HDFC securities

2018 Diwali Picks

SAMVAT 2075

A Touch Of Light to Your Wealth

- Apollo Hospital
- Cummins
- Dr. Reddy's Labs
- ICICI Bank
- Cyient
- Sun Pharma
- Parag Milk
- Everest Industries
- Exide
- Hindustan Oil Exploration

Cummins India

LTP	Rs. 676
TARGET	Rs. 817

ICICI Bank

LTP	Rs. 349
TARGET	Rs. 411

Apollo Hospital

LTP	Rs. 1143
TARGET	Rs. 1368

Dr. Reddy's Labs

LTP	Rs. 2532
TARGET	Rs. 2952

Cyient

LTP	Rs. 624
TARGET	Rs. 748

Note : LTP (Last Traded Price) as on October 29, 2018

Exide

LTP	Rs. 254
TARGET	Rs. 304

Parag Milk

LTP	Rs. 258
TARGET	Rs. 329

Sun Pharma

LTP	Rs. 573
TARGET	Rs. 690

Hindustan Oil Exploration

LTP	Rs. 130
TARGET	Rs. 177

Everest Industries

LTP	Rs. 465
TARGET	Rs. 558

Note : LTP (Last Traded Price) as on October 29, 2018

Dear Investor,

An old axiom of investing has prevailed over the trailing year : equity is a volatile asset class. Frankly, the more things change, the more they remain the same. ***What could be said in 2013 during the taper tantrum can perhaps be said once again.*** Indian stock market sentiment has cracked in the face of persistently rising crude prices and the prospect of a bloated current account deficit. The fiscal deficit worry has also resurfaced with government spend running well ahead of income to make the 3.3% promise look infeasible, especially as an election year approaches.

October is known as "the jinx month" in the US (and also globally) due to a number of major selloffs that have occurred in the past over the month. There were "crashes in 1929 and 1987," along with "the 554-point drop on October 27, 1997, back-to-back massacres in 1978 and 1979, Friday the 13th in 1989, and the meltdown in 2008. Till Oct 24, 2018 Dow has fallen 7% (or ~1900 points) and Nasdaq by 11.6% (or more than 900 points).

In response, the INR has cracked by ~13% over FY19. The Nifty Index is still almost flat for FY19 to date, but the pain in mid caps has been terrible. The Nifty Mid Cap 100 is down ~10%, while Nifty Smallcap 100 is down ~25% in FY19. Even within the Nifty, the skew is very high with respectable cos like Tata Motors, BPCL, Bharti Infratel, Hero Motocorp, Bajaj Auto, etc. falling 20-50%. The latest crisis to hit markets has been in the form of the liquidity crunch for NBFCs in the wake of the IL&FS crisis. Many NBFC stocks have fallen as much as 40-50% since then.

The gurus of investing will tell you that it pays to be greedy when others are fearful.

Our stock selection for this Diwali is based on two criteria – capital preservation (for now) and alpha generation (for later). Firstly, they will be perceived as relatively stable in the face of further market weakness, should it play out. Secondly, they are fundamentally strong businesses with enduring franchise, large addressable opportunity in their respective sectors and are run by capable managements. We think this will help them deliver significant outperformance when broader markets recover.

The thought of investing in these stocks today brings us to the troubling question that haunts many injured investors today. Will the markets recover at all or are we staring at a bear market in the face? Consider the bad news first: the patchy monsoon, election season, rising twin deficits, high crude prices, weak INR, slowing Chinese economy, trade wars, etc. Now look at the factors that make India a solid, long term investment destination: steady GDP growth (5.5-8% under most circumstances), a huge consuming population with rising aspirations/incomes, improving infrastructure and business conditions. In addition to these factors, the rising urbanization, formalisation, job creation and tax compliance unleashed via pragmatic policy mix can take India to the next level of economic prosperity.

Yes, there are hurdles, but they look more surmountable today than they did in 1947 (independence), 1962 (Indo-Chinese war), 1975 (the Emergency), 1991 (BoP crisis), 2008 (Global Financial Crisis) or 2013 (the Taper Tantrum). The scrip called India has withstood trouble in the past. And it will do so today as well. Its 'business fundamentals', 'addressable opportunity' and 'management quality' remain in good shape. What it needs is 'shareholders' who believe in it...

Retail investors should learn from market moves, and may also want to upskill themselves regarding the ways of the markets, and individual stocks' financials/valuations. A staggered investment in direct equities/mutual funds may result in lowering their risks in an era when the world is witnessing a paradigm shift in business models and the valuations assigned to them. Investors have become choosier about governance and capital allocation decisions made by the companies' managements; many small and midcap companies may find it difficult to pass the test of survival in an era of constant disruption – be it owing to regulations or technology.

Lets hope that we all learn from history, otherwise we will prove Warren Buffet right once again. He said ***"What we learn from history is that people don't learn from history. And you certainly see that in financial markets all the time."*** said Warren Buffett. Studied accumulation of stocks in panic and re-evaluation/exit in times of euphoria will help us overcome the usual folly in investing.

शुभदिपावली

Apollo Hospital Enterprise Ltd

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
Healthcare	Rs. 1143	Buy at LTP and add on declines	Rs. 974-982	Rs. 1368	Till next Diwali

HDFCSec Scrip Code	APOHOSEQNR
BSE Code	508869
NSE Code	APOLLOHOSP
Bloomberg	APHS IN
LTP (as on 29 Oct, 18)	Rs. 1143
Equity Capital (Rs Mn)	695.6
Face Value (Rs)	5.00
Eq- Sh Outstanding (Mn)	139.1
Market Cap (Rs Bn)	159.0
Book Value (Rs)	233.7
Avg. 52 Week Volumes	628,575
52 Week High	Rs. 1262.1
52 Week Low	Rs. 911.1

Shareholding Pattern % (Sept 2018)	
Promoters	34.4
Institutions	57.2
Non Institutions	8.4
Total	**100.00**

Fundamental Research Analyst:
Abdul Karim - abdul.karim@hdfcsec.com

AHEL is one of Asia's leading integrated healthcare service providers. The company has a presence in segments such as hospitals, pharmaceuticals, primary care & diagnostic clinics, and telemedicine units across 10 countries. It is also into health insurance services, global projects' consultancy, colleges of nursing and hospital management, a research foundation, epidemiological studies, and stem cell & genetic research. AHEL's hospitals are consistently ranked amongst the best globally for advanced medical services. It has served patients from 121 countries, and operates 9,800+ beds across ~70 hospitals.

