Diwali Picks 2019

22nd October 2019

HAPPY Diwali

WAY2WEALTH
A COFFEE DAY COMPANY
Research Desk

Index

Diwali Picks 2019

	Company	CMP	Buying Range	Target	Stop Loss
1	Axis Bank Ltd.	730	710/690	925	595
2	Finolex Industries Ltd.	616	600/570	880	485
3	Godrej Consumer Products Ltd. (GCPL)	703	700/660	964	550
4	Grasim Industries Ltd.	757	730/710	1075	600
5	HDFC Ltd.	2116	2060/2000	2340/2420	1850
6	ITC Ltd.	249	240/230	365	190
7	L&T Finance Holdings Ltd.	87	85/80	123	60
8	Tata Consultancy Ltd. (TCS)	2052	1970/1900	2420	1700
9	TVS Motor Co. Ltd.	452	445/425	565/610	335

Last one year has been an eventful and a difficult one for investors. Lok Sabha election outcome and corporate tax cut led the markets to form extreme optimism. However NBFC crisis, weak earnings, corporate misgovernance and trade-war concerns hindered the performance. NBFC crisis started to show its effect on high-frequency indicators like auto sales volume, real estate, and credit growth leading to talks of the slowdown. At a time when several stocks losing immense value and whisper of the slowdown in the economy on the streets, we continue to educate investors that wealth creation in equities investing has been never in a straight line and its return has been higher than other asset class in the long run. For 2019, we have created a basket of 9 stocks primarily bias towards large-cap having sound management, and better earnings potential.

Following are our previous year Diwali picks performance:

	Company	CMP	Recommendation Price	Buying Range	Target	Stop Loss	Status
1	Maruti Suzuki India Ltd.	**7254**	7137	6900-6600	8400/8900	5750	**SL Hit**
2	ICICI Bank Ltd.	**451**	354	350-335	440	290	**Target Achieved**
3	Dr. Reddy's Laboratories Ltd.	**2819**	2422	2400-2350	3200	2000	**Call Open**
4	Godrej Consumer Products Ltd. (GCPL)	**703**	715	685 – 650	860/915	560	**Call Open**
5	Hexaware Technologies Ltd.	**371**	312	320-305	420/460	248	**Target Achieved**
6	Grasim Industries Limited	**757**	845	830 – 790	1000/1080	680	**SL Hit**
7	Escorts Ltd.	**645**	676	650-620	850	515	**SL Hit**
8	Bata India Ltd.	**1765**	1008	950 – 900	1120 / 1200	800	**Target Achieved**
9	Federal Bank	**84**	82	82 – 78	105/114	66	**Target Achieved**
10	Gujarat Fluorochemicals Ltd.*	**815**	881	830-845	960/1050	720	**Call Open**

De-merged company from GFL Limited, re-named from Inox Flourochemical. Returns calculated taking both entity market price

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CMP: ₹730/-

Axis Bank Ltd.

- Axis Bank is the largest private sector bank in India with a business of ₹10.37 lac crore. The bank is augmented by strong subsidiary companies engaged in financing, capital market & asset management business.
- **Improving Credit Quality:** Credit quality metrics continued to improve with reduced NNPA, BB & below pool & sanctioning to 'A' rated & above corporate. GNPA and NNPA fell for the 5th straight quarter.
- **Steady Loan Growth:** Axis bank continues to grow its loan book cautiously and steadily with domestic loan book growing at 19% YoY led by retail loan book growing at 22% YoY. Retail advances form 52% of the total advances of the bank. The retail book has grown 25% CAGR over FY13 to FY19 with the persistent increase in the share of high yield segments.
- **Operating Profitability improved significantly:** The bank reported NII growth of 13% YoY with NIM at 3.4%. Growth of operating expenses has been lower than the growth in revenue. This resulted in a further improvement in Cost to Asset Ratio to 2.08% in 1QFY20 from 2.13% in 4QFY19.
- Axis Bank's ROE target of 18% looks challenging but achievable on the back of a) credit cost normalization, b) increase in the share of high margin business, c) operating leverage. At CMP of ₹~730, the stock is trading at 2.4x/2.1x FY20/FY21E P/B with ROE improving to ~16% in FY21E. With challenges relating to stressed asset behind the focus of the bank is to deliver sustainable ROE of 18% going ahead. We expect the bank to deliver on key fronts like asset quality, growth & margin improvement over FY20E-FY21E.

