



NEW YEAR PICKS - 2019

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Company	Comments	CMP	Target	% Upside
Indusind Bank	Consistent performer with strong NIM, high non-interest income and stable asset quality supported by strengthening liability franchise and balance sheet	1610	1,876	17
Voltas	Voltas is the best bet in the consumer durables space from 3-5 years given its strong franchise , focus on plugging the gaps in the product suite (Arcelik JV (Voltbek) , improving order book visibility	577	672	16
Sterlite Technologies	The transformation of the company from supplier of OF & OFC to providing data network solutions would place the company into different stratosphere	298	410	38
Aarti Industries	Capacity expansion & growing demand to drive revenues, new toluene business to attain optimum utilization in next 2-3 years, and the multi year deals to ensure revenue visibility. China crackdown is also favorable for company.	1453	1740	20
Take Solutions	Large addressable market, drug sales loss due to patent expiration, domain expertise of TSL, high entry barriers and focus on expansion to boost revenues, premium margins enabled by IP based technology	147	178	21
Marico	Copra deflation cycle to aid earnings growth	381	428	12
Amber Enterprises India	AEL is the market leader in the RAC OEM/ODM industry in India with market share of ~55 %(in terms of volume).	924	1,106	20

Source: Capitaline, Consensus Estimates, CMP as of 20 Dec 2018

Target: Rs 1,876

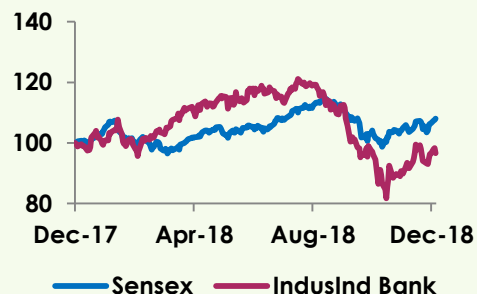


Reco Price: 1,610

Stock Data

No. of shares	60.2 cr
Market cap (Rs)	98,722 cr
52 week high/low (Rs)	2,038/1,333
Avg. daily vol. (6 mths)	1,110,981
Bloomberg code	IIB IN
Reuters code	INBK BO

Price Performance



IndusInd Bank (IIB) one of new generation private sector banks in India, commenced its operations in 1994 and had transformational management change in 2008. Since management change, the bank has successfully completed three phases of planning cycle and is currently undergoing fourth phase of planning cycle. IIB caters to the needs of both consumer (vehicle finance) and corporate customers.

Investment Rationale

- ❑ **Diversified loan mix:** IIB's loan mix constitutes ~40% consumer finance (CF) and ~60% corporate banking (CB). The CF book is largely vehicle finance focused, growing at +25% in the past couple of years. IIB's CB book is largely inclined towards working capital finance. Further, this book is broadly diversified into three major categories such as large corporate, mid-corporate and loans to small business. Again, in terms of sectors, the CB portfolio is well diversified among 13-14 sectors.
- ❑ **Consistent earning performance:** The major factor on the back of which the stock got re-rated from time to time was that such a strong performance has been accomplished in a strained economic environment wherein the banking system has been plagued by declining growth and increasing deterioration in asset quality. IIB, owing to its ideal mix of the loan book (niche presence in vehicle finance), improving CASA franchise and lower exposure to stressed sectors was able to ring fence itself from major systemic concerns and deliver strong results.
- ❑ **Well planned out strategy:** The bank has initiated Planning Cycle Four for FY18-20 with a focus on retail, Micro Finance, doubling the assets book and reaching CASA ratio of 40%. Merger with Bharat Financial (BFIL) will add scale and profitability to IIB's performance. IIB should benefit from the huge increase in outreach through ~1400 well spread branches of BFIL. BFIL has delivered 3.5-4% ROA which is substantially higher than IIB (1.8%).
- ❑ **Outlook:** IIB has an ideal mix of loan book with niche presence in vehicle finance and corporate banking inclined towards working capital finance. Strong NIM, high other income and stable asset quality have resulted in consistent operating performance. Spreads are expected to improve as aggression from NBFCs declines in to maintain their liquidity profile. Also, softening of G-sec yields may result in write back of MTM losses. We expect IIB with its high share of CASA (44%) to be amongst the key beneficiaries of the higher spreads and softening yields in the near-term. Key monitorables are the BFIL merger, IL&FS exposure and changes in top management.