Key highlights

- AHEL's pharmacy business (constitutes 40% of revenues) has grown at ~24% CAGR over the last five years on the back of consistent addition of new pharmacies and timely closure of non-performing units. This business has become EBITDA positive, as old stores are maturing. The pharmacy business is expected to report mid-teen percentage growth in the next two to three years. AHEL's 100%-owned subsidiary Apollo Standalone Pharmacy (ASAP) is India's largest organised pharmacy retail business with 3,085 stores. We expect a multi-year growth story, led by its asset-light model with attractive ROCE, a well-established track record of growth and well laid-out network expansion plans.

AHEL has a capex plan of Rs 3 bn over FY19 and FY20 for a Proton Therapy Centre, a 150-beds centre and Rs 3.50 bn in FY23 for a 500-bed hospital in Byculla, Mumbai. The company has acquired a 50% stake in the 330-bed operational Medics Super Speciality Hospital in Lucknow, which is likely to witness 25-30% increase in ARPOB (Average revenue per operating bed) to Rs 26,000 over two years.

AHEL spent ~Rs 25.9 bn (~50% of gross block) over the last three years, largely invested in its Navi Mumbai hospital and in Apollo Health and Lifestyle Limited (AHLL) –in the retail healthcare segment, currently incurring losses. Apollo's Navi Mumbai facility has been ramping up well, with 80% utilisation of 150 operational beds, and expecting to perform better going forward. Its long capex cycle (FY12-FY18) has come to an end, and asset optimisation efforts are expected to start bearing fruit.

Pricing-related government regulations, margin pressure owing to the ramp-up and rising infrastructure/staff costs are key concerns.

Outlook and view: A leadership position and multi-pronged healthcare delivery model make Apollo one of the stronger healthcare stocks. The new hospital cluster has begun to contribute positively, led by an improvement in the Navi Mumbai unit. Post a phase of weak earnings, consolidated profitability could improve led by (a) continuing growth in existing hospitals, (b) contribution from new hospitals, (c) continuing growth in ASAP, and (d) reduction in AHLL's operating losses. We expect gradual improvement in the average length of stay (ALOS) and ARPOB, along with improving return ratios. We feel investors could buy the stock at the LTP, and add on dips to Rs 974 – 982 (~14.0x FY20E EV/EBITDA) for a target of Rs 1368 (18.5x FY20E EV/EBITDA).

Financial Summary

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	60855.9	72557.0	82434.7	92924.0	105726.5
EBITDA	7822.9	7285.9	7931.8	9849.9	12052.8
APAT	3012.9	2209.9	1174.2	2053.2	3106.8
Adjusted EPS (Rs)	21.7	15.9	8.4	14.8	22.3
P/E (x)	52.8	72.0	135.4	77.4	51.2
EV / EBITDA (x)	22.9	25.1	23.6	19.3	15.9
RoE (%)	8.7%	6.7%	3.6%	6.1%	8.7%
Enterprise Value (EV)	179103.6	182957.2	187298.6	190475.5	191053.6

Cummins India Ltd

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
Industrials	Rs 676	Buy at LTP and add on declines	Rs 597-605	Rs 817	Till next Diwali

HDFCSec Scrip Code	CUMINDEQNR
BSE Code	500480
NSE Code	CUMMINSIND
Bloomberg	KKC IN
LTP (as on 29 Oct, 18)	Rs 676
Equity Capital (Rs Mn)	554.4
Face Value (Rs)	2.0
Equity Sh Outstanding (Mn)	277.2
Market Cap (Rs Bn)	187.4
Book Value (Rs)	143.8
Avg. 52 Week Volumes	453,000
52 Week High	Rs 993.5
52 Week Low	Rs. 611.8

Shareholding Pattern % (Sept 2018)	
Promoters	51.0
Institutions	12.7
Non Institutions	36.3
Total	100.0

Fundamental Research Analyst:
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Cummins India (CIL), a 51% subsidiary of Cummins Inc, USA, is the leading manufacturer of diesel engines used in generators in India. Comprising of three business units - engine, power systems, and distribution, CIL is also the largest entity of the Cummins Group in India. It has eight manufacturing facilities in Maharashtra and Gujarat. The company produces ~40,000 engines annually for the industrial sector and ~10,000 engines for power generation. The product range includes diesel engines, from 15kVA to 2,000kVA, for various power/ industrial uses.

Key highlights

- The introduction of newer solutions catering to demand from mining, railways, and corporate industrial segments, combined with increased government spends on infra and an anticipated uptick in demand from corporates will augur well for CIL's engine business. Q1FY19 witnessed a fall of 10% in revenue in this segment owing to the lumpiness of mining orders. On a whole-year basis, 9-10% growth is expected in this segment.
- The domestic power-gen market should grow 8–10% over the next few years, and CIL expects to grow in line with it. A declining power deficit does dampen the outlook for the conventional need of gensets. However, the same is mitigated by back-up power requirements emerging from newer

avenues like real estate (both residential & commercial), data centres and the IT & ITES industry. We expect CIL to grow in line with the market over the medium term, owing to its technological leadership and strong parentage from its US parent that helps maintain its market share.

- Distribution segment will be driven by core business growth and an increase in maintenance outsourcing by clients. Further, new emission norms have made engines more complex, and these can be better serviced only by CIL's dealers.
- Q1FY19 witnessed good growth in exports, and the possibility of a revival in exports for CIL cannot be ruled out, with improving demand from the Middle East (owing to higher crude prices) and a weak rupee. Higher exports increase utilisation levels, which help improve overall margins for the company.
- Cost optimisation programmes have helped CIL reduce its warranty costs by about 80-100 bps over the years. CIL aims at keeping these efforts on to bring in further margin expansion.
- Falling power deficit, fluctuation in exports business and intensifying competition are key concerns.

Outlook and view: CIL is well placed to capture the broad revival in industrial and infrastructure capex in India, with its best-in-class product portfolio, wide distribution reach, and technological leadership. Despite a 7% decline witnessed in domestic revenues in Q1FY19, the company maintains a domestic sales growth target of 8-10%, indicating a 13-14% growth in the remaining part of the current fiscal in domestic business. Exports, which have witnessed an upward trajectory in Q1FY19, may continue and help it improve its OPM on an overall basis. A number of cost optimisation measures, combined with increasing capacity utilisation and newer products, are expected to add to the OPM by ~150 bps over the next two fiscals. With the kind of technological leadership CIL has in the Indian market, along with a healthy balance sheet and strong parentage, it deserves a premium over its peers in terms of valuation. We feel investors could buy the stock at LTP and add on dips to Rs 597 – 605 (19.5x FY20E EPS) for a target of Rs 817 (26.5x FY20E EPS).

