Diwali Picks 2018

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Research Desk

HAPPY
Diwali
FESTIVAL OF LIGHTS

Index

Diwali Picks 2018

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

Maruti Suzuki India Ltd.

CMP: ₹7,137/-

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- MSIL could emerge as the biggest beneficiary of demand recovery, considering its stronghold in the entry-level segment and a favorable product lifecycle, though MSIL will see a full impact of headwinds of both volumes and margin pressures over the next couple of quarters. MSIL's new launches are targeted towards filing white spaces in its portfolio which would eventually improve the overall product mix.
- While the full impact of higher fuel prices, insurance cost, and interest rates would be visible in H2FY19, profitability may remain muted over the next 2 quarters owing to higher discounts, adverse impact of foreign exchange and higher steel prices. However, MSIL's performance would return to growth path in FY20 owing to normalization of demand, continued mix improvement, lower foreign exchange exposure due to shift in royalty payment to INR and import substitution, increased localization at Gujarat plant and operating leverage.
- The contract manufacturing arrangement with Suzuki Motor Corporation at its Gujarat plant will make MSIL's business asset light, allowing management to focus more on marketing. Further, the company has also entered into a partnership with Toyota wherein it will allow MSIL to access Toyota's EV technology and be future ready. Suzuki will provide access to low-cost manufacturing base by supplying popular models such as Baleno and Brezza.
- At CMP of ₹7,137, MSIL is currently trading at an FY20E P/E of 19.1. All business parameters such as industry consolidation, market share improvement, reduced JPY exposure and improving the share of premium products have improved MSIL's position immensely. We see headroom for re-rating of the stock from current levels.

₹ mn	Revenue	EBITDA Margin	PAT	P/E	ROE (%)
FY19E	902,818	14%	91,577	23.33	20.31
FY20E	1,032,944	14%	107,235	19.13	20.64

Source: Bloomberg Estimates

Maruti Suzuki India Ltd.

CMP: ₹7,137/-

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Maruti Monthly Chart

Source: Falcon 7

After confirming the breakdown from 'Double Top' pattern on a monthly chart, stock nosedived sharply in past few months and hit a low of 6500. Subsequently, the bears made several attempt to breach 6500 mark however it saw consistent buying interest which eventually drive the strong higher. Looking at the monthly chart, the level of 6500 coincided with the multiple supports first, the 50% retracement of its entire move from the bottom of ~3111 to the top of ~9909 comes near 6500. The July, 2017 month candle which coincides with the weekly swing low acted as a strong support. Also, if we meticulously look at the monthly chart, the beginning of May, 2017 was a gap up which was not filled till today hence the gap area support also indicate that 6500 level was a crucial support. On a monthly chart, the RSI (14) signals a Positive Reversal pattern which is a bullish indication. **Hence, we recommend investors to start accumulating this stock in a range of 6900 to 6600 with an upside price target of 8400 & 8900. Stop loss should be placed at 5750.**

Buying Range
6900 / 6600

Target:
8400 /8900

Stop Loss:
5750

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ICICI Bank Ltd.

CMP: ₹354/-

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- ICICI Bank is the country's largest private sector bank by consolidated assets. The bank has continued to improve the portfolio mix towards retail and higher rated corporate loans in the last few years as the retail segment would remain the key driver of growth, with segments like business banking, credit cards and personal loans growing at a higher pace off a lower base, while home loans would continue to be the largest part of the portfolio.
- **Continued improvement in core operating parameters –** ICICI Bank reported NIM of 3.33% for Q2FY19, an expansion of 14bps compared to Q1FY19. Core fee income showed a steady growth of 9% on a QoQ basis, rising from ₹27.54bn to ₹29.95bn in Q2FY19. The core operating profit (profit before provisions and taxes) grew by 5% QoQ to ₹52.8bn in Q2FY19. The Bank's CASA ratio stood at 50.8% in Q2FY19 as against 50.5% in Q1FY19 and 49.5% in Q2FY18, an improvement of 30bps and 130bps respectively.
- **Steady Loan growth –** Overall loan growth stood at 5% on a QoQ basis to 5.4t as at Q2FY19 led by continued traction in retail loans. Domestic loans grew 16% YoY, while international loans were down 3.9% YoY. The proportion of international loan in overall loans stood at 12.7%, down 220bps on a YoY basis. Retail loans rose by 21% YoY and stood at ₹3.1t as at Q2FY19, whereas Corporate Loans grew 5% YoY and stood at ₹1.3t as at Q2FY19. Within Retail Loans, Housing Loans grew 16% to ₹1.6t, personal loans grew 51% to ₹250bn, credit cards grew 28% to ₹106bn and other loans grew 21% to ₹1.1t as at Q2FY19.
- **Decline in Net Stressed Loans –** ICICI Bank's total slippages during Q2FY19 stood at ₹31.17bn of which slippages from retail stood at ₹7.6bn while the impact of currency depreciation on existing foreign currency NPAs stood at ₹13.04bn. Absolute GNPA increased 1.9% QoQ to ₹544.9bn at 8.54% of customer assets while NNPA declined 8.6% QoQ to ₹220.8bn at 3.65% of customer assets. Calculated PCR improved 467bps QoQ to 59.5%.
- At CMP of ₹354, ICICI Bank trades at a FY19E and FY20E P/B of 2.12 and 1.91 respectively. ICICI Bank is in the midst of an improvement in the operating environment (stressed asset resolution and growth pick up) and is showing healthy signs of earnings normalization. With challenges relating to the management transition getting addressed the focus of the banks is now to grow core operating profits. We expect the bank to deliver an all-around improvement in asset quality, growth, and margins over the next few years.

