Wealth Maximizer
June 2016

Keep Investing in Indian Equities
Keep Calm During Turbulence in Short Term
Keep Growing in the Long Term

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# Top 10 Large Cap Stocks

## Wealth Maximizer Jun 2016

<table>
<thead>
<tr>
<th>NSE Symbol</th>
<th>Sector</th>
<th>Market Cap (Rs Cr.)</th>
<th>CMP * (Rs.)</th>
<th>Target Price (Rs.)</th>
<th>Upside (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC</td>
<td>BFSI</td>
<td>194928</td>
<td>1243</td>
<td>1500</td>
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<td>UPL</td>
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<td>591</td>
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*As on Jun 01, 2016; Time frame 9-12 Months*
HDFC: Consistent Growth with Best in Class Asset Quality

Consistently maintaining industry leading growth in loan book:
HDFC has seen a CAGR of 21% in the individual housing loan segment in the last five years which is well above the industry average growth rate. The recent government initiatives like “Housing for All” and incentives for affordable housing sector augur well for housing finance companies and HDFC is likely to benefit from these initiatives. HDFC is likely to witness a loan book growth of over 16-17% on higher base in the next 2 years.

Stable margins across cycles:
HDFC was able to maintain stable net interest margins of around 4% in the last few years. This was on the back drop of cyclical real-estate market and interest rate cycles. HDFC is well positioned in a downward rate cycle as it can mobilize from multiple sources at lower interest rates and pass on the benefit to borrowers while maintaining the margins.

Robust risk management leading to best in class asset quality:
HDFC has provided more than the regulatory requirement for non-performing assets making it one of the few companies with best-in-class asset quality and virtually zero net non performing assets. As on March 31, 2016 its gross NPAs stood at 0.7%, while gross NPAs were at Rs. 1833 Cr and it had provided for Rs. 2695 Cr, higher than the regulatory requirement, indicates robust risk management practice.

Potential for value-unlocking in subsidiaries:
HDFC has the potential to unlock value in key subsidiaries in insurance. Any listing of the profit making insurance business is likely to unlock value.

Valuation and Outlook

HDFC is likely to maintain steady growth of over 16-17% in retail individual home loan book, while borrowing at competitive rates from multiple borrowing avenues which helps it in maintaining its net interest margins at around 4%, whereas its robust risk management practices result in best in class asset quality while delivering superior returns. We recommend a “BUY” and value HDFC at Rs. 1500 per share (standalone business at 3.4x FY18E ABV and Rs. 550 for subsidiaries).

Valuation Summary

<table>
<thead>
<tr>
<th>YE Mar (Rs. Cr)</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17E</th>
<th>FY18E</th>
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<td>NII (Rs. Cr)</td>
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<td>8652</td>
<td>9518</td>
<td>10946</td>
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<tr>
<td>Net Profit (Rs. Cr)</td>
<td>5440</td>
<td>5990</td>
<td>7093</td>
<td>8157</td>
<td>9380</td>
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<tr>
<td>EPS (Rs.)</td>
<td>34.4</td>
<td>37.9</td>
<td>44.9</td>
<td>51.6</td>
<td>59.4</td>
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<td>ABV (Rs.)</td>
<td>179.0</td>
<td>196.0</td>
<td>218.0</td>
<td>245.0</td>
<td>280.0</td>
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<tr>
<td>P/ABV (x)</td>
<td>6.9</td>
<td>6.3</td>
<td>5.7</td>
<td>5.1</td>
<td>4.4</td>
</tr>
<tr>
<td>RoE (%)</td>
<td>19.2</td>
<td>19.3</td>
<td>20.6</td>
<td>21.1</td>
<td>21.2</td>
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<tr>
<td>RoA (%)</td>
<td>2.6</td>
<td>2.5</td>
<td>2.3</td>
<td>2.4</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Company, Karvy Research, Bloomberg
HDFC Bank Ltd
Bloomberg Code: HDFCB IN

HDFC Bank: Consistency in Growth, Stable NIMs and Lowest NPAs

Loan book is expected to grow at a CAGR of 22% in the next two years:
HDFC Bank is expected to outpace the credit growth in the system by 3-4 percentage points and to grow at a CAGR of over 22% in the next few years. Its loan book growth is driven by a healthy mix of retail and corporate loans. Strong traction in non-fund revenues to contribute for higher net revenues.