Financial Summary

(Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	47242.9	50773.4	50825.0	55223.7	61199.6
EBITDA	7604.2	8018.2	7324.5	8532.1	9975.5
APAT	7518.5	7346.3	6523.5	7314.3	8525.5
Adjusted EPS (Rs)	27.1	26.5	23.5	26.4	30.8
P/E (x)	24.9	25.5	28.7	25.6	22.0
EV / EBITDA (x)	24.6	23.6	25.9	22.2	19.0
RoE (%)	24.8	21.3	16.9	17.7	18.9

Dr. Reddy's Laboratories Ltd

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
Pharmaceuticals	Rs 2532	Buy at LTP and add on declines	Rs 2210-2230	Rs 2952	Till next Diwali

HDFCSec Scrip Code	DRREDYEQNR
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD IN
LTP (as on 29 Oct, 18)	2532
Equity Capital (Rs Mn)	830.2
Face Value (Rs)	5
Eq Sh Outstanding (Mn)	166.0
Market Cap (Rs Bn)	420.0
Book Value (Rs)	711.3
Avg. 52 Week Volumes	825,000
52 Week High	Rs 2687.5
52 Week Low	Rs 1888.0

Shareholding Pattern % (Sep-2018)	
Promoters	31.1
Institutions	51.8
Non Institutions	17.1
Total	**100.0**

Fundamental Research Analyst:
Atul Karwa - atul.karwa@hdfcsec.com

Headquartered in Hyderabad, Dr. Reddy's Laboratories Ltd (DRL) is a vertically integrated pharmaceutical formulation manufacturer. It operates in three business segments - Pharmaceutical Services & Active Ingredients, Global Generics, and Proprietary Products. It has a diversified manufacturing footprint across India, the US, the UK, China and Mexico. North America accounted for 42% of its consolidated sales in FY18

Streamlining global cost structure

New site outside Srikakulam SEZ coming up

Launched 139 new products in FY18

Key concerns include erosion in prices of generic drugs

Key highlights

- Dr Reddy is streamlining its global cost structure and focussing on its identified priority sectors to drive future business growth. The company has entered into a definitive agreement on 15-Oct-18 for sale of its API facility in Hyderabad to Therapiva Pvt Ltd. Earlier, in Oct-2018, it closed another deal to sell its investment in a US antibiotics facility to UAE's Neopharma Inc.
- DRL successfully launched 139 new products in FY18, of which 15 were launched in North America, 18 in Europe, 86 in Emerging Markets and 20 in India. Some key launches were Sevelamer, Lipo Dox, Palonosetron Inj, and OTC Levocetirizine. We believe this trend will continue in FY19, as the company has a strong product pipeline awaiting approval. DRL has filed 4 ANDAs with the US FDA in Q1FY19,

and the management indicated plans to launch 15-20 new products in the US market in FY19. At the end of Q1FY19, the company had a pending pipeline of 112 ANDAs, of which 61 were under Para IV (of which 31 have First-to-File status).

- DRL incurred ~Rs 2.3 bn on capex in Q1FY19 and plans to spend ~Rs 10 bn on capex in FY19. This would include maintenance capex and a new injectable site outside Srikakulam SEZ in Andhra Pradesh.
- Escalation of observations at Duvvada and Bachuppaly, delay in approvals for gCopaxone and gNuvaring, failure to get approvals for biosimilars, a higher-than-expected erosion in prices of generic and first-to-file drugs, and delays in the ramp up of the proprietary pipeline are some key concerns.

Outlook and view: DRL has a promising complex generics pipeline. A key factor for is the resolution of the Duvvada plant and approvals of generics of Suboxone, Nuvaring and Copaxone. The management indicated FY19 as a challenging year, with price erosion prevailing in the US generic business. Strong growth in the domestic market and other non-US markets should lend support to revenue growth. The company plans to capitalise on the first-mover advantage in China, increase the filing tempo, and break into the Top-10 (from No 16) in the Indian branded market. The stock price could reverse the underperformance witnessed in the last three years. We feel investors could buy the stock at the LTP and add on dips to Rs 2210-2230 (21x FY20E EPS) for a target of Rs 2952 (28x FY20E EPS).

Financial Summary

(Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	154708	140809	142028	161038	190589
EBITDA	39088	25220	23563	33979	45360
APAT	20013	12039	9806	16731	17492
Adjusted EPS (Rs)	117.9	72.7	59.2	100.9	105.4
P/E (x)	21.5	34.9	42.8	25.1	24.0
EV / EBITDA (x)	10.8	17.9	19.1	13.6	10.0
RoE (%)	16.7	9.5	7.8	12.5	11.5

ICICI Bank Ltd

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
Banking	Rs. 349	Buy at LTP and add on declines	Rs. 290-295	Rs. 411	Till next Diwali

HDFCSec Scrip Code	ICIBANEQNR
BSE Code	532174
NSE Code	ICICIBANK
Bloomberg	ICICIBC IN
LTP (as on 29 Oct, 18)	Rs.349
Equity Capital (Rs Mn)	12872.0
Face Value (Rs)	2
Equity Sh Outstanding (Mn)	6436.0
Market Cap (Rs Bn)	2244.7
Book Value (Rs)	163.6
Avg. 52 Week Volumes	21,383,000
52 Week High	365.65
52 Week Low	256.00

Shareholding Pattern % (Sept 2018)	
Promoters	0.00
Institutions	67.25
Non Institutions	32.75
Total	100.00

Fundamental Research Analyst:
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ICICI Bank Limited, incorporated on 5-Jan-94, is engaged in providing a range of banking and financial services, including commercial banking, retail banking, project & corporate finance, working capital finance, insurance, venture capital & private equity, investment banking, asset management, broking, and treasury products and services. It offers these services through a variety of delivery channels and specialised subsidiaries.

Change in management expected to put an end to ambiguity

Utilisation of strong customer franchise and digital technology

Growth driven by robust CASA growth

Contiued slippages and fall in NIMs are key concerns

Key highlights

- The resignation of Ms Chanda Kochhar, and appointment of Mr Sandeep Bakhshi will put an end to ambiguity, and instil clarity in terms of the direction the Bank is taking. Mr. Bakhshi, as the Managing Director & CEO of ICICI Prudential Life Insurance Company for about 8 years, has proven his mettle as a leader. Mr. Bakhshi has been in the ICICI group for 32 years.
- Focus towards portfolio quality and strengthening of underwriting credit processes could restore the prudent growth path for the Bank and result in better long-term value creation. Mr Bakhshi's

focus is mainly on achieving superior RoEs in the medium term via strong core operating performance. Effective utilisation of strong customer franchise, deepening penetration, and digital technology are envisaged to drive retail asset growth. With a large part of the stress pool being identified and crystallised, management is looking to increase coverage of the same. Effective utilisation of a strong customer franchise, deepening penetration and digital technology could drive retail asset growth.

- As of Sept 30, 2018, overall loans grew 13% YoY with domestic advances growing 16% (retail growing 20%). CASA deposits grew by 15% YoY with CASA ratio at 50.8% vs 50.5% in June 2018 and 49.5% in Sept 2017. GNPA was stable at 8.54%, PCR rose 330 bps, restructured book was stable; NIM and fee income grew smartly.
- A higher-than-expected fall in NIM or time taken for resolution/higher haircut therein, heightened competition, and continued slippages from other segments are key risks faced by the Bank.