Particulars	Revenue (₹ mn)	PAT (₹ mn)	P/B (x)	ROE in %
FY20E	325,860	90,490	2.4	11.85
FY21E	388,990	125,100	2.1	15.95

Source: *Bloomberg Estimates*

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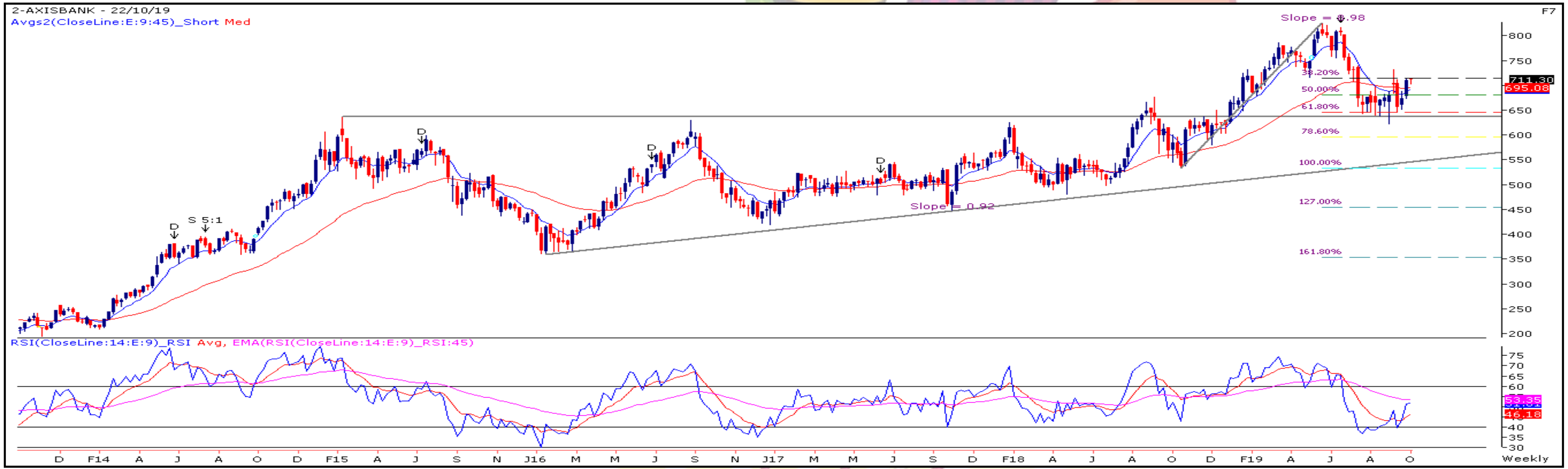
Axis Bank Ltd.

CMP: ₹730/-



AXISBANK Weekly Chart

Source: Falcon 7

Buying Range
710/690

Target:
925

Stop Loss:
595

Looking at the weekly chart, Axis Bank has been in a consolidation phase for nearly four years and formed an 'Ascending Triangle' pattern. On January 11, 2019; stock eventually confirmed its breakout from said triangle pattern. The break of such resistance led to an acceleration of bullish momentum as a result stock rallied and hit an all-time high of ~827. Subsequently, the stock corrected in the past few months in line with its peers. However, selling pressure exhausted near 640 – 620 zone which earlier acted as a strong resistance and post-breakout it reversed its role and provided immediate support (change of polarity rule). Also, the 61.8% Fibonacci retracement of its entire move from the bottom of 534 to the top of 827 comes near 640. The weekly RSI (14) came near 40 levels and signaled 'Bullish Divergence' which indicates that the stock is likely to form its base. **Considering the above technical evidence, we believe that the recent fall was merely a pullback and is likely to resume its uptrend soon. Hence, we advocate traders to accumulate this stock in a range of 710 to 690 with a price target of 925. Stop-loss should be placed at 595 below which our bullish view will be negated.**

CMP: ₹616/-

Finolex Industries Ltd.