NIM is expected to be around 4.5%:
HDFC Bank is expected to maintain its NIM around 4.5%, led by the bank’s strong CASA franchise of around 44% along with higher proportion of retail loans. Further, current deposits are likely to grow strongly due to recovery in capital markets, where the bank has higher market share.

Lowest NPAs reflect superior risk management:
HDFC Bank is relatively immune from asset quality strain in the banking industry primarily due to superior risk management practices along with lower exposure to stressed sectors. GNPA and NNPA were at 0.9% and 0.3%. HDFC Bank, with a total coverage ratio of 140% and restructured loans at 0.1% of the gross advances indicating best in class asset quality. We expect further moderation in fresh slippages.

Adequately capitalized to support balance sheet growth:
As per BASEL III guidelines, HDFC Bank has a capital adequacy ratio of 15.5% with a tier I capital of 13.2%, which will aid loan book growth plans over the next couple of years.

Valuation and Outlook
HDFC Bank was able to command premium valuation in the market for its consistent growth of over 20% in net profits, healthy balance sheet growth, higher NIMs, lower NPAs, adequate CAR, superior return ratios coupled with good corporate governance. At CMP, HDFC Bank trades at 3.1xFY18E BVPS. We value the stock at 3.8xFY18E BVPS and recommend a “BUY” for a price target of Rs. 1450.

Recommendation (Rs.)
- CMP: 1175
- Target Price: 1450
- Upside (%): 23

Stock Information
- Mkt Cap (Rs. Mn/US$ Mn): 2972988/44074
- 52-wk High/Low (Rs.): 1195 / 928
- 3M Avg.daily volume (Mn): 1.4
- Beta (x): 0.9
- Sensex/Nifty: 26803 / 8180
- O/S Shares (mn): 2529.2
- Face Value (Rs.): 2.0

Shareholding Pattern (%)
- Promoters: 26.4
- FIIls: 39.6
- DIIls: 13.9
- Others: 20.1

Stock Performance (%)
- Absolute: 4, 19, 9, 13
- Relative to Sensex: 1, 6, 6, 18

Company Background
HDFC Bank Ltd is a private sector bank offering retail, wholesale banking and treasury services, with a balance sheet size of Rs.7.3Lakh Crore. It operates through a network of 4520 branches and 12000 ATMs spread across 2587 towns. Its various products and services include auto loans, personal loans, credit cards, home loans, commercial vehicle / construction equipment finance, gold loans, savings account, current account, FDS and working capital, term loans, bill collection, forex & derivatives, cash management services for corporate clients on the wholesale front. In its treasury segment, it offers forex and derivatives, Debt and Equity products.
ITC Ltd
Bloomberg Code: ITC IN

ITC: Strong Brands with Pricing Power

Pricing power emanated from leadership position in cigarettes:
ITC is a dominant player in the Cigarettes segment with a revenue market share of over 75%. It is expected to maintain double digit growth in revenue and EBIT, driven by its strong pricing power and distribution reach through which ITC's products are sold in over 2 Mn outlets, tight control over the entire value chain and consumers’ loyalty towards the company's brands at various price points. Higher disposable income in rural areas could result in consumers switching from lower end products like beedis and local made cigarettes to 64mm micro filter cigarettes.

Stringent anti-tobacco measures to hurt lesser known brands and benefit strong brands:
Stringent anti-tobacco measures like ban on sales of loose cigarettes, regulations to cover 80% of the pack with health warnings, banning advertisements at Point of Sale (PoS) to benefit market leaders and hurt the non-legal cigarette manufacturers more severely. Organized players like ITC can tide over with its well established brands and innovative packing & distribution strategy.

Strong traction in FMCG business to drive growth and softening commodities to expand margins:
ITC is likely to register a double digit revenue growth on the back of new product launches and higher spending on advertisement & promotion on the back of its wide distribution network. Softening of commodity prices would provide scope for margin expansion in FMCG business.

Steady performance in other non-FMCG segments:
Other segments like agri-business, paperboards and Hotels are likely to improve their performance driven by strong recovery in the Indian economy.

