in-house lead smelters that enable the company to source a considerable (42% in FY10, 55% In FY11e and 70% in FY12e) portion of its total lead requirements at a 10-15% discount to international prices on the LME. EBITDA margins shot up from 16% to the 23% trajectory largely due to the influence of these smelters.

In the current fiscal, EIL has struggled with capacity constraints forcing it to concede market share in the replacement market but that is set to change with the company investing Rs.600 crore for the FY11-FY12 for capacity additions. Installed capacity is forecasted to grow by 24% CAGR over the next 2 years compared to the historical figure of 9-10%.

We have employed an FY13 PE multiple of 15 times and the price target works out to Rs.128**.** This target is based on the premise that avg. price realizations will grow by 6% yoy (Prior to Exide's price cut problems my median price realization growth was 7% yoy). If one were to revert price realizations to the 7% and make adjustments to the sales volume figure one gets an enhanced target of Rs.131.

With regard to DCF based on current parameters the fair value of the stock stands at Rs.101. However if price realizations were to go up from 6% to 7% and sales volume were adjusted. Then the fair value rises to Rs. 123. Moderate to aggressive risk investors who are willing to look beyond core auto stocks can consider investing in the EIL stock buying the stock at Rs.<101 levels.

## Capital Goods

### BHEL

**Investment Profile: Moderate to Aggressive** **Horizon: 1-1.5 Yrs**
**Business Summary**
BHEL is the largest engineering and manufacturing enterprise in India in the energy related/infrastructure sector today. BHEL was established in 1964, ushering in the indigenous Heavy Electrical Equipment industry in India. BHEL is amongst world's rarest few who have the capability to manufacture entire range of power plant equipment. BHEL is maintaining a consistent track record of growth, performance and profitability since 1976-77

**Investment Rationale**

BHEL is a company which is not only involved in manufacturing of traditional power generation and transmission equipment, but also undertake turnkey contracts in setting up eco-friendly Solar power cells. BHEL is also engaged in other sectors like power transmission, oil and gas, transportation etc which would enable the company to set off the risk in one segments by another. BHEL is poised to mark the capacity at 20000 mw by FY12 as a part of its continuous capacity addition program. The higher capacity will help execute the strong order book which is currently stands at INR 1,61,000 crores i.e. 3.30x FY12E revenue. Besides, BHEL is a profit making company for the last 30 years and is consistently paying the dividends to its shareholders. So far, out of the profits generated, the company has been maintaining a payout of about 20-30%. BHEL has been managed to post a bottom line growth at a CAGR of 26% during FY07-FY11. Going forward, we expect the company to post an average growth of 15%. BHEL is also planning to float a NBFC in order to make use of the huge cash surplus of Rs 9,000 crore which can be used to finance power projects. Revenues from the financing projects would enable the company to add its earnings which otherwise would have been kept idle. Apart from the status of a cash rich company, BHELs capital mix is of only 1% debt. It would also be a better choice to invest in a company where the debt content is very low during a time when higher interest rate pressures exist everywhere. Such companies would be free of interest burden, which can act as a negative element in times of slow growth

Our DCF model with 15.3% discount rate values the company at Rs.400 per share giving an decent upside from the current level.. We initiate coverage with a BUY recommendation for a target price of Rs.400. Those with a moderate to aggressive risk appetite can consider investing in BHEL at current level.

## Larsen & Toubro Limited

**Investment Profile: Moderate** **Horizon: 1-1.5 Yrs**

**Business Summary**

Larsen & Toubro Limited is an Indian multinational conglomerate; The Company has business interests in engineering, construction, manufacturing, information technology and financial services. L&T is India's largest engineering and Construction Company with a dominant presence in India's infrastructure, power, hydrocarbon, machinery and railway related projects. In recent years, L&T has expanded its global presence and international projects contributed 9% of its overall order book for the 2010-11 period. Considered to be the "bellwether of India's engineering sector", L&T was recognized as the Company of the Year in 2010. L&T has featured four times in Forbes Fab 50 list of the best public companies in the Asia-Pacific region. L&T works under operating divisions of Engineering & Construction Projects, L&T Power, Heavy Engineering, Construction, Electrical & Electronics, Information Technology and machinery & Industrial products.

**Investment Rationale**

Larsen is a company, which has a strong brand name and track record mainly on the engineering and construction. The company has diversified its business across several industries. The company claims a successful growth story in its journey so far. L&T's activities are specialized in the areas of mainly Hydrocarbon, Power, Infrastructure, Defense, Electrical, Information Technology & Engineering Services, Turbines, Forging, Boilers, Railway, Construction, Medical, Coal, Fertilizer, Steel, Cement, Paper, Ship Building, Aerospace and Finance.

L&T seems to be at a good level to buy for a long time investment. The company has good prospects to grow as always it has. The current dip in the stock is attributed to the macro headwinds like higher interest rates, inflation, policy inactions on several issues like mining, environmental issues, liquidity etc. These issues can't persist forever. Once these issues start to alleviate, L&T will show case a good picture, backed by its strong capabilities. As of now, the L&T seems to be valued reasonably with our DCF model suggesting a value of Rs. 1308 against the CMP of Rs. 1136, which says the stock is attractive in a long term point of view.

## Oil & Gas

## Gujarat State Petronet Ltd

**Investment Profile: Moderate** **Horizon: 1-1.5 Yrs**

**Business Summary**

Gujarat State Petronet Ltd (GSPL), a GSPC group company, is a pioneer in developing energy transportation infrastructure and connecting natural gas supply basins and LNG terminals to growing markets. It is the only company in India to transmit natural gas for its clients without trading in it.

**Investment Rationale**

As the world’s second largest growing economy in the world, India’s need for energy is huge. Overall macroeconomic conditions in the economy will set the demand for energy and the growth of energy demand. India has been enjoying higher growth rates since the early 1990s because of economic reforms. This growth will contribute to greater demand for energy. The robust growth outlook for the Indian economy and the resultant increase in the end - user consumption of the natural gas is expected to drive the natural gas market in the future. In this scenario, gas transmission business plays a momentous role linking the supply sources and the consumers both industrials and retail. Talking about the GSPL, it is the second largest gas transporter in the country, concentrating in Gujarat: India’s most industrialized state. The current grid operations of GSPL account for 1,666 km in the state and another 1100km pipeline is underway. What makes GSPL a good bet is that it had made a bid for four interstate projects (Total length: 5724 Km) with which its network will get quadrupled and the financial are expected to have substantial growth. Meanwhile, GSPL’s growth plans would be impacted if the company faces regulatory delays in authorization for installing new pipelines. Any delay in execution and construction of new pipelines would also impact the profitability of GSPL.

Investors with a long-term perspective can consider accumulating the stock of Gujarat State Petronet Limited (GSPL), which operates an extensive gas transmission network in Gujarat and has ambitious expansion, plans, both within and outside the State. Expected increase in transmission volumes, widening of geographic footprint, limited downside on transmission tariff from current levels, and a recent steep fall in the stock price support our recommendation. We maintain a target of Rs.128

# RESEARCH ASSISTANCE

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