Outlook and view: Now that the pressure regarding leadership has mitigated, asset quality concerns are being addressed, various measures to improve retail asset growth and return ratios are being taken, the stock looks attractive. With the return of long-term visibility, the bank, with its segment-leading subsidiaries may undergo a gradual rerating. Return ratios could witness an improvement over the next two years (mainly led by falling credit costs), pushing analysts/investors to take a relook at the stock. We feel investors could buy the stock at the LTP and add on dips to Rs 290-295 (based on 1.2x Sept20E Core ABV) for target of Rs 411 (based on 1.95x Sept20E Core ABV).

Financial Summary

(Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	212240	217373	230258	263880	298546
PPOP	238635	264867	247415	252404	277761
PAT	97263	98011	67774	69212	123446
EPS (Rs)	16.7	16.8	10.5	10.8	19.2
P/E (x)	20.9	20.7	33.2	32.32	18.18
Adj. BVPS (x)	132	128.3	120.3	138.4	160.1
P/ABV	2.6	2.7	2.9	2.5	2.1
Core RoAE (%)	11.1	10.0	7.2	6.8	10.1

ICICI Bank SOTP	Rs bn	Per Share	Parameter
ICICI Bank	1,931	317	1.95x Sep-20E Core BV of Rs 144
ICICI Life Insurance	241	37	Market cap based on LTP of Rs.315
ICICI Lombard	170	26	25xFY20E PAT
ICICI AMC	98	15	5% of FY20E AUM
ICICI UK	37	6	1x FY20E BV
ICICI Canada	45	7	1x FY20E BV
ICICI Housing Finance	51	8	2.0x FY20E BV
ICICI Sec	83	13	20x FY20E PAT
Others	32	5	I Ventures and others
Total Val of Sub.	755	117	
Less: 20% holding discount	151	23	
Net Value of Sub.	604	94	
Total Value	2,535	411	

Cyient Ltd

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
IT Software	Rs. 624	Buy at LTP and add on declines	Rs. 545-555	Rs. 748	Till next Diwali

HDFCSec Scrip Code	CYIENTEQNR
BSE Code	532175
NSE Code	CYIENT
Bloomberg	CYL IN
LTP (as on 29 Oct, 18)	Rs. 624
Equity Capital (Rs Mn)	563.0
Face Value (Rs)	5.00
Equity Sh Outstanding Mn	113.0
Market Cap (Rs Bn)	69.5
Book Value (Rs)	208.9
Avg. 52 Week Volumes	401503
52 Week High	Rs. 887.0
52 Week Low	Rs. 520.0

Shareholding Pattern % (Sept 2018)	
Promoters	22.1
Institutions	67.4
Non Institutions	10.5
Total	**100.0**

Fundamental Research Analyst:
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Cyient Ltd (formerly known as Infotech Enterprises Ltd) is engaged in diversified IT engineering services. It currently operates through eight strategic business units: aerospace & defence, transportation, industrial, energy and natural resources, semiconductors, internet of things & analytics, medical & healthcare, utilities & geospatial, communications and design-led manufacturing (Cyient DLM). Cyient DLM (earlier Rangsons business) provides design integration and production facilities to the designs created in engineering. As on 31-Mar-18, its 51% revenue comes from the Americas, 33% from Europe and MEA, and ~16% from APAC.

Key highlights

- Cyient's total order intake in Q2FY19 grew by ~65% (YoY) and stood at US$ 196 mn. Service order intake was at US$ 157 mn, up 46% (YoY) and DLM stood at US$ 39 mn, up 233% (YoY). Healthy order wins and growth in the non-top 5 clients brings visibility of strong growth momentum going forward. Outsourcing potential in engineering/R&D (ER&D) services is high, and Cyient can be a key beneficiary.

HDFC securities

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- The demand outlook remains strong, though Q3 is expected to have its share of seasonal weakness. Growth is expected to return in Q4. Growth in FY19 could be driven by large clients and strong growth in new accounts.
- Cyient is expected to report double-digit growth in its service business, and 20% growth in DLM. Including the integration of acquired B&F Design (sixth acquisition in the last three years as part of its 'Design-Build-Maintain' strategy), the DLM business is expected to grow by 35%. DLM margins could improve slightly, but are expected to remain in low single-digits owing to a backlog of low-margin business. Transportation (10% of revenue) is on a strong trajectory, with the rail transportation segment expecting to witness strong growth.
- For FY19E, company has revised its EBITDA margin outlook by 50 bps (YoY) vs. 14% in FY18, driven by operational efficiency and rupee depreciation. Margins in DLM, mainly in the communication vertical (it is low margin business), are expected to ramp up, going ahead.
- Cyient has a strong relationship with industry leaders such as United Technologies Corporation, Bombardier Inc, Tele Atlas, Boeing Co, and British Telecom- Plc. Its niche offerings and strong client relationship could drive healthy revenue growth going forward.
- A slowdown in the Aerospace & Defence segment, delay in capex programming by one or more of its top 5 clients and segment concentration are key concerns.

Outlook and view: Cyient's niche engineering services, strong client relationships, timely acquisitions to support its product solutions profile, strong financial profile with minimal debt, and healthy debt protection metrics and liquidity makes a case for investment in its stock. It has some deals in the negotiation phase, and the overall deal pipeline remains good. We feel investors could buy the stock at the LTP and add on dips to Rs 545 – 555 (11x FY20E EPS) for a target of Rs 748 (15x FY20E EPS).

Financial Summary

(Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	31,021.0	36,065.0	39,175.0	47,743.1	54,813.7
EBITDA	4,190.0	4,847.0	5,492.0	6,863.3	7,943.3
APAT	3,342.8	3,698.6	4,334.0	4,857.5	5,606.4
Adjusted EPS (Rs)	29.8	32.9	38.6	43.2	49.9
P/E (x)	21.0	19.0	16.2	14.4	12.5
RoE (%)	17.8	17.4	18.1	19.6	20.2

HDFC securities

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Sun Pharmaceuticals

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
Pharmaceuticals	Rs. 573	Buy at LTP and add on declines	Rs. 520-573	Rs.690	Till next Diwali

HDFC Scrip Code	SUNPHA
BSE Code	524715
NSE Code	SUNPHARMA
Bloomberg	SUNP
LTP as on 29 Oct '18	573
Equity Capital (Rs Bn)	2.4
Face Value (Rs)	1
Equity Sh. Outstanding (Bn)	2.4
Market Cap (RsBn)	1374
Book Value (Rs)	159
Avg. 52 Week Volumes	6598054
52 Week High	679
52 Week Low	435

Shareholding Pattern	
Promoters	54.38
Institutions	33.31
Non Institutions	12.31
Total	**100**

Fundamental Research Analyst:
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Pharmaceuticals is the largest Indian pharma company, with an impressive track record of organic and inorganic growth. Various acquisitions in the US and India augment Sun's pipeline with differentiated products. It derives ~33% revenues from US, and ~30% from India. The rest of the world - mainly Russia, Europe and Japan - contributed 31% to its revenues, and the balance came in from the API segment.