Financial Summary

Y/E March	PAT (Rs Cr)	EPS (Rs)	Book Value (Rs per share)	RoE (%)	RoA (%)	Net NPA (%)
FY18	3606.1	60.2	393.8	16.5	1.80	0.5
FY19E	4342.0	71.6	456.8	16.6	1.80	0.5
FY20E	5606.4	91.9	536.2	17.7	1.87	0.5

Source: Capitaline, Consensus Estimates, CMP as of 20 Dec 2018

Target: Rs 672

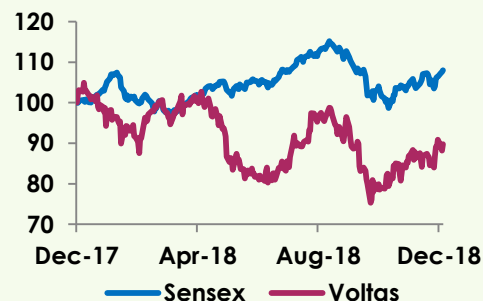


Reco Price: 577

Stock Data

No. of shares	33.09 Cr
Market cap (Rs)	18,910 Cr
52 week high/low (Rs)	675/471
Avg. daily vol. (6 mths)	4,23,563
Bloomberg code	VOLT IN
Reuters code	VOLT.BO

Price Performance



Voltas is India's leading air conditioning company, along with providing wide range of solutions for various industries in areas of heating, ventilation and air conditioning, refrigeration, electro-mechanical projects, electrification, water management & treatment, textile machinery, and mining and construction equipment.

Investment Rationale

- ❑ **Strong presence in the consumer durables space:** Voltas is a market leading brand in the AC segment. Its market share in the AC market is 23.5% and management remains confident of long term growth given rising disposable incomes and underpenetrated segment.
- ❑ **Mechanical, Electrical and Public Health (MEP) business (50% of H1FY19 sales):** Better order execution and positive effects of INR depreciation has facilitated margin improvement of segment. Cost control initiatives have led to strong performance during Q2. The order book stood at at Rs 20 bn with orders worth ~Rs 4.5 bn booked during Q2. UAE and GCC region markets are expected to grow strong in the coming years.
- ❑ **Domestic segment:** Voltas' focus in domestic market would be to pick up good quality government or government-sponsored projects. Orders worth Rs 6.3 bn were booked during Q2. Management indicated it sees huge opportunity in recent infrastructure and electrification projects announced by government. Smart execution has been key driver for profitability.
- ❑ **Outlook:** We believe Voltas is the best bet in the consumer durables space from 3-5 years given its strong franchise, focus on plugging the gaps in the product suite (Arcelik JV (Vollbek)), improving order book visibility and the cautious approach deriving benefits in the form of improving margins.

Financial Summary

Y/E March	Revenue (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	RoE (%)	RoCE (%)
FY18	6,424	711	572	17.3	15.9	15.8
FY19E	7,284	723	596	18.1	14.7	17.6
FY20E	8,233	840	693	21.0	15.4	18.4

Source: Capitaline, Consensus Estimates, CMP as of 20 Dec 2018

Target: Rs 410

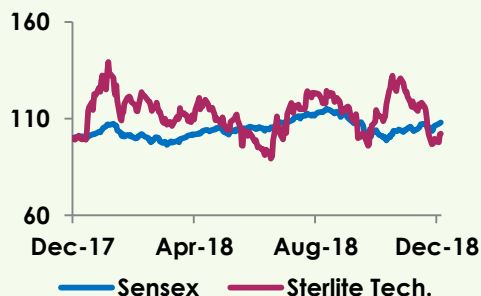


Reco Price: 298

Stock Data

No. of shares	40.24 Cr
Market cap (Rs)	12, 093 Cr
52 week high/low (Rs)	415/256
Avg. daily vol. (6 mths)	543,183
Bloomberg code	SOTL IN
Reuters code	STTE BO