(₹mn)	Revenue	PAT	P/B (x)	RoE (%)	RoA(%)
FY19E	412,561	62,202	2.12	5.97	0.781
FY20E	475,942	144,215	1.91	12.43	1.517

Source: Bloomberg Estimates

Index

ICICI Bank Ltd.

CMP: ₹354/-

ICICIBANK Weekly Chart

Source: Falcon 7

Looking at the weekly chart, stock has seen steady rise after hitting a low of ~159. Subsequently, the bullish momentum intensified and stock eventually broke its previous high of 341 during the mid January, 2018 and hit a fresh all-time high of 364. Subsequently, stock saw decent correction and descend towards its strong support near 255 – 250 zone. Once again the momentum resumed its uptrend and in fact outperformed the Nifty Bank index. Looking at the overall structure, we are seeing a formation of 'Bullish Cup & Handle' pattern which got confirmed with a gap during last week. The said pattern is a continuation pattern and previous trend of the stock was up. The weekly RSI (14) also confirmed its breakout and convincingly entered above 60 levels. The target of said pattern can be evaluated by measuring the height of the cup which comes near 440. **Hence, we advocate investor to start accumulating this stock in a range of 350 to 335 with a price target of 440. Stop loss should be placed below 290.**

Buying Range
350 - 335

Target:
440

Stop Loss:
290

Index

CMP: ₹2,422/-

Dr. Reddy's Laboratories Ltd.

- Dr Reddy's has 110 generic filings pending approval from the USFDA comprising 107 ANDAs and three New Drug Applications (NDAs). Of these 107 ANDAs, 63 are Para IV applications — out of which around 30 have 'First to File' status. The company has managed to create a pipeline of first-to-market products which would help them to be in the first wave of generics and generate significant value in the long-term.
- **Proprietary products to aid long- term growth:** This segment focuses on the research and development of New Chemical Entities ("NCEs"). These segments mainly focus on the dermatology and neurology therapeutic areas and the products are marketed and sold through Promius ® Pharma, LLC. We further expect this segment to contribute more revenues in the USA market from FY21 and the upcoming PDUFA date (Jan-19) of DFN-02 will be closely watched as the management has guided to launch the product in 1Q FY20.
- **Near term launches:** Copaxone, NuvaRing, DFN-02 and Suboxone's outcome by the court will be the key near-term launches by Dr. Reddy's. NuvaRing is under fast-track approval and the regulator has granted priority review status for this application. We expect revenue to flow in from high-value complex products like NuvaRing from H1CY19 and Copaxone from H2CY19. Beyond these products, management expects another 10-15 launches in H2FY19.
- **Regulatory hurdle:-** Dr. Reddy's two plants Duvvada and Srikakulam are still under warning letter and approvals of generic versions of Aloxi, Alimta, Faslodex, Gleevec and Jevtana are filed from these facilities. Clearance of these facilities might not take place in FY19 and this could be an overhang on the company upto a certain extent only, as key approvals like Copaxone and NuvaRing are not filed from these facilities.
- **Valuation –** At the current market price of ₹2,422 ,Dr Reddy trades at a PE of ~25x FY19E and ~19xFY20E respectively. We expect key large complex drug ANDA approval/launch in the US ,benefit from portfolio rationalization and news flow on facility inspection to be key triggers for the company. Risks to our investment idea includes any regulatory issues , delays in product launches in the US, and adverse foreign exchange fluctuations.

(₹ mn)	Sales	EBITDA margin (%)	PAT	P/E (x)	RoE (%)
FY19E	155,925	20%	16,283	24.95	12.03
FY20E	177,989	22%	21,497	18.87	14.39

Source: Bloomberg Estimates

CMP: ₹2,422/-

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Dr. Reddy's Laboratories Ltd.