- FIL is a pioneer in PVC pipes (370k MT capacity) market in India and it's the third-largest PVC resin manufacturers (272k MT capacity) in the domestic market. Being completely backward integrated ensures a steady supply of PVC resin to pipes division. The company plans to increase capacity by 40,000MT each year in PVC piping and fitting segment to cater to growing demand. It has a strong presence in the western and southern region, which contributes to 70% of total sales.
- Earlier FIL used to import CPVC resin for its CPVC pipes segment. However, in FY17 they tied up with Lubrizol for the supply of CPVC resin and products are sold under the Flowguard brand.
- With the increase in PVC pipes capacity, we are likely to witness higher consumption of in-house PVC resin and would bring lower external sales of PVC resin segment. The company's Agri and non-Agri revenue mix is at 70%:30%. With 850 dealers, 18,000 distributors and warehouses at Delhi, Indore, Cuttack and Pune, the company has an extensive distribution network.
- For PVC pipes, FIL has cash and carry model, while for CPVC pipes it gives credit of 45-60days to the dealers. It has an exclusive dealership base of 850 dealers and the company intends to add 100/150 dealers every year.
- Introduction of GST has positively benefited pipes segment and the price difference between organized and unorganized players has come down. The management expects a healthy demand outlook both on Agri and commercial segments with overall volume growth of 12%-15% in FY20E.
- At CMP of ₹616, the stock trades at an FY20E and FY21E P/E of 17x and 15.9x respectively. We believe FIL's broad outreach in rural segment, strong positioning in domestic PVC pipes market, its timely foray into CPVC segment, arrangement with Lubrizol for CPVC resin availability, extensive distribution network and a strong brand recall strengthen our investment arguments.

	REVENUE (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	P/E (x)	RoE (%)
FY20E	33,954	5,337	15.9	3,509	17.0	13.2
FY21E	36,610	6,089	16.6	4,060	15.9	14.1

Source: *Bloomberg Estimates*

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Finolex Industries Ltd.

CMP: ₹616/-

FINPIPE Monthly Chart

Source: Falcon 7

Buying Range
600-570

Target:
880

Stop Loss:
485

After posting an all-time high of ~729 on October 19, 2017, the stock entered into medium-term downtrend and we saw series of a lower top lower bottom formation on the monthly chart. Subsequently, the stock found support near 430 – 425 zone and the said zone coincided with its previous swing high (marked as a horizontal trend line) which had reversed its role post-breakout and acted as immediate support. The monthly RSI (14) came near its support level of 40 for the first time since March 2012. In line with technical, the change of polarity rule came into play and stock formed a base near 430 – 425 and rebound sharply. As a result, stock confirmed its breakout from 'Downward sloping' trend line drawn from its all-time high of 729 which further confirmed that the stock's primary trend is up. The follow-up buying was witnessed in the recent past and stock climbed till 625. **Combining the above technical parameters with the placement of RSI momentum indicator, we expect stock has further potential to rally from current levels, and therefore we recommend investors to accumulate this stock in a range of 600-570 with an upside price target of 880. Stop-loss should be placed at 485.**

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CMP: ₹703/-

Godrej Consumer Products Ltd. (GCPL)

- Godrej Consumer Products Ltd (GCPL) is a leading FMCG player with presence in three broad-based segments namely Hair Care, Household Insecticides and Personal Wash.
- GCPL's Household insecticide (HI) segment has witnessed weak performance since the last few quarters. However, we believe management's strategy to roll out several new HI products across various formats and sales of Naturals Neem Incense sticks will help to revive HI segment. In soaps segment, GCPL continues to gain volume market share led by brands such as Cinthol & Godrej No 1, we expect both soaps and hair colour segments to improve performance on the back of growing brand power, new competitive products and increasing demand.
- Indonesia's revenue grew 11% in constant currency terms in FY19 recovered from the 6% decline in FY18. Further with GCPL's endeavour to step up on its innovation programme across categories and expanding general trade distribution, will improve its Indonesia business
- GCPL's new product launches in the last 5 years contributes ~20% of global growth and ~35% domestic growth. We believe management's focus on expanding new product basket will further enhance competitiveness, brand equity and improve overall profitability going ahead.
- Company has delivered a muted growth in Q1FY20 due to subdued demand and competitive intensity. However, we believe GCPL is on a strong innovation path and expect new launches along with distribution expansion to drive topline growth and margin expansion. We are optimistic about company's long term performance, driven by rising investments in innovation, cost reduction programs, recovery in Household Insecticide business, growth momentum in hair colour and soaps segments and improved performance in its Indonesia business. GCPL's reputed parentage, strong brand power, healthy balance sheet (FY19 D/E of 0.3x), negative working capital cycle and robust return ratio profile gives us comfort for a preferred investment idea. At CMP of 703, the stock is trading at a P/E of 38.4 FY21E EPS.