Price Performance



Sterlite Technologies is a global technology player engaged in designing, building and managing telecom broadband networks. Sterlite is India's largest and only fully integrated optical fibre cable manufacturer with optical fibre (OF) and optical fibre cable (OFC) capacity of 30mn FKM and 15mn FKM, respectively. It has manufacturing plants in Aurangabad, Silvasa, China (through JV with Tongguang) and Brazil (through JV with Conduspar). Its recent acquisition Metallurgica Inc. is expected to strengthen its presence in Europe.

Investment Rationale

- ❑ **Double digit demand for optical fiber (OF):** Sterlite Technologies to be the BIG beneficiary of growing domestic demand for OF, which is anticipated to grow at a CAGR of over 13% during 2017–21. Growth in the market is estimated on account of growing adoption of smart-phones and growing demand for internet driven applications like HDTV, video on demand, faster file sharing etc. along with rollout of 5G services.
- ❑ **Broad based industry demand:** The broadband providers are not the sole users of OF & OFC, which found growing demand for this technology from military and defense, healthcare and aerospace verticals. Growing technological advancements together with increase in the number of connected devices and rise in the number of data centers are expected to positively influence India OF & OFC market over the span of next decade. The company has plans to enhance production of OF to 50mn FKM by June 2019 to meet the rising demand.
- ❑ **Global demand-supply mismatch to ensure strong realizations:** The demand for OF & OFC in the global market is outpacing supply; this is mainly a result of the constantly increasing demand being seen from China. China accounts for approximately 50% of global OF & OFC consumption. Simultaneously, China, like many other countries, is pursuing multiple ultra-broadband initiatives to strategically position itself for support of 5G, FTTx, LTE, 4G, IoT and other current & future technologies.
- ❑ **Substantial market share and ample growth visibility:** Sterlite Technology enjoys ~10% of the global market share (~40% of the domestic market share). The company has an order book of upwards of Rs 6000 cr giving a visibility of around 1.5 years. In services business, Sterlite is developing several network projects, such as, secure network for the armed forces, rural broadband through BharatNet, Smart Cities, and high-speed Fiber-to-the-Home (FTTH). Key triggers for Sterlite Tech's growth include- 4G network expansion and 5G deployment around the world, and transformation of the company from supplier of OF & OFC to providing data network solutions.

Financial Summary

Y/E March	Revenue (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	RoE (%)	RoCE (%)
FY18	3,205	749	334	8.4	33.0	28.3
FY19E	4,447	1,110	517	12.8	37.2	26.9
FY20E	6,022	1,429	682	17.0	37.2	27.2

Source: Capitaline, Consensus Estimates, CMP as of 20 Dec 2018

Target: Rs 1,740

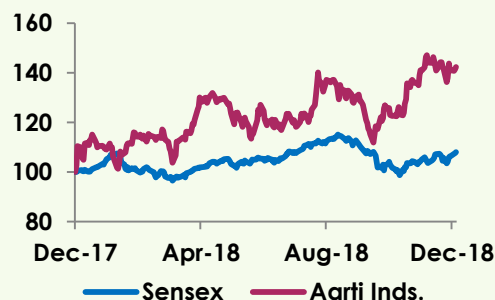


Reco Price: 1,453

Stock Data

No. of shares	8.13 Cr
Market cap (Rs)	11,797 Cr
52 week high/low (Rs)	1520/910
Avg. daily vol. (6 mths)	30,979
Bloomberg code	ARTO:IN
Reuters code	ARTI.NS

Price Performance



Incorporated in 1984, Aarti Industries is a leading Indian manufacturer of Chemical & Pharmaceutical intermediates with a global footprint. It operates primarily in 3 segments viz. specialty chemicals (78% of sales), pharmaceuticals (15% of sales) and home & personal care (7% of sales). It is one of the largest producers of benzene based derivatives in India. It has 17 manufacturing plants and 200+ products. Globally, it ranks in the top 4 position for 75% of its portfolio of products. It exports to more than 60 countries which constitute ~45% of the revenues. It is a preferred partner of around 300 international corporations and 700 domestic corporations.