Valuation and Outlook
ITC is expected to register double digit growth in the next 2 years, by strengthening its leadership position in cigarettes segment, higher growth in FMCG business and steady performance in non-FMCG segments. At CMP, the stock trades at 22.9x FY18E EPS. We value the stock at 27x FY18E EPS which is lower than the last 7 year average PE of 29x. We recommend “BUY” with a target price of Rs. 425.

Valuation Summary

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<tr>
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<th>FY16</th>
<th>FY17E</th>
<th>FY18E</th>
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<tbody>
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<td>38.5</td>
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<td>Adj. Net Profit</td>
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<td>EPS (Rs.)</td>
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<td>RoE (%)</td>
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<tr>
<td>P/E (x)</td>
<td>32.7</td>
<td>30.1</td>
<td>29.3</td>
<td>25.8</td>
<td>22.9</td>
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</table>

Source: Company, Karvy Research, Bloomberg

Company Background
ITC Ltd is a market leader in cigarettes and is engaged in diverse businesses ranging from cigarettes (contribute for 43% of revenue and 86% of EBIT), Non Cigarette FMCG - packaged foods & personal care (contribute for 25% of rev & 82% of EBIT), Agri business (contribute for 17% of rev & 5% of EBIT), paperboards &, packaging (12% of rev & 6% of EBIT), hotels (3% of Rev &1% of EBIT) and information technology. Its popular brands include - 'Gold Flake', 'Bristol', 'NavyCut', 'Aashirvad', 'Sunfeast', 'Bingo', 'B Natural', 'Yippee', 'Kitchens of India', 'Candyman', 'mint-o', 'Wills Lifestyle', 'John Players', 'Fiama Di Wills', 'Vivel', Classmate, Paperkraft and ITC Hotels.
L&T: Proxy to Ride the Indian Economic Growth

Robust order book build-up reflects proven leadership:
L&T’s outstanding order book at the end of March’2016 stood at Rs. 2.5 Lakh Crore from diversified sectors. Robust order book build up reflects its proven leadership in the infrastructure & engineering segments and gives revenue visibility with order book coverage of over 2.5x.

Best-in-class execution capabilities-making it the most preferred partner:
L&T has an excellent track record of executing the most complex projects in diverse sectors like infrastructure, Oil & Gas, Defence, Power and others making it the most preferred partner resulting in repeat orders from clients.

Strong traction in infrastructure segment to drive growth:
L&T Infrastructure segment constitutes for 75% of the order book and 62% of its new order inflow during FY16, and is expected to drive growth with strong traction in order inflows and revenue growth along with sustained EBITDA margins around 12%.

Value unlocking by listing of subsidiaries or induction of strategic partner in business segments:
L&T is planning to list L&T Infotech in the next few months which has nearly $1.3 Bn in revenue and an EBITDA margin of over 20%, which could unlock value in the medium term.

Valuation and Outlook
L&T is well positioned to capture growth in various segments of the Indian economy with its excellent execution capabilities in diverse sectors like Infra, Oil & Gas, Defence, Metals & Mining, Railways and various others. L&T’s superior execution capabilities coupled with its balance sheet strength when compared to the highly stressed balance sheets of its many smaller competitors in the sector, resulted in strong order book build-up for L&T. We value the company at 26x FY18E EPS and recommend a “BUY” with a target price of Rs.1900.

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<tr>
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<tr>
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<td>EBITDA Margin (%)</td>
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<td>12.4</td>
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<td>Adj. Net Profit</td>
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<td>12.1</td>
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<td>28.7</td>
<td>26.8</td>
<td>24.8</td>
<td>20.5</td>
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Source: Company, Karvy Research, Bloomberg
**NTPC Ltd**
Bloomberg Code: NTPC IN

**India Research - Stock Broking**

**NTPC: Consistent Capacity Additions and Higher Operational Efficiency to Drive Growth**

**Strong leadership position with diversified presence:**
NTPC constitutes for 16% of the total installed capacity while it generates 25% of the total electricity in the country, indicating strong leadership position, while its plants are spread across the country giving the diversification benefits. With its capacity expansion plans, NTPC continues to maintain its leadership position in the coming years.

**Superior PLF and coal linkages provide for a robust business model:**
NTPC operates the plants at a PLF (Plant Load Factor) and PAF (Plant Availability Factor) of over 80% indicating higher operational efficiency. This coupled with sufficient coal linkages provides for a robust business model.