Managment has guided double-digit growth in FY19

Key prodcut launches to drive earnings

Large complex filings could pave wave for new approvals

US FDA gave clearance to the Halol facility

Key highlights

- The company's US business, which constitutes ~33% of turnover, has posted ~17% CAGR in FY12-18, on the back of acquisitions like Caraco, Taro, Dusa, URL and timely product launches. The US product basket remains robust - 428 ANDAs filed and 135 pending final approval. Some niche launches include Lipodox (Doxil), Doxycycline etc. besides complex/limited competition products and plain vanilla generics.

- US growth has also been backed by extensive infrastructure, with 41 global manufacturing facilities. As on Mar-18, Sun has made ~Rs 11,000 cr worth of cumulative R&D investments over the last 7 years, and this bodes well for the company.

- Management has guided lower double-digit revenue growth in FY19. R&D expenses are likely to remain ~8-8.5% of sales.
- Sun Pharma's Halol facility received a warning letter, and reduced the plant's status to OAI (Official Action Indicated) in Dec-15 after the FDA visit in Oct-15. After almost two and a half years, the US FDA gave clearance to the Halol facility in Jun-18.
- The company's large complex filings from the facility could pave the way for new approvals for US markets. Company generates large amount of US revenues from the Halol facility. Post the recent approvals from the US FDA, other approvals are expected to start coming in, which would in turn drive US revenues further.
- The key product launches likes Tildra (Derma), Yonsa (Oncology), Venofer (Iron Sucrose) and Seciera (OTX-01) (Ophthalmology) would drive earnings over the next two-three years.

Outlook and view: We believe that FY19 may witness a gradual comeback for large-cap pharma companies, driven by (1) actual and likely regulatory resolutions, (2) moderating price erosion and (3) several product launches across generic and specialty categories in the medium term. Sun Pharma trades at 22x FY20E earnings, which is compelling given strong earnings growth of 84% expected over the next two years. We estimate 15.5% revenue CAGR and 39% PAT CAGR over FY18-20E. We recommend Buy on Sun Pharma at Rs 554 and add on dips to Rs 520 for Target Price of Rs 690 till the next Diwali.

Financial Summary

(Rs Bn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	284.87	315.78	264.9	305.44	351.05
EBITDA	81.58	100.89	56.08	64.57	88.73
PAT	45.37	62.33	31.12	38.32	60.08
EPS (Rs)	18.9	26	13	16	25
P/E (x)	30.3	22.0	44.1	35.8	22.9
EV / EBITDA (x)	16.0	12.7	22.8	19.4	13.6

Parag Milk Foods

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
Packaged Foods	Rs.258	Buy at LTP and add on declines	Rs. 227-258	Rs. 329	Next Diwali

HDFC Scrip Code	PARMIL
BSE Code	539889
NSE Code	PARAGMILK
Bloomberg	PARAG
LTP as on 29 Oct 18	258
Equity Capital (Rs Mn)	841.1
Face Value (Rs)	10
Equity Sh. Outstanding Mn	84.1
Market Cap (RsMn)	21700
Book Value (Rs)	84.6
Avg. 52 Week Volumes	784300
52 Week High	369
52 Week Low	215

Shareholding Pattern	
Promoters	45.96
Institutions	25.53
Non Institutions	28.51
Total	100

Fundamental Research Analyst:
Kushal Rughani
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Parag Milk Foods (PMF) is one of the leading players in the dairy Industry. Company manufactures a diverse range of products which include cheese, ghee, butter, fresh milk, whey proteins, paneer, curd, yoghurt, milk powders and dairy-based beverages, targetting a wide range of consumer groups through 7 brands: Gowardhan, Go, Pride of Cows, Topp Up, Milkrich, Slurp and Avvatar. PMF uses only cows' milk and sources ~80% of it directly from farmers, village collection centres and chilling centres. PMF can process ~2.9 mn litres of milk, 60 MT of cheese, 20 MT of paneer and 110 MT of ghee at its facilities. Company has ~33% market share in the Indian cheese market, and is India's 2nd largest cheese player.

Key highlights

- Apart from sourcing milk from farmers, PMF has its own modern dairy farm (Bhagyalaxmi Dairy Farm). It houses over 2,500 Holstein Friesian Cows, whose average yield is 20-25 litres per cow against India's average of 4-5 litres per cow.
- For cheese and paneer, the company has many institutional clients such as Pizza hut, Dominos,

McCain Foods, Sam's Pizza, Mother Dairy, etc. PMF has taken several steps to improve its supply chain management at the back-end, and the distribution network at the front end. The management is also trying to increase the company's reach in current geographies (South and West), is also expanding its presence in the North and East regions.

A large proportion of PMF's current sales is coming from South and West India, due to proximity to its procurement base. However, with the recent acquisition of the Danone plant in Sonipat, Haryana, PMF is expected to scale up operations in the North too.

Value-added products like whey, cheese, paneer, dahi and milk (various flavours) will fetch higher realisations and margins to the company. Last year, the company has hired a few experienced executives at various positions. Such hires fuel our confidence in the company.

Outlook and view: WIn FY18, PMF registered 12.9% revenue growth. Consumer products revenues registered 15.7% growth. Value-added products comprised the maximum share with 65.6%, followed by fresh milk at 19.9%. EBITDA margin stood at 9.9%, while PAT margin 4.5%. PMF has the vast range of value-added products, which constituted ~66% to its sales. Parag Milk is popular in the branded dairy theme. We expect robust growth from value-added products in the coming years. We estimate 19% revenue CAGR, led by 18% growth from value-added products. We assume 80 bps margin expansion over FY18-20E. Strong revenues and better operating profit would lead to ~33% PAT CAGR over the same period. The stock trades at ~13.6x FY20E earnings and ~8x EV/EBITDA. We recommend BUY on Parag Milk at Rs 251, and add on dips to Rs 227 with TP of Rs 329 till next Diwali.