DRREDDY Weekly Chart

Source: Falcon 7

Looking at the weekly chart, stock has been in a protracted down trend since late November 2015 and formed a Lower Top Lower Bottom formation. Subsequently, the selling pressure exhausted near 1900 which was followed by a broad consolidation. The level of 1900 acted as a strong support as this level precisely coincided with the 61.8% retracement of its dream move from the bottom of ~327 (March, 2009) to the top of ~4293 (October, 2015). With this, stock is also forming 'Bullish Divergence' on weekly chart. Due to broad consolidation, stock formed a 'Descending Triangle pattern'. The weekly 9-45 EMA on price signaled 'Positive Crossover' for the first time since early August, 2016. **Hence, we believe that stock has potential to rally higher and advocate investor to buy this counter in a range of 2400 to 2350 with an up side target of 3200. Stop loss should be placed below 2000.**

Buying Range

2400 -2350

Target:

3200

Stop Loss:

2000

Index

CMP: ₹715/-

Godrej Consumer Products Ltd. (GCPL)

- Godrej Consumer Products is a leading FMCG player in emerging markets and part of 120-year young Godrej Group. It has successfully created a proud legacy built on strong values of trust, integrity, and respect for all stakeholders. The company's operations can be categorized into three broad-based segments namely Hair Care (32% of FY18 sales), Household Insecticides (26% of FY18 sales) and Personal Wash (18% FY18 sales). GCPL follows a 3x3 approach to international expansion- building a presence in 3 emerging markets (Asia, Africa, and Latin America) across 3 categories with cumulative top line contribution of ~40% as of FY18. The company has consistently invested, developed and launched successful brands like Good Knight, Godrej Expert, Hit, Cinthol, Aer, Nupur, Ezee etc. across product segments to gain market share over competitors.
- In the past year, GCPL made several new launches in the domestic and international business which are expected to bear fruit in the coming years and further enhance their competitiveness, brand equity and drive revenue growth going forward. New products launched in the last 5 years account for 20% for global growth and 35% of India growth. Innovation agenda for the year ahead looks promising, both in India and the international market. The company has entered new categories like air purifiers and Handwash along with salon segment with Godrej Professional hair color. FY19 will be the most active year in terms of new launches as the company is expecting 3-4 new launches in the next few months.
- GPCL is on a firm footing going forward given the 1) resurgence of domestic FMCG demand with rural demand expected to outpace urban demand 2) improved management focus on growing the international business portfolio while improving EBITDA margins to mid-teens over the next 3 years 3) series of new launches led by innovation envisaged over the FY18-20E period to result in robust market share gains ultimately driving top line growth. Apart from a reputed parentage, strong brands and a legacy of market outperformance over the last decade, GPCL has a strong balance sheet (FY18 D/E of 0.4x), healthy dividend payout policy, negative working capital cycle, and a robust 25%+ core return ratio profile. Based on Bloomberg consensus estimate, GPCL is expected to deliver sales, EBITDA and PAT CAGR of 13.0%, 16.7%, and 18.8% respectively over FY18-20E. At CMP, of ₹715/- the stock is trading at a P/E of 36.2x FY20E EPS.

(₹ mn)	Sales	EBITDA margin (%)	PAT	P/E (x)	RoE (%)
FY19E	110,649	22%	17,585	42.27	25.86
FY20E	124,827	23%	20,519	36.19	26.22

Source: Bloomberg Estimates

Index

CMP: ₹715/-

Godrej Consumer Products Ltd. (GCPL)

GODREJCP Weekly Log Chart

Source: Falcon 7

Looking at the weekly chart, stock is one of the biggest wealth creator in FMCG space and rose multifold in past one decade. In that optimism stock hit a fresh all-time high of ~ 979. Subsequently, stock took a sharp U-turn and saw vertical slide in past few months. As a result, stock lost more than 27% from its highs. During last month, the selling pressure exhausted and stock stabilized near 700 levels. Looking at the weekly chart, the level of 700 coincided with the previous resistance zone (pls. find the horizontal trend line). Also, the weekly 89-EMA comes near 700 which acted as a sheet anchor. October month candle resembles a formation of 'Bullish Hammer' pattern which got confirmed during November month. The monthly RSI (14) came near 40 level for the first time since March, 2014. **Considering the above technical parameters on higher degree chart, we believe that the recent correction is a good opportunity to enter this counter, therefore investors are adviced to buy this stock in a range of 685 – 650 with a price target of 860/915. Stop loss should be placed below 560.**

Buying Range
685 / 650

Target:
860/915

Stop Loss:
560

Hexaware Technologies Ltd.