Particulars	Sales (₹ mn)	EBITDA(₹ mn)	EBITDA Margins(%)	PAT (₹ mn)	Implied P/E (x)	ROE(%)
FY20E	109,095	23,406	21.5	16,668	43.80	21.9
FY21E	120,498	26,620	22.1	18,975	38.40	22.9

Source: *Way2Wealth Institutional Research*

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CMP: ₹703/-

Godrej Consumer Products Ltd. (GCPL)

Godrejcp Monthly Chart

Source: Falcon 7

Buying Range 700/660

Target: 964

Stop Loss: 550

Looking at the monthly chart, GODREJCP has been in a protracted uptrend almost for a decade and the stock hit a fresh all-time of ~964 on August 2018. Subsequently, the stock witnessed sharp cut and slipped below 600 marks, the however stock found support near its previous swing low of August 2017 (marked as a horizontal trend line). The selling pressure exhausted near its previous swing low and stock formed a bullish 'Morning Star' candle on the monthly chart. The monthly RSI (14) came tad above 40 levels for the first time since November 2008 which indicated that the stock is quite oversold. Historically, the stock found support near its 45-EMA during every correction which was followed by the resumption of an up move. The monthly 9-45 EMA on price is still positive despite its sharp fall from its all-time high of ~964. **Hence, we believe that the recent fall is an opportunity for an investor to accumulate this stock. Therefore, we advocate investor to buy this stock in a range of 700 to 660 with an upside price target of 964. Stop-loss should be placed at 550 below which our view will be negated.**

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CMP: ₹757/-

Grasim Industries Ltd.

- Grasim Industries (flagship company of the Aditya Birla Group) is a diversified conglomerate with presence in four business segments—VSF, cement, chemicals, and textiles. Post the de-merger of its cement business, Grasim holds 60.2% in UltraTech, the largest cement company in India. It also holds 55.99% in Aditya Birla Capital (top mutual fund house in India with AUM of over 250,000 crore).
- Company's plan to increase its presence in VSF and chemical business by increasing capacities by ~38% and ~15% each by H1FY21E would not only help the company to increase its top line but also improve overall profitability (as both these segments possess ~20-30% EBITDA margins).
- We believe Grasim's earning visibility to improve on the back of volume growth visibility, the rising share of value-added products, long term positive outlook on cement on the expected rise in industry utilisation rates and sustained growth for its financial services business.
- We expect company's expansion plan in VSF and chemical segments to help it gain meaningful scale and higher integration in chlorine segment to drive healthy margin for chemicals segment. As a standalone entity company is trading at an inexpensive valuation at P/E of 5.3x and an EV/EBITDA of 3.4x. Therefore, we are POSITIVE on the stock given the improved operational performance and the aggressive expansion plans that are expected to drive overall profitability growth going forward.

Particulars	Sales (₹mn)	EBITDA(₹ mn)	EBITDA Margins(%)	PAT (₹ mn)	Implied P/E (x)
FY20E	823,184	156,992	19.1	49,166	10.0
FY21E	857,875	176,809	20.6	57,510	8.4

Source: *Bloomberg Estimates*

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CMP: ₹757/-

Grasim Industries Ltd.

Grasim Monthly Chart

Sources Falcon 7

Buying Range
730/710

Target:
1075

Stop Loss:
600

After posting an all-time high of 1280 during October 2016, Grasim went into the corrective mode and since then the stock has been trading on a downward note. In the initial days of Oct -2019, the stock price has precisely tested its long term trend line support levels as well as the November 2016 swing low. The stock price reclaiming higher from the long term trend line support followed with huge volume indicates the end of the corrective phase. However, on the other hand, the stock price is still moving within the downward slanting trend line and the resistance of the channel is placed at 890 levels. A convincing breach of that will confirm fresh bull rally in the counter. The momentum indicator RSI (14) is currently at 42 marks and is showing a positive divergence on a monthly basis. Thus looking at the above scenario, we expect the stock price which has almost made its lows, going forward is likely to make a turnaround and head to its immediate channel resistance of 950 - 1075 levels respectively. **Thus we advise the investor to accumulate Grasim in a range of 730 to 710. Stop-loss should be placed at 600 on a daily closing basis.**

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CMP: ₹2116/-

HDFC Ltd.