Investment Rationale

- ❑ **Benzene segment to remain the cash cow:** The benzene derivative production currently functions at ~90% utilization. The company is currently planning to increase its capacity in the different product lines by the process of debottlenecking at its plants. With the demand for the specialty chemicals set to increase, we expect the utilization to reach 95% in 1-2 years and with the expansion in capacities, the company is poised to grow both in terms of revenues and profits.
- ❑ **Toluene value chain to drive growth:** AIL commissioned its nitration unit in Q3FY18 to produce Nitro Toluene and its downstreams with a capacity of 30,000 TPA. In H1FY19, the utilization of this unit had reached ~40%. The toluene segment is a hugely untapped market in India with a substantial demand catered mostly through imports. We expect AIL to benefit and the utilization to reach ~90% in 2-3 years on account of its chemical competence, import substitution and the absence of any other major players in the segment.
- ❑ **Multi year deals to provide revenue visibility:** AIL recently received two multi-year deals: 1) Rs.4,000 crore contract with a global agrochemical company for a term of 10 years and 2) Rs.10,000 crore contract for a term of 20 years. This order book provides AIL with a long term and sustained revenue visibility. This will help the company to generate higher margins and improve its ROCE.
- ❑ **Pharma business at inflection point:** For AIL, Pharma segment has grown at a CAGR of 24% in the last 5 years and its contribution to the revenues has risen from 9% to ~15% in the same period. With the company consistently investing in R&D and due to the increased API demand on account of the recent revival in the domestic pharma industry, we expect AIL to further increase its share in the Pharma segment.

Financial Summary

Y/E March	Revenue (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs.)	RoE (%)	RoCE (%)
FY18	3,806	700	333	41	23	20
FY19E	4,891	920	455	56	25	17
FY20E	5,840	1,115	569	70	24	18

Source: Capitaline, Consensus Estimates, CMP as of 20 Dec 2018

Target: Rs 178

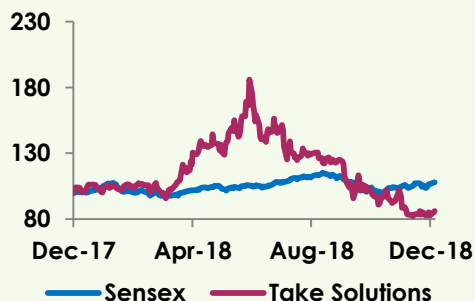


Reco Price: 147

Stock Data

No. of shares	14.79 Cr
Market cap (Rs)	2,011 Cr
52 week high/low (Rs)	Rs 308/127
Avg. daily vol. (6 mths)	13,970
Bloomberg code	TAKE:IN
Reuters code	TAKE.NS

Price Performance



Incorporated in 2000, Take Solutions Limited (TSL) is a technology service provider with distinct expertise across Life Sciences (LS) and select niches in Supply Chain Management (SCM). TSL offers services ranging from Clinical Trials, Bioavailability and bioequivalence (BA-BE) studies, regulatory submissions and post marketing safety monitoring (Pharmacovigilance) backed by IP-based technology expertise. Headquartered in Chennai, TSL serves 9 out of top 10 Pharma Companies. It is represented by 1500+ professionals across 16 offices in 7 countries.