CMP: ₹312/-

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- After successfully scaling its 'Shrink It. Grow Digital' philosophy in the past the company has coined a new strategy on three cornerstones of 'Automate everything, Cloudify everything and Transform customer experience' in order to stay ahead of the ever evolving global digital landscape and maximise stakeholder value.
- Over the last decade, Hexaware has achieved a top line and bottom line CAGR of ~15% and ~18% respectively which highlights the ability of the company to adopt latest technology and enhance customer value through unique propositions. This transformational attitude has helped scale the company into a formidable mid sized IT company with impressive return ratios of 25%+, consistent dividend payouts to the tune of ~40% and a healthy EBITDA margin profile of ~16% over the last 5 years.
- According to consensus Bloomberg estimates the company is well positioned to continue on its double digit growth path with sales, EBITDA and PAT to grow at a CAGR of 16.2%, 15.6% and 15.6% respectively over CY17-19E. Management commentary suggests, that Europe business will continue to maintain a healthy growth trajectory while APAC is expected to contribute positively from Q4CY18 onwards. The RIMS portfolio that contribute ~12% of overall revenues will continue to lead the growth over CY17-19E (achieved ~46% CAGR over last 8 quarters) However, the stricter visa norms in the US continue to put pressure on margins over the short term. Post the sharp correction recently, the stock is trading at 12.5x CY20E EPS which is at a discount to its peers.

	Sales	EBITDA margin (%)	PAT	P/E (x)	RoE (%)
CY19E	53228	16%	6679	13.86	26.64
CY20E	58960	17%	7480	12.52	26.28

Source: Bloomberg Estimates

Hexaware Technologies Ltd.

CMP: ₹312/-

Hexaware Weekly Chart

Source: Falcon 7

Looking at the weekly chart, Hexaware has been one of the outperforming counter in mid-cap IT space and maintained its uptrend for nearly two years. In that optimism, stock hit a record high of ~551 during mid July, 2016. Subsequently, it saw decent amount of profit taking in past few months and as a result hit a low of 306. Looking at the weekly chart, the previous swing high of April 17, 2015 which was acting as a strong hurdle had reversed its role post breakout (change of polarity rule) and it should act as a strong support. Also, stock has precisely retraced 61.8% of its entire move from the bottom of ~171 to the top of ~551. Looking at the recent weekly candle, we are seeing a formation of 'Doji' candle which resembles indecision at this juncture. Also, the swing weekly lows of December 22, 2017 & February 09, 2018 should act as a strong support zone. **Combining the above technical evidences on higher degree chart, we believe that the intermediate down trend is on the verge of completion and stock will resume its uptrend soon, therefore we advise investors to start accumulating this stock. At current levels or at any dip.**

Buying Range
320 / 305

Target:
420 / 460

Stop Loss:
248

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CMP: ₹845/-

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Grasim Industries Limited

- Grasim is one of India's largest business conglomerates and the flagship of the prestigious Aditya Birla Group. Post the merger with Aditya Birla Nuvo in June 2017, Grasim holds a majority stake of 60.21% in Ultratech Cement (India's largest cement producer with an annual capacity of over 90 million tonne) & 55.99% in Aditya Birla Capital (3rd largest mutual fund house in India with an AUM of over 250,000 Cr).
- Grasim has strategically integrated across the value chain from fibre to fashion, thereby offering the company an extremely stable business model. As of 2018, the VSF and Caustic Soda capacity at Grasim stood at 542,000 tonnes (MT) (post-de-bottlenecking in Q1FY19) and 1,140,000 MT respectively.
- Grasim has envisaged an aggressive ₹7540 Cr capex plan to be executed over the FY18-21 period at its standalone level. The company is on track to augment its caustic soda (expected to commission by Q3FY20) and specialty chemicals capacity further by 14.9% to take the overall capacity to 1,310,000 MT and has earmarked ~₹1310 Cr for the same. Grasim has also announced a 44% increase in VSF capacity from 546,000 MT to 788,000 MT at a capex of ~₹4250 Cr. The brownfield expansion at Vilayat is progressing well with equipment ordering already completed. Therefore, the aggressive expansion plan will drive volume led growth going forward and juice up its profitability.
- At the current market cap of ₹55,780 Cr, the implied cumulative value of Grasim's long-term holdings in Ultratech Cement (UTCL), Aditya Birla Capital (ABCL) (45% holding company discount) and other group investments (50% holding company discount) stood at ₹43,518 Cr. As a result, the standalone entity is trading at inexpensive valuations on a TTM basis at a P/E of 5.4x and an EV/EBITDA of 3.1x. Therefore, we are POSITIVE on the stock given the improved operational performance and the aggressive expansion plans that are expected to drive robust and sustainable profitability growth going forward.