- HDFC Ltd book size stands at ₹4,166 bn with individual loan book exposure of 74%, construction finance 12%, lease rental discounting 9% and corporate 5%. Its loan book has reported a CAGR of ~16% over last 5 fiscals mainly supported by growth in the individual book segment .
- Considering the tight economic environment, HDFC Ltd has maintained its asset quality with its GNPA increasing marginally to 1.29% as on 1QFY20 vs 1.18% in 1QFY19. Total loans w/off stand at less than 9 bps since inception. This reflects the strong underwriting capabilities of the organization.
- Retail home loan category remains the bright spot as affordable housing is on the priority list of the government.As per recent RBI data, home loans grew by ~16% YoY.HDFC Ltd is better poised to capitalize on this growing demand considering strong liability franchise, positive ALM & enough liquidity to grow. The company has seen slower growth in the riskier segment- construction finance & corporate loans as compared to other NBFC/HFC. This has led to maintaining decent asset quality.
- The company had strong financials and return ratios with ROA of 2.1% and ROE of 14.2% for FY19. Adjusting for subsidiary, core mortgage book trades at ~1.20 P/B for a ~14% ROE at CMP of 2116/- which is the key reason for our optimism on the stock.

	Revenue (₹ mn)	PAT (₹ mn)	P/B (x)	ROE in %	ROA in %
FY20E	179,610	112,610	4.25	13.75%	2.3
FY21E	188,310	121,490	3.9	14.25%	2.15

Source: *Bloomberg Estimates*

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HDFC Ltd.

CMP: ₹2116/-

HDFC Weekly Chart

Source: Falcon 7

Buying Range
2060/2000

Target:
2340/2420

Stop Loss:
1850

Looking at the weekly chart, the stock registered a fresh all-time high of ~2440. Subsequently, stock witnessed a sharp slide in line with the other NBFC's and corrected till 1950. Looking at the weekly chart, the level of 1950 coincided with its previous swing highs (marked as a horizontal trend line) which acted as a strong support (change of polarity rule). Also, if we take a Fibonacci retracement of its entire swing move from the bottom of ~1628 to the top of 2440 then stock precisely retraced 50% of the same. Looking at the weekly line chart, stock confirmed its breakout from falling trend line drawn from its all-time high of ~2340 which eventually confirm the formation of higher top higher bottom formation. Also, the weekly 89-EMA which pegged near 1950. Hence, we believe that the long term structure of HDFC still remains intact. **Hence, we advocate investors to accumulate this stock in a range of 2060 to 2000 with an up side price target of 2340 and 2420 levels respectively. Stop loss should be placed below 1850 on a closing basis.**

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CMP: ₹249/-

ITC Ltd.

- ITC's strategy to pursue multiple drivers of growth across all segments has led to transform from a single product company to a multi-business corporation. The company has sustained its position as one of the fastest-growing branded packaged food business. Aashirvaad, Bingo!, and TedheMedhe has emerged as a strong brand in the country
- ITC has achieved impressive market standing in the FMCG segment in a relatively short period with a robust portfolio of brands. A range of distinctive, customised products, innovation, premiumisation, along with an efficient supply chain and expanding distribution network has led to sustaining its position as one of the fastest-growing FMCG businesses in India. FMCG EBIT increased ~48% YoY in Q1FY20 driven by strong growth in the branded packaged foods business.
- ITC has a strong margin profile with operating profit & PAT margins of 41% & 28% respectively as in FY19. Better product mix and cost rationalization initiatives have led sales and EBITDA to grow at 6% and 9% YoY mainly by Cigarette, FMCG, Agri & paperboard segments'
- **At CMP of ₹249, ITC is currently trading at an FY20E P/E of 20.3**. Leadership position in cigarette category, robust new launches, continued investment in FMCG business and value creation helped deliver superior competitive performance.