Financial Summary

(Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	16450	17310	19550	23080	27900
EBITDA	1490	870	1930	2350	2980
PAT	490	50	870	1190	1550
EPS (Rs)	5.9	0.6	10.4	14.2	18.5
P/E (x)	43.7	430.0	24.8	18.2	13.9
EV / EBITDA (x)	15.5	26.7	12	9.8	7.8

Exide Industries

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
Auto parts	Rs.254	Buy at LTP and add on declines	Rs. 252-228	Rs. 304	Next Diwali

HDFC Scrip Code	EXIIND
BSE Code	500086
NSE Code	EXIDEIND
Bloomberg	EXID
LTP as on 29 Oct 18	254
Equity Capital (Rs Mn)	850
Face Value (Rs)	1
Equity Sh. Outstanding (Mn)	850
Market Cap (Rs Mn)	216000
Book Value (Rs)	63.87
Avg. 52 Week Volumes	2109390
52 Week High	304.70
52 Week Low	192.40

Shareholding Pattern	
Promoters	46
Institutions	36.60
Non Institutions	19.40
Total	100

Fundamental Research Analyst:
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With a presence spanning over 6 decades and strong customer relationship, Exide Industries is now the market leader in the domestic automobile battery industry. It manufactures lead acid storage batteries for both automotive and industrial applications. Exide also has a presence in the life insurance business through its fully-owned subsidiary, Exide Life insurance.

Key highlights

The share of the unorganised segment in the replacement market has been gradually declining, but is still at ~40-50% of the overall market. After the implementation of GST, the price difference between the organised and unorganised players is shrinking. To tap the market share of unorganised players, Exide is increasingly promoting competitively-priced brands, and is also increasing its reach in the semi- urban and rural markets. We expect the share of unorganised players to reduce to ~30% by FY22. As per our channel check, Exide has also taken many corrective actions to recover market share lost in the automotive replacement segment.

- To take advantage of emerging market opportunities, Exide is continuously focussing on product development and innovation. Recently, the company has forayed into many such newer products like E-rickshaw, solar, and lithium-ion batteries. According to management, they are also getting strong traction.

- Exide has announced capex of Rs 1,100 cr for FY19, and is looking at a self-funded 2-pronged strategy for expansion at its Haldia facility. A bulk of the capex will be invested in two new projects that includes a Greenfield battery recycling plant, and also the expansion of current battery-manufacturing capacities. This will turn the Haldia unit into one of the biggest battery-making centers in South East Asia.

- India presents immense opportunities to expand the company's life insurance business given low penetration, favourable demographics, rising household income and the increasing awareness of the need for financial protection.

Outlook and view: We have valued Exide on a SOTP basis. Standalone EPS for FY20E is Rs 13, and giving 20x multiple the value per share came in at Rs. 267, and valuing the insurance business at 2 times the book value came in at Rs. 37 per share. We recommend a BUY for Exide Industries at LTP of Rs. 252, and add on dips to Rs. 228 for the Target Price of Rs 304 till next Diwali.

Financial Summary

(Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	68638	75835	91863	107055	122855
EBITDA	10261	10825	12408	16309	19251
APAT	6244	6936	7102	9617	11329
Diluted EPS (Rs)	7.35	8.16	8.4	11.3	13.3
P/E (x)	34.3	30.9	30.4	22.3	18.9
EV / EBITDA (x)	20.6	19.7	18.1	13.6	11.3
ROE (%)	14.7	14.9	13.9	17.1	17.8

Everest Industries

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
Cement & Cement Products	Rs. 465	Buy at LTP and add on declines	Rs. 452-410	Rs. 558	Next Diwali

HDFC Scrip Code	EVERES
BSE Code	508906
NSE Code	EVERESTIND
Bloomberg	EVI
LTP as on 29Oct 18	465
Equity Capital (Rs Mn)	156.3
Face Value (Rs)	10
Equity Sh. Outstanding (Mn)	15.6
Market Cap (Rs Mn)	7270
Book Value (Rs)	254.75
Avg. 52 Week Volumes	100030
52 Week High	637.95
52 Week Low	375.60

Shareholding Pattern	
Promoters	48.13
Institutions	5.78
Non Institutions	46.09
Total	**100**

Fundamental Research Analyst:
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Everest Industries Limited, incorporated in 1934, has a rich history in the manufacturing of building and steel products. Everest offers a complete range of roofing, ceiling, wall, flooring, and cladding products distributed through a large network, as well as EPC of pre-engineered steel buildings for industrial, commercial, and residential applications.

The company has two distinct business segments – building products and steel buildings. 63% of the company's overall revenue comes from building products, while the remaining 37% from steel buildings.

Key highlights

- The Government's recent initiatives will prove to be game-changers for the industry as a whole, as it will fetch a large market share for organised players. The push for "Housing for all" will spur demand for speedier construction, while the implementation of GST will narrow down the price difference of similar quality products between the organised and unorganised segments. This will drive a structural demand in the coming years, and being one the oldest and largest players, Everest is bound to benefit.

The pre-engineered building segment enjoys increasing acceptance, replacing RCC and conventional steel structures, and it is growing fast. The rise in e-commerce and agricultural enterprises businesses, as well as a pick-up in investments in the manufacturing sector bode well for the segment. Market for PEBs is growing at 25-30% annually, but is still way below developed nations.

Outlook and view: Over the time frame of FY18-20E, sale is expected to post 12% CAGR, while PAT is expected to grow at 24% CAGR. Currently, the stock is trading at the 8.6x P/E of FY20. We recommend a BUY for Everest Industries at LTP of Rs 452, and add on declines to Rs 410 for the target price of Rs 558 till next Diwali.

Financial Summary

(Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	13130	11600	12710	14230	15940
EBITDA	990	510	1000	1220	1430
APAT	340	30	530	690	820
Diluted EPS (Rs)	22.6	2.0	34.2	44.0	52.4
P/E (x)	20.6	232.5	13.6	10.6	8.9
EV / EBITDA (x)	9.0	17.5	8.9	7.3	6.2
RoE (%)	10.3	0.9	14.4	16.1	16.6

Hindustan Oil Exploration

Industry	LTP	Recommendation	Add on dips to band	Target	Time Horizon
Oil and Gas	Rs. 130	Buy at LTP and add on declines	Rs. 108-130	Rs. 177	Next Diwali

HDFC Scrip Code	HINOIL
BSE Code	500186
NSE Code	HINDOILEXP
Bloomberg	HOE
LTP as on 29 Oct 18	130
Equity Capital (Rs Mn)	1304.9
Face Value (Rs)	10
Equity Sh. Outstanding (Mn)	130.5
Market Cap (Rs Mn)	17020
Book Value (Rs)	29.4
Avg. 52 Week Volumes	1479149
52 Week High	164.80
52 Week Low	88.75

Shareholding Pattern	
Promoters	-
Institutions	27.5
Non Institutions	72.5
Total	**100**

Fundamental Research Analyst:
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Hindustan Oil Exploration Company (HOEC) is engaged in the exploration, development, and production of onshore and offshore crude oil and natural gas in India. The company holds interest in various oil and gas blocks/fields.