**Planned capacity expansion gives visibility for long term growth:**
NTPC’s ongoing capacity expansion is on track, at a time when several private sector power generating companies are facing host problems in expansion. It gives visibility to take NTPC total capacity to 128000MW by 2032 and maintain the leadership position.

**Improvement in financial conditions of discoms to boost demand in the overall system:**
The recent government’s measures (UDAY scheme) to improve the financial health of state electricity boards would boost demand for power in the system as they could buy more power by reducing the load shedding programs and implementing the schemes like power for all.

**Valuation and Outlook**
NTPC with its consistent growth in capacity additions, fuel linkages and higher operational efficiency is well positioned amid improving health of SEBs and uppick in the economic growth. We expect the stock to come out of under performance due to the broad based negative sentiments in the entire power sector. At CMP, the stock trades at 11.5x FY18E EPS and we value NTPC at 13x FY18E EPS and recommend a “BUY” for a target of Rs. 175.

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<tr>
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<th>FY16</th>
<th>FY17E</th>
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<td>EBITDA Margin (%)</td>
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<td>Adj. Net Profit</td>
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<td>EPS (Rs.)</td>
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<td>12.1</td>
<td>12.3</td>
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<tr>
<td>RoE (%)</td>
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<tr>
<td>P/E (x)</td>
<td>10.5</td>
<td>11.9</td>
<td>11.7</td>
<td>12.0</td>
<td>10.5</td>
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*Source: Company, Karvy Research, Bloomberg*

**Recommendation (Rs.)**
- CMP: 145
- Target Price: 175
- Upside (%): 21

**Stock Information**
- Mkt Cap (Rs. Mn/US$ Mn): 1173742/17401
- 52-wk High/Low (Rs.): 149 / 107
- 3M Avg.daily volume (Mn): 5.1
- Beta (x): 0.9
- Sensex/Nifty: 26803 / 8180
- O/S Shares(mn): 8245.5
- Face Value (Rs.): 10.0

**Shareholding Pattern (%)**
- Promoters: 70.0
- FIIs: 10.8
- DIIs: 17.0
- Others: 2.3

**Stock Performance (**)**

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<tr>
<th>1M</th>
<th>3M</th>
<th>6M</th>
<th>12M</th>
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<tbody>
<tr>
<td>Absolute</td>
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<td>18</td>
<td>9</td>
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<tr>
<td>Relative to Sensex</td>
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<td>7</td>
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</table>

*Source: Bloomberg*

**Relative Performance**

[Graph showing relative performance of NTPC and Nifty]

*Source: Bloomberg; *Index 100*

**Company Background**
NTPC is a Maharatna PSU and is India’s largest power utility with an installed capacity of 46653 MW with 41 plants across the country. NTPC operates 18 coal fired power plants with a capacity of 35085 MW, 7 gas based power plants with a capacity of 4017 MW, 1 hydro power plant of 800 MW, 8 solar power plants with a capacity of 110 MW and 8 plants under various JVs with a capacity of 6641 MW. NTPC has over 23,000 MW capacity under construction and nearly 9,500 MW capacity is under bidding. NTPC has coal mines with estimated reserves of 5.2 Bn tonnes.
RIL: Capex in Core Business & Telecom Launch to Drive Growth

**Capex in core business (Refining & Pet-chem) to drive growth & profitability:**
RIL is investing in pet-coke gasification plant that is expected to come on stream in 2016 which is expected to reduce annual energy (LNG) cost of nearly $1.5 Bn and is likely to increase the GRMs by approximately $1/barrel. The capex for Ethane transportation project and Refinery off-gas cracker will increase the production capacity by polymers with much lower cost of production and likely to commence in FY17. RIL’s core strength in operations is reflected in capacity utilization of over 100% at its high complexity refinery at Jamnagar delivering superior GRMs as against the Singapore GRMs.

**Upstream, Petro products retailing and Shale gas to drive growth:**
RIL’s upstream gas production is expected to increase from the current levels. Ramp-up in US shale gas production in its JVs is likely to contribute to growth. RIL is planning to re-commission the entire petroleum retail outlet network as the government has decontrolled petrol and diesel prices, which could contribute towards growth.