Particulars	Sales (₹ mn)	EBITDA (₹ mn)	EBITDA Margins(%)	PAT (₹ mn)	Implied P/E (x)	ROE(%)
FY20E	525,616	201,847	38.4	151,413	20.3	23.6
FY21E	575,829	224,831	39.0	164,668	18.2	24.0

Source: *Bloomberg Estimates*

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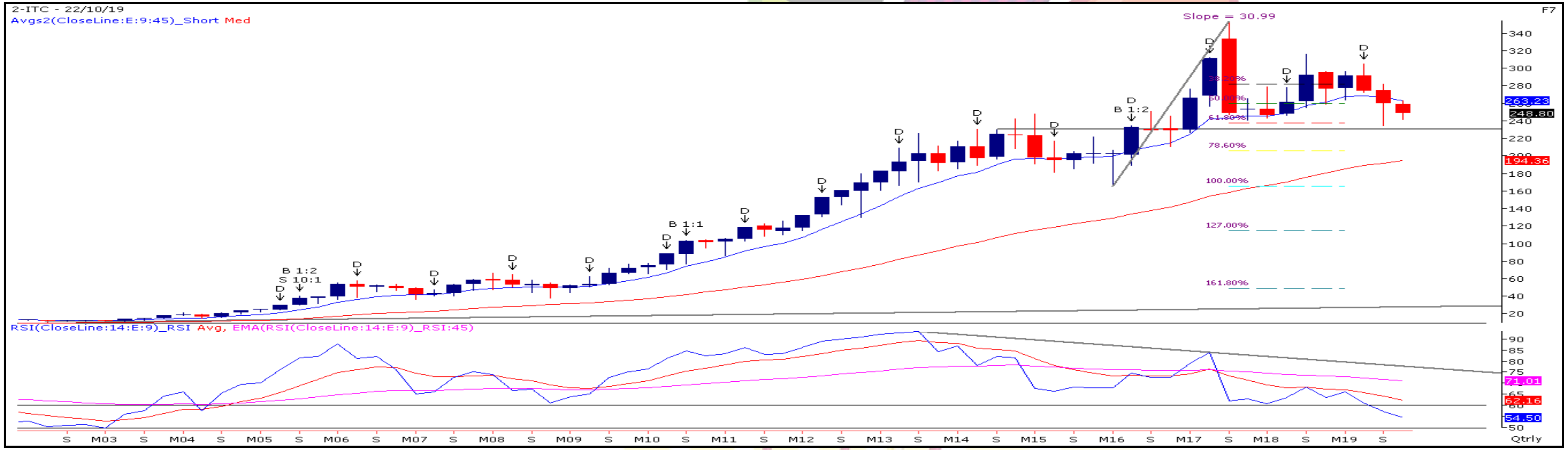
ITC Ltd.

CMP: ₹249/-

Buying Range
240/230

Target:
365

Stop Loss:
190



ITC Quarterly Chart

Source: Falcon 7

Looking at quarterly chart, ITC hit an fresh all-time high of ~354 during September, 2017 from there onwards stock has seen a sharp decline. Subsequently, the stock witnessed broad consolidation of 235 on the down side and 320 on the upside. Recently, the stock is oscillating near its lower band of its trading range. Broadly speaking, the all-time high of ~354 failed to confirm by the RSI (14) momentum indicator which signaled 'Bearish Divergence' pattern. The impact of such development was seen in terms of sharp sell-off during September, 2017 quarter. However, looking at the quarterly chart, the lower band of its recent consolidation precisely coincided with the 61.8% Fibonacci retracement of its entire move from the bottom of ~165 to the top of ~354. Also, the previous resistance of December 2014 and March 2015 had reversed its role post breakout and continued to act as an immediate support. **Considering the above evidences, we believe that the recent underperformance will sooner or later will turn into outperformance.Hence, we recommend investors to buy ITC in a range of 240 to 230 with an upside price target of 365 . Stop loss should be placed below 190.**

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CMP: ₹87/-

L&T Finance Holdings Ltd.