Key highlights

- Company's portfolio comprises 9 assets, all of which have resources with some upside potential. Company has sufficient capital to implement its business plans and to continue the development of the Dirok field in Assam, revisiting the development of PY-1 field, B-80, Kherem and other fields. Dirok is the main producing asset for the company. The revenues are rapidly growing from this basin, which is driving the company's overall performance. As of 31-Mar-18, its estimated proved and probable reserves on working interest basis were 24.95 mn barrels of oil equivalents.

- Mr Elango joined HOEC in Feb-15 as MD, and has been in the Oil & Gas industry for the last ~30 years. His expertise has imparted better growth visibility over the past few quarters. Under his leadership, company has been able to identify low-risk, and short cash cycle development projects.

- Post the approval of the field development plan for the B80 basin, development work is on track and the management expects to commence production from Apr-20. This block would help in substantially increasing the exposure of the company to oil. HOEC holds 50 % stake in this block.

- Overall, gas dominates ~90% of the volumes, and oil 10%. But in terms of revenue, gas is ~70% and oil is ~30%. This revenue mix will move substantially towards oil, once its B-80 block commences production from 2020-21.

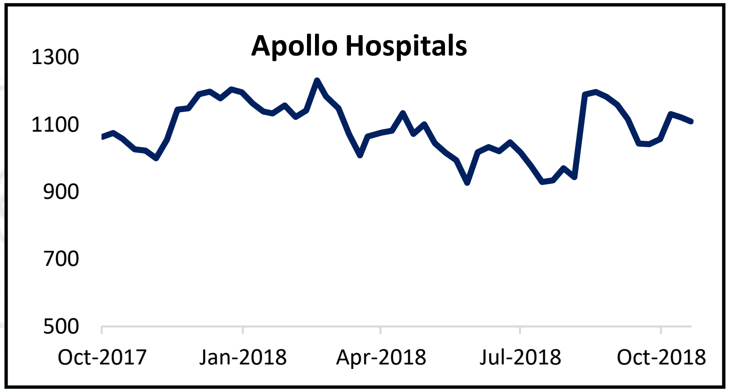
- Domestic gas price for the period Oct-18 to Mar-19 has been increased to US$ 3.36 / Mmbtu, which will help garner more revenue for the same volumes.

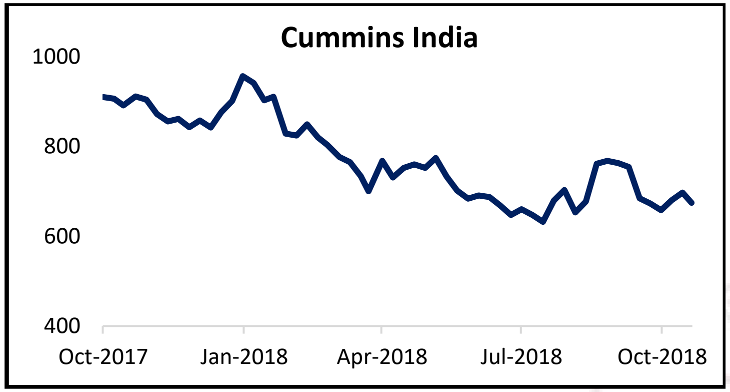
Outlook and view: The company is debt free, with net cash balances of Rs 35 cr and Rs 53 cr invested in its subsidiary. Over the next two years, company expects significant ramp up in volumes which would ensure growth visibility going ahead. Company had done capex of ~Rs 60 cr last year. In the current year, it is expected to be ~Rs 60-70 cr. In H1 FY19, company has posted stellar numbers, with ~Rs 99 cr revenues and PAT at ~Rs 66 cr. In FY18, revenues were at Rs 49 cr and PAT at ~Rs 38 cr. We expect growth momentum to continue in the second half of FY19 as well. We estimate that the company will post Rs 208 cr revenues and Rs 133 cr PAT in FY20. HOEC trades at ~12.5x FY20 earnings and ~10x EV/EBITDA. Given strong management, a robust balance sheet and stellar growth expected over the next two-three years, we recommend BUY on Hindustan Oil Exploration (HOEC) at Rs 128, and add on dips to Rs 108 with TP of Rs 177 till next Diwali.

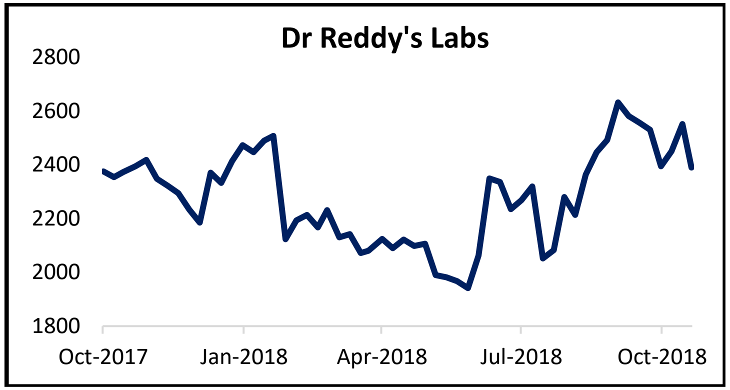
Financial Summary

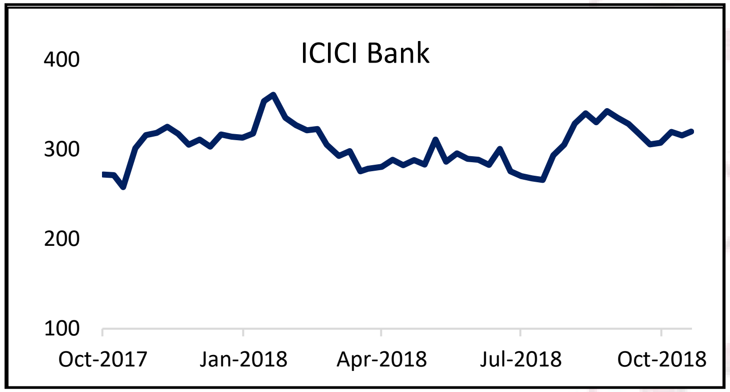
(Rs Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	520	260	490	1740	2080
EBITDA	110	20	310	1320	1510
PAT	80	370	380	1130	1340
EPS (Rs)	0.6	2.8	2.9	8.6	10.2
P/E (x)	216.7	46.4	44.8	15.1	12.7
EV / EBITDA (x)	129	759	46.7	11	9.6