Investment Rationale

- Large addressable market:** The global Life Sciences R&D expenditure is growing at 3.1% CAGR and expected to reach \$204 bn by CY24. R&D spend for the CY18 is estimated to be \$172 bn. In this gamut, development spending in the phase I to IV stands at \$93bn as per Industry Standard Research (ISR), the business presence of TSL is in outsourcing space which is ~39% of development spending i.e. \$36 bn for CY18 and estimated to reach at \$44bn by CY21, representing a large addressable market for TSL.
- Patent expiry to drive Clinical Trials:** Global drug sales at risk is expected to be \$ 251 bn over CY18-24 due to patents expiration. Pharma companies are increasing R&D spend to replenish the sales and bring new patent drug, thereby increasing the need for Clinical Trials. Expiry of patent drugs and government's thrust for cost efficient drug would generate demand for BA-BE studies to bring more generic drugs.
- Domain Expertise:** TSL has deep domain expertise in the LS segment with respect to consulting, technology & outsourcing services. A total of 30+ experienced executives at senior position were brought on board this year. Workforces include domain experts in clinical trials and drug development process comprising Medical doctors, PhDs or Bio-statisticians.
- Expansion:** TSL focus in on expanding Clinical sites and Lab infrastructure to serve the growing demand from Life science companies. Total tangible asset addition is expected to be 200 crore by FY20. TSL is in talk for acquisition in North America region, funding for which would be done by internal accruals and expected to be completed by the end of FY19.
- Valuations:** We value TSL at 10x FY20E given the growth prospects to arrive at a target price of Rs 178. The valuations are conservative as TSL is trading at lower valuations compared to global peer, with coming quarters' performance at par with expectations, TSL has the potential to be re-rated at higher multiple

Financial Summary

Y/E March	Revenue (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	RoE (%)	RoCE (%)
FY18	1,587	306	160	12.2	14.1	16.9
FY19E	1,996	397	214	14.6	14.9	18.5
FY20E	2,404	474	264	17.8	15.6	19.8

Source: Capitaline, Axis Securities, CMP as of 20 Dec 2018

Target: Rs 428

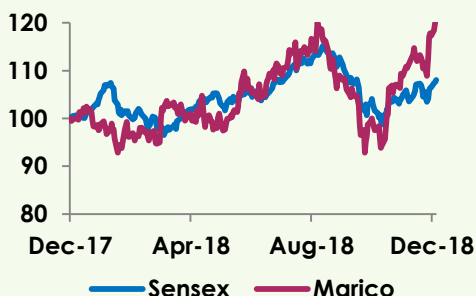


Reco Price: 381

Stock Data

No. of shares	129.08 Cr
Market cap (Rs)	50,886 Cr
52 week high/low (Rs)	393/284
Avg. daily vol. (6 mths)	1,216,804
Bloomberg code	MRCO IN
Reuters code	MRCO NS

Price Performance



Marico Ltd. (MRCO) is one of India's leading consumer products companies operating in the beauty and wellness space. It is currently present in 25 countries across emerging markets of Asia and Africa. Marico has brands across categories like hair care, skin care, edible oils, health foods, male grooming, and fabric care. Marico's brands in India includes household names like Parachute, Saffola, Hair & Care, Nihar, Livon, Set Wet, Mediker and Revive among others. Its International business offers unique brands such as Parachute, HairCode, Fiancée, Caivil, X-Men and Thuan Phat which cater to local needs in the international geographies.