Particulars	Sales (₹ Cr)	EBITDA (₹ Cr)	EBITDA margin (%)	PAT (₹ Cr)	Implied P/E (x)	RoE (%)
FY18	15,789	2,808	17.8	1,769	6.8	5.8
FY19E	27,375	6,614	24.2	2,867	3.9	7.4
FY20E	30,425	7,532	24.8	3,375	3.3	8.1

Source: Bloomberg Estimates

Index

Grasim Industries Limited

CMP: ₹845/-

Grasim Monthly Chart

Source: Falcon 7

Looking at the weekly chart, Grasim has been correcting since the beginning of November, 2017 & lost nearly 1/3 from its all time high of ~1293. In the current pessimism, stock hit a low of 756 during late October; 2018. In line with our expectations, stock saw support based buying interest which drive stock higher. Looking at the monthly chart on a closing basis, July, 2016 high (771) & October, 2016 high (768) which was earlier acting as a strong hurdle had reversed its role post breakout and stock reversed after testing the said zone. Also, stock retraced 78.6% of its entire move from the bottom of 619 (November 25, 2016) to the top of 1293 (November 03, 2017). Last week of October month candlestick pattern resembles a formation of 'Bullish Harami'. The monthly RSI (14) came near the 40 levels which is a bullish support line in an up trend. The monthly Higher Top Higher Bottom formation in intact. **Considering the above technical evidences, we believe that the downside in this stock is limited and investors can use this dip as an opportunity to accumulate this stock.**

Buying Range:
830 / 790

Target:
1000/1080

Stop Loss:
680

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Escorts Ltd.

- The Escorts group is an Indian engineering company that operates in the sectors of agri-machinery, construction, and material handling equipment and railway equipment. The company manufactures tractors under the brand name of Powertrac, Farmtrac, and Steeltrac. The construction equipment division manufactures and markets construction and material handling equipment like the pick and carry cranes, backhoe loader, vibratory rollers, and forklifts. Railway Equipment Division manufactures and supplies critical railway components such as air brake system, EP brake system, draft gears and couplers, composition brake blocks, dampers and rubber components to Indian Railways.
- Escorts has successfully turned around in the past 2-3 years by focusing on new products to stabilize market share, cost reduction efforts to improve tractor margins and shedding unprofitable ventures. It is now focusing on the second phase of its turnaround where it seeks to extend both its brands- premium Farmtrac (towards lower HP) and mass Powertrac (towards higher HP). It is also aggressively expanding its distribution network by focusing on taking Powertrac deeper in its opportunity markets.
- Escorts is present in the construction equipment business through 3 sub-segments namely backhoe loaders, pick and carry cranes and compactors. It plans to strengthen its earth-moving portfolio after having entered into an exclusive distribution agreement with South Korea's Doosan Infracore Co. Ltd. by developing differentiated products for foreign geographies, an enhanced after-sales focus for optimizing product life cycle and improving product mix to improve contribution. Following the exclusive distribution agreement, Escorts now caters to more than 80% of the industry in value terms from 40% of the revenue potential previously.
- The Railway Equipment Division is engaged in the design, manufacture, supply, installation, and service of a wide range of products like brake systems, couplers, suspension systems, and rubber and friction products. Escorts has been continuously growing its order book since FY17. Currently, the order book stands in excess of ₹3bn which the company plans to execute over the next 12-13 months.
- Escorts earnings growth of 23% over FY18-20E would be largely driven by 11% volume CAGR in its tractor business over FY18-20E and steady EBITDA margin expansion of 100bps over the next 2 years. With surplus capacities across segments, Escorts has limited capex needs leading to strong FCF generation and healthy return ratios over the next 2 years. At CMP of ₹676, Escorts is currently trading at an FY20E PE and EV/EBITDA of 11.5 (adjusted for treasury stock) and 9.7 respectively.

₹mn	Revenue	EBITDA Margin	PAT	PAT growth (%)	P/E	ROE (%)	ROCE (%)
FY19E	56,658	11.8%	4,401	27.0	13.6	18.2%	24.0%
FY20E	61,669	12.9%	5,240	19.1	11.5	18.3%	24.4%

Source: Way2Wealth Institutional Research

Escorts Ltd.