**Commercial launch of RelJio 4G services could be a game changer in the Indian digital services market:**
RIL is expected to launch its pan-India digital services commercially (4G broadband, voice, data content, cloud services, entertainment, MSO) under Reliance Jio network in the next couple of months which could garner significant market share given the expectations over its higher speed, wide coverage and competitive pricing. The recent soft launch of its services to its employees could fast track the commercial launch as well.

**Aggressive expansion in retail to strengthen leadership position:**
Reliance retail is expanding its retail network (grocery, fashion, digital, Jewellery etc.) to strengthen its leadership position in all formats. It has over 3245 stores in 200 towns and over 15 Mn consumers enrolled for its loyalty program. It is among the fastest growing retail chains in India.

**Valuation and Outlook**
RIL is expected to maintain profitability in its core business with a capex that increases the operational efficiency across the refining & petrochemicals business, while the new businesses like the Reliance Jio are likely to trigger the next level of growth and boost revenues. At CMP, RIL is trading at 11x FY18E EPS, We recommend a “BUY” for a price target of Rs. 1280, valuing at 13x FY18E EPS.

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<th>FY16</th>
<th>FY17E</th>
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<tr>
<td>EBITDA Margin (%)</td>
<td>8.2</td>
<td>10.3</td>
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<td>15.9</td>
<td>16.3</td>
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<tr>
<td>Adj. Net Profit</td>
<td>22493</td>
<td>23566</td>
<td>27630</td>
<td>26985</td>
<td>32100</td>
</tr>
<tr>
<td>EPS (Rs.)</td>
<td>69.4</td>
<td>72.7</td>
<td>85.2</td>
<td>83.3</td>
<td>99.0</td>
</tr>
<tr>
<td>RoE (%)</td>
<td>11.8</td>
<td>11.3</td>
<td>12.0</td>
<td>10.7</td>
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<tr>
<td>P/E (x)</td>
<td>13.7</td>
<td>13.1</td>
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<td>11.5</td>
<td>9.6</td>
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</tbody>
</table>

Source: Company, Karvy Research, Bloomberg
SBI: Biggest Balance Sheet at Bargain Valuations

Strong double-digit growth in Loan Book amid uptick in domestic economic cycle:

SBI is expected to maintain double digit growth rate in loan book amid an uptick in domestic economy. Loan book is expected to be driven by home loans, auto loans, other retail loans, agri loans, trade and services as well as higher spending in infrastructure sector. We expect SBI to register a CAGR growth of over 13% in loan book in the next 2 years.

Stable NIMs in a rate down cycle regime:

SBI was able to maintain a net interest margin of over 3% in the last 4 years; and in a downward rate cycle, NIMs are expected to sustain above 3%. Strong growth in retail deposits coupled with over 40% CASA provides a case for uptick in NIM.

Expected recovery in asset quality:

Asset quality is expected to improve in the next few quarters due to the uptick in economic recovery, government’s efforts to revive stalled projects and SBI’s efforts to regulate credit towards the stresses sectors even at the cost of slower credit growth, which is expected to yield results. As on March 31, 2016, GNPA & NNPA were at 6.5% &3.81%.

Vast network and multiple delivery channels aid for strong growth in deposits:

SBI along with its associates, having a vast network of branches across the country, is well positioned to maintain double digit growth in retail deposits and while maintaining higher share of CASA above 40% provides cushion for quality growth. Its multiple delivery channels and technology platforms are likely to provide reach for larger customer base. Government’s announcement to infuse capital to SBI is a positive development which further supports growth.

Valuation and Outlook

SBI with its focus on quality loan book growth, CASA share in deposits, sustained NIMs of over 3% along with emphasis on reducing NPAs and fresh slippages augur well in the long term. SBI presents a case for biggest and well diversified balance sheet that mirrors the domestic economy available at a bargain valuations from a long term investment perspective. We value the standalone business at 1.5x FY18E ABV and investment at Rs. 51 recommend a “BUY” rating for a target price of Rs. 260.