- **Rural**-LTFH is a value buy considering growing rural economy & current government focus towards improving the same. Under the Rural segment, it has MFI, 2-Wheeler & Farm Equipment business. Rural Portfolio has grown at a CAGR of 44% over the last 2 years with asset quality (GNPA) improving from 9.57% in FY17 to 3.46% in FY19.
- LTFH is seeing good traction in home loans growing at 35% YoY in 1QFY20.Its construction finance segment had disbursed loans to 115 projects out of which 109 projects have zero DPD & balance has 30-40 days DPD. This reflects the strong underwriting by LTFH which continuously leverage L&T's knowledge base & its robust framework while lending to the developer which can be reflected from its robust asset quality (Gross NPA>1%, last 12 quarters).
- It continues to see stable disbursement on wholesale segments. It intends to operate only in areas of perceived strength namely renewable, Roads & Power Transmission which has seen moderate growth during the June quarter.
- With continuing focus towards retail segments & business realignment in wholesale segment LTFH is set to deliver 18% loan CAGR over FY19-FY21E. We expect LTFH to deliver 17% ROE over FY19-21E considering the above risk post which it's BV comes to ₹92 per share. At a current market price of ₹87, the stock is trading at ~0.95 times FY21E which looks reasonable in valuation taking in consideration its strong loan growth, healthy asset quality & strong return ratios.

Particulars	Revenue(₹ mn)	PAT(₹ mn)	P/B (x)	ROE in %	ROA in %
FY20E	73,604	23,980	1.1	17.1	2.2
FY21E	83,797	27,880	0.95	17.2	2.35

Source: *Bloomberg Estimates*

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CMP: ₹87/-

L&T Finance Holdings Ltd.

L&TFH Monthly Bar Chart

Source: Falcon 7

Buying Range
85/80

Target:
123

Stop Loss:
60

Looking at the monthly chart, L&TFH has seen sharp run-up in the year 2017 and hit a fresh all-time high of ~211 during October, 2017. Subsequently,the stock entered into a bear phase and formed lower top lower bottom formation on monthly chart. Of late,the stock hit a fresh 52-week low of 78.60. If we meticulously look at the monthly chart, stock made a high of ~84 on a closing basis during December, 2012 and post breakout during August, 2016 the said level had reversed its role and likely to act as an immediate support (change of polarity rule). Also, the monthly swing low of around of December; 2016 placed at ~79. Hence, we believe that selling pressure likely to exhaust near these support zone. Also, if we take the retracement of its entire rally from the bottom of ~50 to the top of ~199 then the level of 80 precisely comes near the 78.6% Fibonacci retracement. **Keeping the change of polarity rule in mind, we expect stock likely to find support near 80 level and should see decent traction in the coming months. Hence, we advise investors to use such opportunity to buy this counter with an upside price target of 123. Stop loss should be placed at 60 below which our bullish view will be negated.**

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Tata Consultancy Ltd. (TCS)

CMP: ₹2050/-

- TCS is the leading IT company that has consistently delivered growth with best-in-class margins. , TCS is proactive in new markets, such as Latin America and SMB (small and medium-size businesses) that drive revenue growth. TCS's business model and the weakness of its peers have allowed it to gain market share over the last few years.TCS has always focused on adding new clients to reduce the dependency of old clients. In the last 9 quarters, the company has added 10 new large clients with >$ 100mn bucketu
- Digital demand to continue spur growth for TCS: Digital contribution stands ~30-33% of total revenue for TCS. Digital growth for the last 14 quarters has been exceptional even with a high base. We believe Digital programs will continue getting larger and gather momentum greater than expected.
- The company has unmatched full-service positioning, with a specific focus on "bread-and-butter" service lines, such as ADM, testing and infrastructure management, which constitute more than 70% of total IT Services spending. Despite the soft start to FY20, we believe TCS may still post double-digit revenue growth in FY20 provided 2HFY20 holds up.
- At the CMP of 2050,TCS trades at P/E multiple of 23.2x versus 5-year trend stands at 20x. Although it looks expensive with its historical trend, we believe the premium is justified considering future earnings potential and healthy balance sheet.

