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DIWALI picks

FC BUREAU
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The Diwali this year is approaching amidst "humungous macro-uncertainty." This scenario is likely to stay for Indian equities through the first half of 2019, says Dharmesh Kant-head-retail research, IndiaNivesh Securities.

Here on till the general elections in 2019, rallies will be sold into. "Foreign investors have been consistently pulling money out and they are likely to re-assess India only post-general elections. Valuations are steep and global markets have started correcting. Going forward outcome of Indian elections and global markets will be key factors directing market moves, till the first half of 2019. A bottom-up, stock-specific approach should be followed while investing in equities," says Kant.

Here are the top five Diwali picks of IndiaNivesh Securities:

NBCC

(Target price: ₹77)

NBCC is a big beneficiary of infrastructure and housing for all. Its standing order book has swollen above Rs 80,000 crore at a healthy annual run rate. For FY19 so far it has received Rs 6,000 crore, worth of orders. In FY18, it registered a top line of around Rs 7,100 crore, net profit of Rs 372 crore and cash profit of around Rs 550 crore. Book to bill ratio stands at 11.5x and order book to sales at 8.5x, which gives revenue visibility for the next 10 years at a constant top line based on FY18. It is insulated largely from rising input costs as its primary business is Project Management Consultancy (PMC), which contributes around 90 per cent to top line and almost 100 per cent to bottom. It has recently forayed into real estate with an eye on affordable housing, housing re-development projects



and building of new townships. Strong financials and steady cash flow is an added advantage. Cash per share in books as of FY18 stands at Rs 13.75. Topline CAGR stands at 15 per cent and PAT at 10 per cent for the last five years. We expect execution to pick up steam on existing order book, delivering revenue CAGR of over 30 per cent in the next two years; which translates into an EPS of Rs 3.88 for FY20e. Rock solid debt free balance sheet, proven execution capability, return ratios in high teens, makes it a compelling buy in the light of steep stock price correction. We recom-

mend accumulating NBCC.

RBL Bank

(Target price: ₹690)

RBL has been on a robust growth trajectory consistently maintaining growth in advances & profit in excess of 30 per cent. Management has demonstrated consistent improvement in operational efficiency and cost to income ratio while embarking on a high growth trajectory through capturing quality business. Sound asset quality, which improved in

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Top picks for Samvat YEAR 2075

by K R Choksey
Shares & Securities

HDFC Standard Life Insurance
Kotak Mahindra Bank
Bajaj Finserv
Bajaj Finance
Infibeam Avenues
TV18 Broadcast
Network 18 Media
Tata Elxsi
Sterilite Technologies
Minda Corporation
Ashok Leyland
Bajaj Auto
Maruti Suzuki
Sun Pharmaceutical

rameters. In the first quarter of FY19, the company's saleable steel production rose 13 per cent over corresponding period last year (CPLY). Sales volume in Q1 was also 8 per cent higher over CPLY and the Ebitda per tonne of sales at Rs 8,211 for Q1 reflects a robust functioning of all the processes.

Can Fin Homes

(Target: ₹480)

A strong HFC play, promoted by Canara Bank, being in business for over 30 years and is primarily a provider of housing loans to individuals. As on June 2018, 90.20 per cent of loan book is for housing while non-housing constitutes balance 9.80 per cent. At present 72.9 per cent of loan book, which stands at Rs 16,199 crore, comes from the salaried & professionals. Management has laid a vision to expand the loan book to Rs. 40,000 crore by FY22, implying a CAGR of 26 per cent. Posted a good set of Q1FY19 numbers. Loan book growth came at 17.20 per cent and PAT (Rs 77.29cr) at 11 per cent on YoY basis while GNPA stood at 0.66 per cent and NNPA at 0.44 per cent. Stock price had made an all-time high of Rs 666 in June 2017. Given the thrust on housing for all by the government and the management's aggression, we expect the company to deliver 20 per cent earnings CAGR for the next two years, translating into a book value per share of Rs 160.

Bharat Electronics

(Target price ₹130)

Niche play in defence sector, having an order book of around Rs. 50,000 crore. At present run rate book-to-bill ratio stands at 5x. Has strong net debt free balance sheet, cash per share of around Rs 27 and stable business outlook. Has high return ratios, ROEs of around 20 per cent & ROCE of 26 per cent. Operating margin is back in expansion mode, in Q1FY19 it expanded 520 basis points to 14.80 per cent. Solid Q1FY19 numbers, where revenue grew by 23 per cent, PAT by 43 per cent on YoY basis. The MoD has proposed a new pricing mechanism for defence PSUs with the intent of making PSUs more efficient on the operational front. According to the new guidelines, margins (at PBT level) have been lowered from 12.5 per cent to 7.5 per cent for projects given to all defence PSUs on a nomination basis. The new pricing mechanism will be applicable for future orders and will not impact the company's existing order book of Rs 50,000 crore. Management believes the new pricing policy will not have an adverse impact on the business. Given the order book visibility and execution capability, the company's earnings is expected to compound at over 14.10 per cent for the next two years, translating into an EPS of Rs 7.50 for FY20e.

SAIL

(Target: ₹89)

SAIL has been on a turnaround trajectory buoyed by local demand. It posted three consecutive quarters of improving net profits after being in red for last three years. Going forward, we expect domestic steel demand will continue to strengthen led by infrastructure, commercial and residential projects in semi-urban and rural India. Post, Q1FY19 results management sounded confident of steering growth trajectory through improved operational and techno-economic pa-

Q1FY19 having GNPA at 1.40 per cent and net NPA at 0.75 per cent. Going forward we expect RBL's asset quality to remain firm. The bank has a well-diversified business mix and has been increasing geographical footprint steadily. Given, its present size and aggression of management it has long way to go before its high growth trajectory tapers off. The book value has compounded in excess of 27 per cent for last three years. In a rising cost of funds scenario and challenged macro environment this bank becomes a strong candidate for re-rating on back of its robust performance.

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TOP DIWALI PICKS FOR INVESTORS

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