Valuation Summary

<table>
<thead>
<tr>
<th>YE Mar (Rs. Cr)</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17E</th>
<th>FY18E</th>
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<tr>
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<td>Net Profit (Rs. Cr)</td>
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<td>EPS (Rs.)</td>
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<td>20.5</td>
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<td>126.8</td>
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<td>125.8</td>
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<tr>
<td>P/ABV (x)</td>
<td>1.8</td>
<td>1.6</td>
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<td>1.6</td>
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<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.6</td>
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</table>

Source: Company, Karvy Research, Bloomberg
TCS: Consistent Growth with Superior Margins

Best-in-class growth rate in revenue:
TCS has maintained steady growth in revenue in the last 5 years even on a large base. Going forward, TCS is expected to maintain broad-based growth at a CAGR of over 15% in revenue in the next two years.

Steady improvement in margins:
TCS has improved its margins steadily between 25%-30% over the last many years, even during challenging global economic environment. This was due to continuous improvement in operational efficiency, higher employee utilization levels and increased share of high margin projects.

Well diversified revenue model:
TCS has maintained the broad-based revenue growth in various geographies and verticals, with growth contributors being BFSI (40.6%), retail (14.1%), manufacturing (10%), Telecom (8.4%) and life sciences & healthcare (7%). TCS has maintained a balance between bread-and-butter businesses such as application development & maintenance and newer growth avenues such as Digital.

Proven capabilities in managing currency volatility:
USD contributes 56.5% to its revenue pie, whereas GBP, EUR and other currencies contribute 14.5%, 7.5% and 21.4% respectively. TCS was able to manage the currency volatility even during turbulent times in the global currency markets.

Digital to drive growth:
Digital initiatives including digital marketing and mobility services contributes for 14-15% of the total revenues and with a 52% Y/Y growth it is among the fastest growing segment. Going forward, Digital business is expected to maintain higher growth rates in the next few years.

Valuation and Outlook
TCS with its broad based service delivery model is expected to register consistent growth of over 15% in revenue with superior margins of around 26-28% over the next few years. TCS continues to command premium valuations due to its consistent growth and profitability. We recommend a “BUY” with a target of Rs. 3100, valuing the stock at 20x FY18E EPS.

Valuation Summary

<table>
<thead>
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<th>YE Mar (Rs. Cr)</th>
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<td>RoE (%)</td>
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<td>41.9</td>
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<td>P/E (x)</td>
<td>27.1</td>
<td>26.1</td>
<td>21.4</td>
<td>19.6</td>
<td>17.5</td>
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</tbody>
</table>

Source: Company, Karvy Research, Bloomberg

Company Background
Tata Consultancy Services Limited (TCS) is an integrated Information Technology, Consulting and Business Solutions provider offering a wide range of services like Application Development & Maintenance, Enterprise Solutions, Assurance services, Engineering & Industrial services, Infrastructure services, Global Consulting, Asset Leveraged Solutions and Business Process Outsourcing services. It has a total employee base of 3.53 lakh working from 229 offices spread across 45 countries. It derives 53% of its revenue from North America, 2% from Latin America, 16% from UK, 11% from Continental Europe, 9% from Asia Pacific, 2% from MEA and 6% from India.
Tata Motors: New Launches at JLR and Up-cycle in Domestic CVs to Drive Growth

New Launches at JLR to Drive Growth:
JLR’s all new launches – New Evoque, RR Sports, Discovery Sports & new XF including latest Jaguar XE – are well received in all major markets, it further plans number of new launches new XE, F-PACE, convertible Evoque in all markets over next one year. Company launched F-Pace in Apr’16 and response for F-Pace is very strong.

Strategy in place to regain the momentum:
We believe that lower volume from Chinese market and price rationalization would get completely nullified by new products at higher ASP and favourable cross currency movement. We believe that company’s strategy on new products and its huge investment on R&D started paying off. Its healthy growth despite China slowdown is commendable and it justifies company’s high capex plan. Moreover, China JV has witnessed strong sequential improvement in profitability, ahead of targeted time frame.

Recovery in Domestic M&HCVs:
Tata Motors is expected to benefit from the recovery in the domestic CV sales which are linked to the economic recovery. With the expectations of a sustained economic growth over 7.5% and new regulations stipulating scrapping commercial vehicles over 10 years to generate replacement demand for CVs in India. We expect improvement in standalone operations, backed by CV up-cycle.

New launches in domestic PV segment:
Tata Motors has launched new models in the domestic passenger vehicle segment which have received good initial response.