Investment Rationale

- Copra deflation cycle to aid earnings growth:** During H2FY19, we expect copra deflation (down 30% from peak of over Rs. 90/kg over past 10 months) to support MRCO's margins which remained under pressure in H1FY19 at 16.8% (down 130bps). We expect the deflation to lead to a ~20% EBITDA growth and an EBITDA Margin of 19.2%. Further, we observe a direct co-relation of Marico's EBITDA Margin expansion with Copra prices (Margin expansion usually seen to aid 500-700bps margin expansion in GMs and 150-200bps expansion in EBITDA Margins, besides retaining higher prices in larger SKUs).
- Domestic volume growth to pick up in H2FY19:** In Q2FY19, domestic volume growth stood at 6%. We expect, volume growth to improve in H2FY2019 because of pick-up in rural demand and stable demand environment in urban markets. High single-digit growth in parachute rigid packs, double-digit growth in the value-added hair category and scale in the business of youth portfolio are some of the key volume growth drivers in the near to medium term.
- Other Positives:** Healthy growth in core brands (ex-Saffola), pickup in international business momentum, recent crude correction (to drive LLP/HDPE prices lower with a lag, ~25% of RM), robust performance of hair nourishment/male grooming portfolio and renewed aggression on new launches (portfolio de-risking efforts to help reduce dependence on hair oils and develop strong MT/ecommerce-led youth-focused portfolio) lends additional comfort.
- Valuations:** While, the stock price has witnessed a run up recently, we believe, there is furthermore upside from current levels with a medium term perspective. Also, at a time when both sector multiples, as well as ability of peers to pass on emerging RM cost pressures are under question, Marico provides better visibility compared to peers. Moreover, with over 30% sales coming from rural (management's target @40%) It is emerging as an interesting play on rural growth.

Financial Summary

Y/E March	Revenue (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	RoE (%)	RoCE (%)
FY18	1587	306	160	12.2	14.1	16.9
FY19E	1996	397	214	14.6	14.9	18.5
FY20E	2941	574	331	23.6	17.5	22.1

Source: Capitaline, Consensus Estimates, CMP as of 20 Dec 2018

Target: Rs 1,106

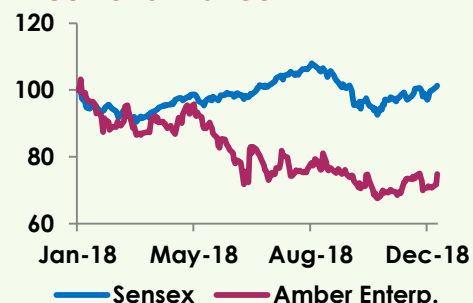


Reco Price: 924

Stock Data

No. of shares	3.14 Cr
Market cap (Rs)	2,911 Cr
52 week high/low (Rs)	1,327/821
Avg. daily vol. (6 mths)	9,179
Bloomberg code	AMBER IN
Reuters code	AMBE BO

Price Performance



Amber is a one-stop solutions provider for the major brands in the RAC industry. It is a leader in the room air conditioners (RAC) outsourced manufacturing space. The company has diversified portfolio which includes RAC, RAC components and non AC components. The company has 12 manufacturing facilities across 7 locations in India.

Investment Rationale

- Market leader in RAC ODM space:** AEL is the market leader in the RAC OEM/ODM industry in India with market share of ~55 % (in terms of volume). The company had 19.1% market share in overall RAC market share in India (FY17) . Its clients account for ~ 75% share in the Indian RAC market.
- Increasing demand in the underpenetrated RAC segment:** Current penetration of RAC in India is ~4-5% while the global average is ~30% implying ample room for growth. With higher disposable incomes, urbanisation and available consumer financing the RAC volumes are expected to increase from 4.7 mn units in 2017 to 8.6mn units by FY2022E.
- Backward integration:** AEL is one stop solutions provider to major brands covering the entire gamut of RAC across tonnage and efficiency. The company manufactures all components except compressors which provide it a competitive edge as compared to peers. Recent acquisitions (IL Jin & Ever Electronics) have added capability in inverter RAC.
- Rising outsourcing trend:** Increasing demand of outsourcing by brand owners to improve their returns provides growth opportunities for AEL; government thrust on local manufacturing and measures such as increase in customs duty augurs well for ODM's like Amber. Moreover, the company's 12 manufacturing units are strategically located near the client facilities thus providing a competitive advantage.

Financial Summary

Y/E March	Revenue (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	RoE (%)	RoCE (%)
FY18	1,950	177	62	19.7	10.0	13.5
FY19E	2,618	208	99	32.0	10.6	13.8
FY20E	3,177	263	131	42.3	12.7	16.4

Source: Capitaline, Consensus Estimates, CMP as of 20 Dec 2018

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

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