CMP: ₹676/-

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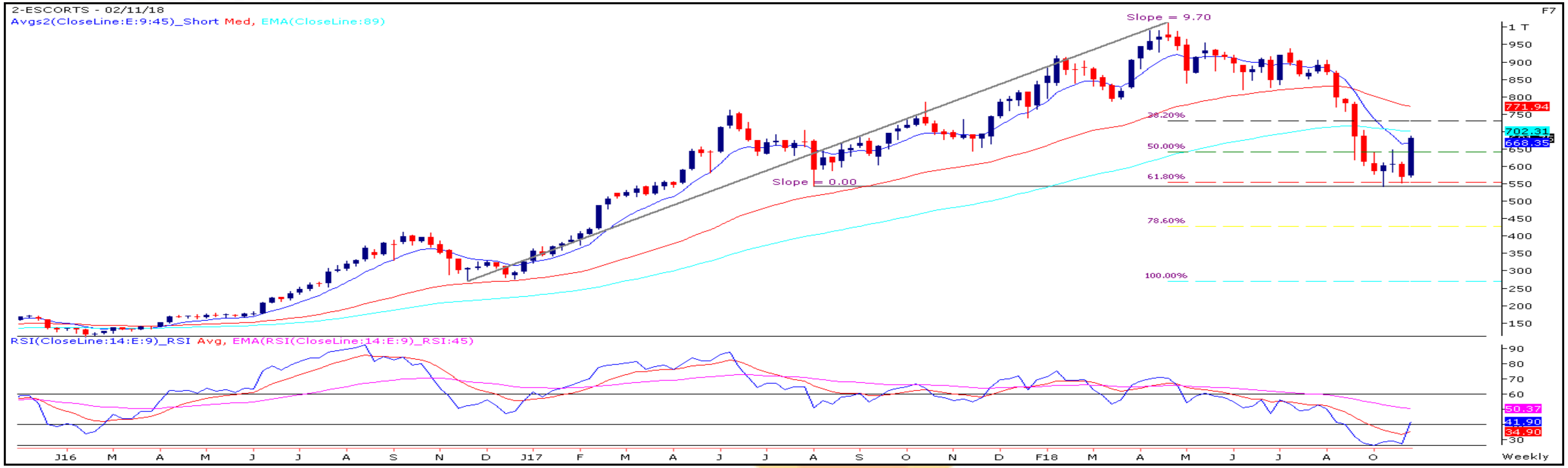

Escorts Weekly Chart

Source: Falcon 7

Looking at the weekly chart, stock has formed a 'Head & Shoulder' pattern on the top of the chart which got confirmed during the early September, 2018. In line with the expectations, stock saw follow-up selling and hit a fresh 52-week low of ~541. Subsequently, the stock took sharp U-turn and rallied towards 700. Looking at the weekly chart, the level of 541 precisely coincided with the 61.8% retracement of its entire move from the bottom of ~269 (weekly candle low of November 25, 2016) to the top of ~1015 (weekly candle high of May 04, 2018). Also, the weekly swing low of August 11, 2017 (~541) precisely acted a strong support. On a short term chart, stock formed a 'Double Bottom' pattern which got confirmed during last week. **Looking at the above technical parameters, we recommend investors to buy this stock in a range of 650 to 620 with an upside price target of 850. Stop loss should be placed at 515.**

Buying Range
650 - 620

Target:
850

Stop Loss:
515

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Bata India Ltd.

CMP: ₹1,008/-

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- Bata India is the country's largest manufacturer & retailer of footwear and well known for its quality and comfort. It has 4 strategically located manufacturing units with a combined capacity to manufacture 21 million footwear pairs per annum along with an extremely strong distribution reach with over 1375 stores spread across the country (47 million footwear pairs sold in FY18). Bata is home to the latest footwear & accessories trends and game-changing designs for men, women, and children across the entire age and income spectrum.
- In FY18, the company added ~130 new stores (100 owned and 30 franchisees) and plans to add another ~150 stores in FY19E (100 owned and 50 franchises) at an envisaged capex outlay of ~₹100 Cr that will be fully funded through internal accruals. The additions through the franchisee route are in the fast emerging Tier 1 and Tier 2 cities as identified by the company which would entail stronger brand market share at lower capex spend. Bata is committed to gain market share in the sports, women and youth categories by leveraging its premium brands such as 'Power', 'Red Label Collection' and 'Bubblegummers' in order to improve its EBITDA margins to ~16% range by FY20E from its historical 12-13% range. The company will continue to invest heavily in brand building and advertisements (₹40 Cr in FY18) in order to enhance footfalls across its retail network and spur overall revenue growth.
- Going forward, Bata is firmly placed to strike a fine balance between volume growth and margin expansion given its large retail network, series of new launches, established premium brands and increased advertisement spends. Furthermore, the recent increase in threshold limit from ₹500 to ₹1000 for levying 5% GST rate augurs well for Bata given its current blended realization of ~₹560/pair. All these initiatives taken by the company would help them deliver sales, EBITDA and PAT CAGR of 11%, 18.7%, and 20.8% respectively over FY18-20E. The company apart from its debt-free status has an extremely efficient business model with a negative working capital cycle of ~40 days and with the premiumization strategy unfolding we expect its RoCE to stay elevated above 20% levels. At the CMP of ₹1,008, Bata trades at ~39x FY20E EPS but given the robust growth prospects, strong parentage and excellent brand recall the company can continue to command premium valuation as it has in the past.