Valuation and Outlook
Tata Motors is expected to deliver strong growth driven by new launches at JLR and recovery in the domestic business. We value standalone business at Rs. 106, JLR at Rs. 519 and other subsidiaries at Rs. 52 based on FY18E EBITDA, net debt of Rs. 127 per share and recommend a ‘BUY’ on Tata Motors with an SoTP based target of Rs. 550.

Valuation Summary

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<td>EPS (Rs.)</td>
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<td>43.8</td>
<td>37.6</td>
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<tr>
<td>RoE (%)</td>
<td>28.0</td>
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<td>19.5</td>
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<td>P/E (x)</td>
<td>9.8</td>
<td>10.3</td>
<td>11.9</td>
<td>10.9</td>
<td>8.1</td>
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Source: Company, Karvy Research, Bloomberg
Good Monsoons and Rebound in Agri Commodities Prices to Drive Volumes

Rebound in global agri commodities prices to boost sales in key international markets:

Global agri commodities prices have bounced back sharply, with Corn gaining 15%, Soybeans jumping 27% and Sugar surging 14% on a YTD basis in CY2016. The surge in agri commodity prices is likely to boost sales volumes of crop protection chemicals in the major markets like Brazil, USA and other major markets that contribute for significant portion of revenues for UPL.

Expectations over normal monsoons in India to drive sales growth:

Indian market which contributes for around 20% of UPL’s revenues could see a rebound in sales volumes based on predictions of normal monsoons that are critical for Rice and Cotton crops. The recent hike in MSP for grains and additional bonus for pulses could encourage farmers to target for higher yields which boost the demand for crop protection chemicals.

Well diversified product basket with large scale manufacturing in India offers economies of scale and cushion margins:

UPL has a well diversified product basket in the generic agri chemicals with over 1344 formulations which was achieved through a string of acquisitions (18 in the last 12 years) and also product portfolios. This was supported by large scale flexible manufacturing facilities in India provides for economies of scale at competitive costs providing cushion for higher margins.

Product registrations backed by wide distribution network spread across the major markets in the world:

UPL has over 4692 registrations through its 82 subsidiaries globally. This gives the ability to launch the products in key agri chemical markets across the world helps UPL in calibrating the marketing and distribution strategy based on the weather and crop patterns.

Valuation and Outlook

UPL is expected to benefit from the surge in demand for crop protection chemicals amid surge in global agri commodity prices and expectations of good monsoons in India. UPL with its well diversified product basket and wide distribution network in major markets is well positioned to seize the opportunity. We recommend a “BUY” with a target of Rs. 750, valuing the stock at 16.7x FY18E EPS.

Valuation Summary

<table>
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<th>Ye Mar (Rs. Cr)</th>
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<th>FY16</th>
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<td>30.3</td>
<td>38.9</td>
<td>44.9</td>
</tr>
<tr>
<td>RoE (%)</td>
<td>19.2</td>
<td>20.6</td>
<td>20.5</td>
<td>21.1</td>
<td>20.6</td>
</tr>
<tr>
<td>P/E (x)</td>
<td>26.7</td>
<td>22.2</td>
<td>19.5</td>
<td>15.2</td>
<td>13.2</td>
</tr>
</tbody>
</table>

Source: Company, Karvy Research, Bloomberg
Technical Outlook
HDFC: Technical View

HDFC is in the cycle of higher highs and higher lows in the last two years on monthly charts. However, over last few months the stock is trading in a broad range of 1000-1400 with low volumes and resembles like a down ward sloping channel (flag) formation, indicating a pause in the ongoing bull run; During this corrective phase, the stock has respected its long term and medium term moving averages on weekly and monthly charts, indicating strength. The stock is currently at midpoint of the said trading range and any dip towards the lower end of the range can be accumulated for an initial target towards 1400 and sustenance beyond the range can take much higher into unchartered territory towards 1500-1550 levels in the coming months.