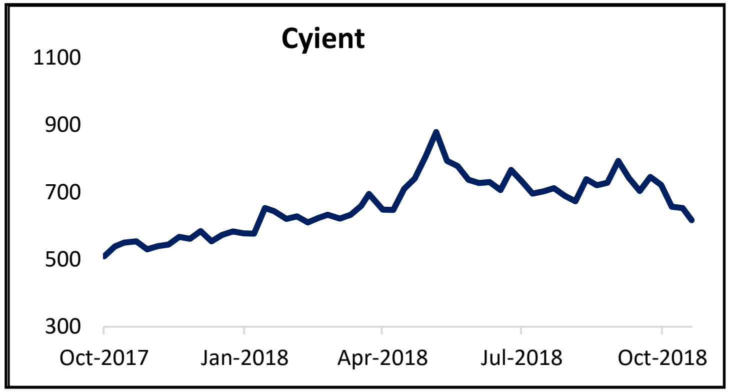
Price Charts



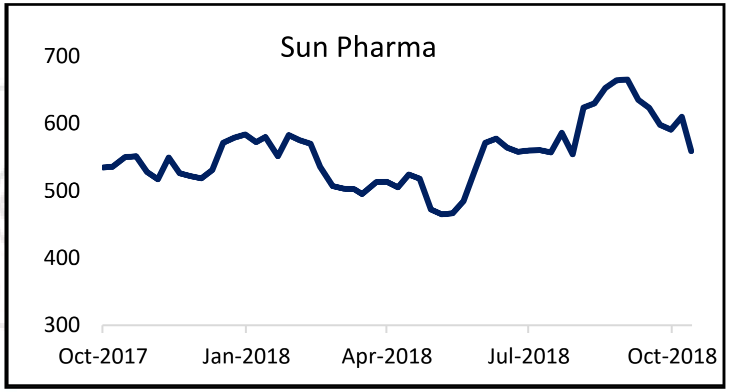


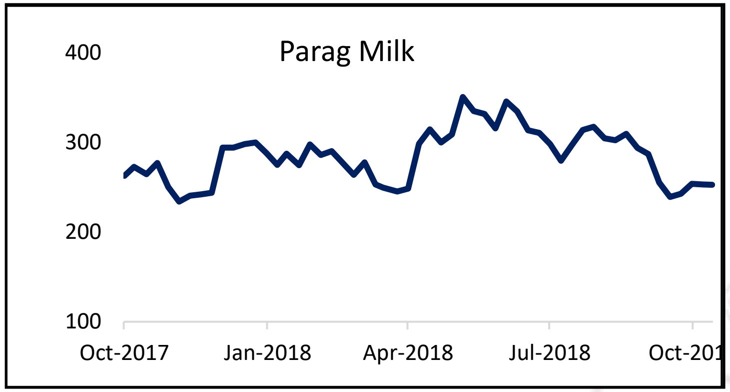


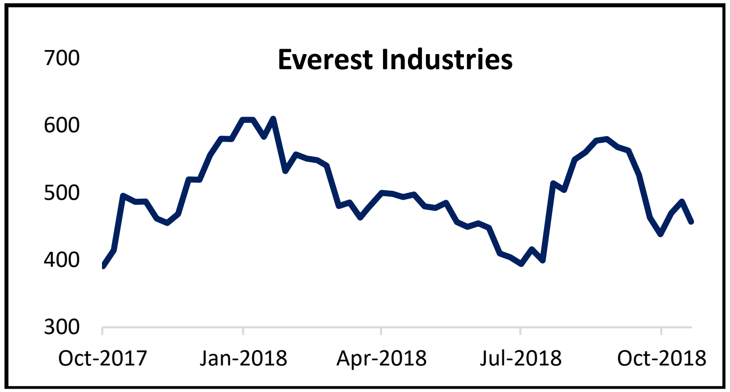


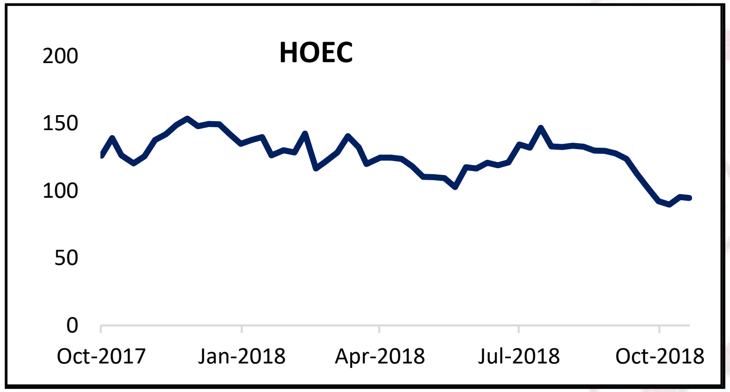


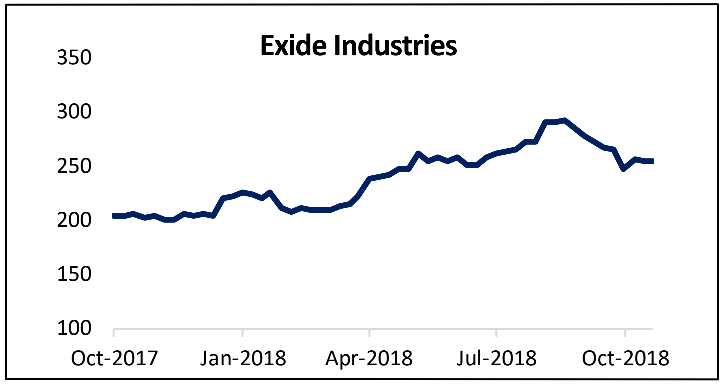
Price Charts











Samvat 2074 portfolio performance

Stock Recommendation	CMP as of Report (09-Oct-17)	Add on Dips to band	Average Buy Price	Target	Date of achieving target	% Return - Target	CMP *	% Returns as of CMP *
Bajaj Auto Ltd	3137.1	2890-2910	3018.55	3820			2477.5	-17.90%
Birla Corporation Ltd	932	815-825	932	1220	07-Nov-17	30.90%		
Divis Lab	863	775-787	863	1070	02-Nov-17	24.00%		
Persistent	645	590	645	780	12-Jan-18	20.93%		
ICICI PRU	399	370	385	462			319	-14%

* where target not met

Average Return	9%
Sensex	4%
Mid cap index	-13%
Small cap index	-20%

Disclosure

Company	Analyst	Team	Holding
Apollo Hospital Ltd	Abdul Karim, MBA	Retail	No
Cummins Ltd	CA Arpit Bhatt	Retail	No
Cyient Ltd	Abdul Karim, MBA	Retail	No
Dr Reddys Lab	Atul Karwa, MMS	Retail	No
ICICI Bank Ltd	Debanjana Chatterjee, MSc Eco, MBA	Retail	No
Sun Pharmaceutical Industries	Kushal Rughani, MBA	PCG	No
Parag Milk Foods	Kushal Rughani, MBA	PCG	No
Everest Industries	Nisha Sankhala, MBA	PCG	No
Hindustan Oil Exploration	Kushal Rughani, MBA	PCG	No
Exide Industries	Nisha Sankhala, MBA	PCG	No

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