₹ mn	Sales	EBITDA margin (%)	PAT	P/E (x)	RoE (%)
FY19E	28,822	15%	2,766	46.82	18.00
FY20E	32,447	15%	3,270	39.25	18.75

Source: Bloomberg Estimates

Index

CMP: ₹1,008/-

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Bata India Ltd.

Bata India Weekly Chart **Sources Falcon 7**

After posting an all-time high of ~1116 during the late August, 2018; stock took sharp U-turn and nosedived. However, the fall got arrested near 830 as this level coincided with the multiple support zone. First, the previous resistance of early November, 2017 (please find the horizontal trend line) had revered its role post breakout and acted as a strong support zone (change of polarity rule). The 61.8% Fibonacci retracement of its entire move from the bottom of 650 to the top of 1116 comes near 830. Also, the weekly 45-EMA is placed near 830. On a monthly chart, the October month candle formed a 'Dragonfly Doji' candle. The weekly as well as the monthly 'Higher Top Higher Bottom' formation is intact. In line with expectations, stock saw decent rally in past few weeks and resumed its uptrend. Hence, **we advise investor to accumulate this stock in a range of 950 – 900 with a price target of 1120 and in case of further optimism stock likely to rally till 1200. Stop loss should be placed below 800 and any break below 800 will negate our bullish view.**

Buying Range:
950 / 900

Target:
1120 / 1200

Stop Loss:
800

Index

Federal Bank

CMP: ₹82/-

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- **Strong show on core operating parameters -** Federal Bank reported a steady NIM in Q2FY19 which stood at 3.2% as compared to 3.1% in Q1FY19 and 3.3% in Q2FY18. Net interest income grew by 4% QoQ to ₹10.2bn in Q2FY19. Core Operating profits grew by 17% QoQ and 27% YoY to ₹6.4bn in Q2FY19 compared to ₹5.5bn in Q1FY19 and ₹5.0bn in Q2FY18. The Bank's CASA deposits stood at ₹395mn (33.4% of total deposits) in Q2FY19 as compared to ₹372mn (33.5% of total deposits) in Q1FY19 and ₹320mn (32.9% of total deposits) in Q2FY18.
- **Robust Loan growth momentum –** Loan growth of 25% YoY in Q2FY19 was driven by corporate (39.2% YoY). The retail book also continued strong traction with 19.6% growth YoY while SME book grew 10.6% YoY. Although Federal Bank remains committed to its strategy of calibrating its loan mix more towards SME and retail lending, we believe the current environment is offering the bank an opportunity to acquire high quality corporate customers, especially in the mid corporate space.
- **Asset quality impacted by recent kerala floods –** Slippages in Q2FY19 were ₹4.7bn v/s ₹4.6bn in Q1FY19. Slippages in the corporate segment grew YoY followed by agriculture (+27.5% YoY). Slippages in the SME segment spiked to ₹1.7bn, up ~58% YoY primarily due to Kerala Floods. Absolute GNPA increased 11% YoY to 3.1% while NNPA increased 10.9% QoQ to 1.78% on account of higher SME slippages. Provision Coverage Ratio improved by 7bp to 43.6%.
- At CMP of ₹82, Federal Bank trades at an FY19E and FY20E P/B of ~1.2x and ~1.1x respectively as per Bloomberg consensus estimates. Federal Bank delivered a strong operational performance at a time that appeared challenging on account of Kerala floods and continued cleansing of the balance sheet. The Bank has maintained healthy levels of business growth and is well positioned to gain market share in both corporate and retail segments. Management has sounded confident to maintain gross slippages at ₹14-15bn for FY19 and aims to deliver an exit ROA of 1%.

(₹mn)	Revenue	PAT	P/B (x)	RoE (%)	RoA(%)
FY19E	55,739	12,700	1.24	9.90	0.834
FY20E	66,655	16,700	1.13	11.56	0.936

Source: Bloomberg Estimates

Federal Bank

CMP: ₹82/-

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Federal Bank Monthly Chart **Source: Falcon 7**