HDFC BANK: Technical View

The Long term chart suggests a linear up trend in the stock which is witnessed its cycle of higher highs and higher lows on the monthly charts. Adding to the strength the stock has also given a break out from a multi month trading range in last quarter indicating a fresh up move into the counter. The extension levels drawn from the low of Rs. 528 to the high of Rs. 1128 and then to the low of Rs. 928 gives a potential upside target of 1300 levels (61.8%) in the near term, above which the next possible targets can be pegged towards Rs. 1528 (100%) in the months to come.
ITC: Technical View

Technically, ITC is in secular uptrend on monthly charts from 66 levels in October 2008 and made an all time high of 409.95. The stock retraced from there to 268 levels where it took support from its previous major swing lows on weekly chart and bounced sharply from there. The stock can test its all time highs of 410 in coming months and above it to the uncharted territories of 430-440 levels.

LT: Technical View

LT had been one of our top picks in the Infra space. The counter had been in the uptrend making an all time high of 1893.80 levels in the month of March 2015. Thereafter, the stock witnessed a sharp correction towards its previous major rally starting point, however in the corrective phase; the stock has respected its medium term moving average on monthly chart and currently witnessed a sharp bounce from the said moving averages. Analyzing the price action chain, the counter seems to have good potential to re-gain its life time highs and move into unchartered territory in the coming quarters.
NTPC: Technical View

NTPC is trading sideways in a very broad range of 107-175 over last three years. However, the stock is witnessing a sharp bounce from the lower end of the trading range with huge volume activity, indicating strong hands are accumulating the counter. Currently the stock is at midpoint of the said trading range and any dip towards the lower end of the range can be accumulated for an initial target of higher end of the trading range. Even on the oscillator and indicator front, RSI on weekly charts is trading at higher levels and MACD on weekly charts also has positive crossover, support our bullish stance on the stock.

RELIANCE: Technical View

RELIANCE is trading in a broad range of 670-1150 over last few years. However, the stock is witnessing a sharp bounce from the lower end of the trading range with decent volume activity, indicating strong hands are accumulating the counter. Currently the stock is at midpoint of the said trading range and any dip towards the lower end of the range can be accumulated for an initial target of higher end of the trading range and above it towards its previous major swing high zone of 1270-1300. Even on the oscillator and indicator front on weekly charts, RSI is trading at higher levels and MACD also has positive crossover, support our bullish stance on the stock for the medium to long term. The stock has support at 800-850 zones and on the higher side; the stock has resistance at 1150-1170 zone, where previous swing highs are placed and above it at 1280-1340 levels.
SBI has witnessed a stellar rally from the lows of sub 150 to the highs of 336 during the period of August 2013 to January 2015. However, over last few months, the stock has witnessed a very sharp correction of the said rally to the lows of lower end of the trading range. However, the stock has witnessed a sharp bounce with decent volumes. Hence, we assume that the long term correction in the stock is done and move towards its previous major swing highs and much higher towards 300 levels in the coming months.

Technically, TCS is in a strong uptrend since 219 levels in March 2009 and clocked a all time highs of 2840 in October 2016. TCS is consolidating is in the range of 2000-2840. On weekly charts, the stock is consistently trading in the upper band of Bollinger band over last few weeks and 14 periods RSI is at 50, indicates more upside in the stock. Hence investors can accumulate the stock for initial target of all time highs and above it to 3100 in the coming months.
Tata Motors after a strong bull market rally from the lows of sub 25 in 2009 to the highs of 606 in 2015, the stock has entered into corrective phase. However, the stock has found very strong support at its medium term moving averages on weekly charts and witnessed a sharp pull back rally with huge volumes. Adding to the strength, the stock has also given break out and confirmation of a double bottom pattern on monthly charts indicating possible completion of long term correction and possible resumption of its multiyear bull run. Hence, we recommended investors to buy the stock for double bottom pattern target of 550-555 levels and above it to all time highs with a time frame of medium to long term.

The Long term chart suggests a linear up trend in the stock which is witnessed its cycle of higher highs and higher lows on the monthly charts. Adding to the strength the stock is clocking life time highs on a consistent basis over last few weeks, where the broader market is reeling well below its all time highs. The extension levels drawn from the low of Rs. 101 to the high of Rs. 576 and then to the low of Rs. 367 gives a potential upside target of around 665 levels (61.8%) in the near term, above which the next possible targets can be pegged towards Rs. 845 (100%) in the months to come.

Source for Data & Charts: Bloomberg
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We also track short-term price distortions that create long-term value, driven by sound economic fundamentals of the company. This reflects, stocks that have margin of safety will converge to their intrinsic value over a period of time and will reflect superior returns.

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