Particulars	Sales (₹ mn)	EBITDA(₹ mn)	EBITDA Margins(%)	PAT (₹ mn)	Implied P/E (x)
FY20E	1,573,532	418,934	26.6	328,490	23.2
FY21E	1,720,802	462,903	26.9	360,049	21.2

Source: *Bloomberg Estimates*

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Tata Consultancy Ltd. (TCS)

CMP: ₹2050/-

TCS Weekly Chart

Source: Falcon 7

Buying Range
1970/1900

Target:
2420

Stop Loss:
1700

Looking at the weekly chart, TCS was an consistent outperformer in past and in that optimism stock registered an all-time high during early September, 2019 by posting a high of ~2245. However, such rally failed to confirmed by RSI (14) which signaled bearish divergence pattern and such formation was visible on weekly, monthly as well as on quarterly chart. The impact of such development seen in past few weeks as stock corrected from its all-time high of ~2245 and hit a low of ~1882. Post this correction, the weekly RSI (14) came near the support level of 40 whereas we are seeing bullish reversal pattern on monthly as well as quarterly chart. Looking at the weekly chart, the recent low of ~1882 coincided with the 61.8% retracement of its entire swing move from the bottom of ~1723 to the top of ~2245. **Looking at the above technical parameters the long term structure remains intact, hence we advocate investor to use the recent fall as an opportunity to enter long position with an upside price target of 2420. Stop loss should be placed at 1700 below which stock might see serious correction.**

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CMP: ₹452/-

TVS Motor Co. Ltd.

- TVS has had a good run in the exports markets in 1HFY20 as they entered new markets. Export volumes were up 8% YoY in 1HFY20 and management expects that the momentum would carry on for the rest of the year. The company's EV products are getting tested and will be launched in 2HFY20.
- New Products likely to be the volume driver- The company had launched new Apache RTR 200 smart Xonnect, Ntorq, Jupiter Grande and RR310 in last 6 months. Response for all the new products has been good and the management plans to capitalise on improving brand image backed by the success of these new products. TVSL hiked prices by 0.4% in 4QFY19. Post that, due to the tough demand environment, it hiked prices by just 0.1% in Q1FY20 and 0.3% in Q2FY20.
- The company has indicated demand weakness across markets, though the sentiment has started improving sequentially. As per the management, it is likely to take at least 3-4 quarters for the two-wheeler industry to record YoY volume growth. It expects volume to decline for 2W industry in 2HFY20 due to ongoing slowdown and BS-VI transition led inventory de-stocking to complete by Feb 20. The company has started BS6 production and billings will start from Nov'19.
- As per the management there are no liquidity issues and financing availability was not challenging even 6 months back. All the organized retail financing players operating in the market are available for financing to TVS' customers. Finance penetration stood at 46-47% for the industry and for TVS
- At CMP of ₹452, the stock trades at a FY20E and FY21E P/E of 26.9x and 23.8x respectively. In the current slowdown the management's current costs saving efforts are fructifying and hence we expect margin expansion in FY20E and FY21E along with reduced corporate tax rate is likely to result in improved PAT in next 2-3 years as the benefits of reduced tax will be invested for value added/new products or to increase value proposition for customers, as management does not believe that discounts are the only way to pass the benefit to customers.

	Revenue (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	P/E (x)	RoE (%)
FY20E	214,107	23,393	10.9	8,442	26.9	21.5
FY21E	237,434	26,217	11.3	10,060	23.8	21.8

Source: *Bloomberg Estimates*

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TVS Motor Co. Ltd.

CMP: ₹452/-

Buying Range
445/425

Target:
565/610

Stop Loss:
335

TVS Motors Monthly Chart

Source: Falcon 7

After making new life time high of 787 mark in December 2017,stock price turned into a corrective note and started its medium term down trend. This move prolonged till the July 2019 by retracing exactly 78.6% for the previous rally started from 195 – 787 levels. The corrective move has ended precisely near the break out swing high support levels. Since, last month stock price is slowly recovering from the support levels followed with huge volumes. Last week stock price confirmed its breakout from broad consolidation and formed higher top higher bottom formation on weekly chart. The momentum indicators RSI (14) and stochastic which slipped into oversold zone have made fresh positive cross over signifying strong positive move. Also, we are seeing bullish 'Morning Star; candle on monthly chart and said candle precisely occurred near its previous monthly swing low. The impact of such development seen in past few trading session. On a quarterly chart, the last quarter candle formed 'Bullish hammer' pattern and price crossed the pattern high of 444. Considering the above evidences, we believe that stock has formed its bottom and any correction in this stock should be used as an opportunity to enter long position. **Hence, we advocate investors to accumulate this stock in a range of 445 to 425 with an up side price target of 565 and 610 levels respectively. Stop loss should below 335.**

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Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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