Looking at the monthly chart, stock has been under tremendous pressure since past one year and lost more than 50%from its all-time high till date. Subsequently, the selling pressure exhausted and stock stabilized near 67 - 70 zone. Looking at monthly chart, the level of 67 – 70 zone coincided with the monthly 89-EMA. Also, the 61.8% retracement of its previous swing move from the bottom of around 40 to the top of 126 comes near said zone. The stock has maintained its upward sloping trend line drawn by joining the lows of September, 2013 & February, 2016 respectively. Looking at the monthly candlestick formation, the last month candle resembles a formation of 'Bullish Engulfing' pattern which is a reversal pattern and requires confirmation in terms of closing above 85.55. Along with that, stock will eventually confirm its breakout from the 'Downward Sloping Trend line' drawn from its all-time high of 126. **Thus, we advise investor to buy Federal Bank at current level of 82 and add more on dips to 78 for an upside price target of 105/114. Stop loss for this trade should be placed below 66.**

Buying Range: 82 - 78

Target: 105/114

Stop Loss: 66

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Gujarat Fluorochemicals

CMP: ₹881/-

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- GFL has evolved as the largest fully integrated, technologically advanced and cost-efficient producers of caustic soda (134,750 MT), chloromethanes (108,500 MT), refrigerant gases (65,000 MT) and PTFE (16,500 MT) in India. Furthermore, it is a credible global supplier of PTFE (~11% of global capacity) and value-added products with exports contributing 43% to the overall top line in 2018.
- GFL plans to tap into its rich fluorine chemistry experience by venturing into three exciting revenue streams in value-added downstream products. They have allocated a capex of ~₹450 Cr (~₹300 crore already incurred as of FY18) for all three expansions that provide them with incremental revenues of ~₹1300 Cr, thereby implying asset turnover in the range of 2.5-3x. Furthermore, with expansion being in VAP's they offer impressive EBITDA margins of 25%+ and RoCE in excess of 30%. 1.) PTFE debottlenecking to boost capacities by ~30% to ~21,000 (incremental revenues of ₹300-350 Cr) 2.) Indigenously developed, launched and commercialized a host of new fluoropolymers such as FKM, FEP, PFA and PVDF over the last couple of years. (peak revenue potential of ~₹600 Cr) 3.) The company has set up a multi-purpose plant to manufacture fluoro specialty products (2 approved molecules & 7 in pipeline) that is expected to receive all the required clearances in FY19 (peak revenue potential of ~₹450 Cr).
- At the current market cap of ₹9,732Cr, the implied cumulative value of GFL's long-term holdings in Inox Wind (57.0%), Inox Leisure (48.1%) and other investments after applying a 45% holding company discount stood at ~₹1,325. As a result, based on FY20E Bloomberg consensus estimates the standalone entity is trading at 16.5x P/E and 10.7x implied P/E and EV/EBITDA multiples respectively. Operational performance at GFL has improved robustly with EBITDA margins at 31% in Q1FY19 (22% in Q1FY18) thereby resulting in an EBITDA of ₹213 Cr. Therefore, we are POSITIVE on the stock as it depicts all the qualities of a turnaround candidate such as its advent into VAP streams, improving return ratios profile, low debt levels, ADD protection ($ 2637/MT on PTFE imports from China that are valid for a period of five years till July 2022) & further amplified by favorable global scenario.

Particulars	Sales (₹ Cr)	EBITDA (₹ Cr)	EBITDA margin (%)	Adj. PAT (₹ Cr)	Implied P/E (x)	RoE (%)	Implied EV/EBITDA (x)
FY18	2,056	579	28.2	333.3	25.2	14.96	15.8
FY19E	2,571.4	758.2	29.5	440	19.1	11.9	12
FY20E	2,862.3	852.6	29.8	508.5	16.5	12.2	10.7

Source: Bloomberg Estimates

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Gujarat Fluorochemicals

CMP: ₹881/-

GUJFLUORO Weekly Chart

Source: Falcon 7

After prolonged sideways move for more than ten years, Gujarat Fluoro Chemicals stock witnessed sharp move in the mid of 2008 and since then it has been moving within broad range of rising trend channel. Going through the historical chart we can clearly notice that, stock prices have penetrated the flag break out and are heading towards the new highs. In the current context, stock price have breached resistance of trend line around 825 levels in the last month and has once again confirmed bullish break out. On the weekly basis, prices penetrating the neckline of inverse head and shoulder pattern provides further strength to the counter. Hence, going forward the Gujfluoro stock price could head towards the previous high of 959 levels and surpass above that will extend till trend line as well as 61.8 % Fibonacci extension of the previous rally seen from (450 – 944) of 1050 in coming months. **Therefore, this stock can be bought on minor dips around the above mentioned supports of 830 levels. While, the stop loss are seen around 720 levels.**

Buying Range 830-845

Target: 960/1050-

Stop Loss: 720

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Disclosure of Interest Statement in Cosmo Films Ltd. as on October 05, 2016

Name of the Security	
Name of the analyst	
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
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