Prudent Broking
Money through wisdom

TOUGH 2075 PROMISING 2076

SAMVAT 2075 has been an extremely difficult year for investors. While Benchmark Nifty is up nearly 10% since last Diwali, Nifty mid-cap index is down 7% and small-cap index is off 11%. Out of Nifty 500 stocks, 303 stocks are down when compared to Diwali closing of last year. Out of these 303 stocks, 187 stocks are down 20% or more, showing the severity of the correction broader market has seen.

However, SAMVAT 2076 looks promising. And here is why we believe so...

Low Oil & Commodity Prices to Help Keep a Check on Fiscal Deficit

Around last Samvat, brent crude oil was trading around USD 86 in early October 2018. This has now fallen to USD 59 at the time of writing. That's a massive fall of 31%.

Given crude prices settles in a range between USD 55-65 or below for the next two years, it will be a massive positive for India. As India imports 80% of its crude oil requirements, there would be massive savings on crude bill. These savings could then be used to ramp up government expenditure which in-turn could benefit economy in a major way.

Above Average Monsoon to Aid Farmer Income and Boost Rural Consumption

Rainfall in India was 110% of the Long Period Average. Further, at the end of monsoon season, water stored in 113 reservoirs monitored by Central Water Commission (CWC) is better than last ten years average. Two-thirds of the country lacks irrigation, which leaves its farmers at the mercy of monsoon and waters in reservoirs. Hence, good monsoons and abundant water in reservoirs will be beneficial for farm produce. And this can also boost consumption from rural areas which is subdued as of now.

Transmission of Falling Interest Rates to Consumers to Reduce Finance Cost for Borrowers

Interest rates have reduced from 6.5% prevailing in last Samvat to 5.15% currently. This is a significant reduction of 135 basis point. Transmission of repo rates have smoothened after RBIs notification to link floating rate retail advances to repo rate. And hence benefits of reduction in repo rates, will be felt by borrowers in a falling interest rate scenario. We believe repo rates could fall further to boost economy and given the benign inflation. The interest cost saved by borrowers can also give a fillip to consumption.

Corporate Tax Rate Cut to Revive Private Capital Expenditure

Corporate tax rate cut has large potential to bring FII money to India. Multi National Corporations (MNCs) are currently outsourcing their manufacturing requirements from China as labour and taxation laws in China are favorable. However, things are changing with the ongoing trade war between China and USA and MNCs are reducing their reliance on China to meet their manufacturing requirements.

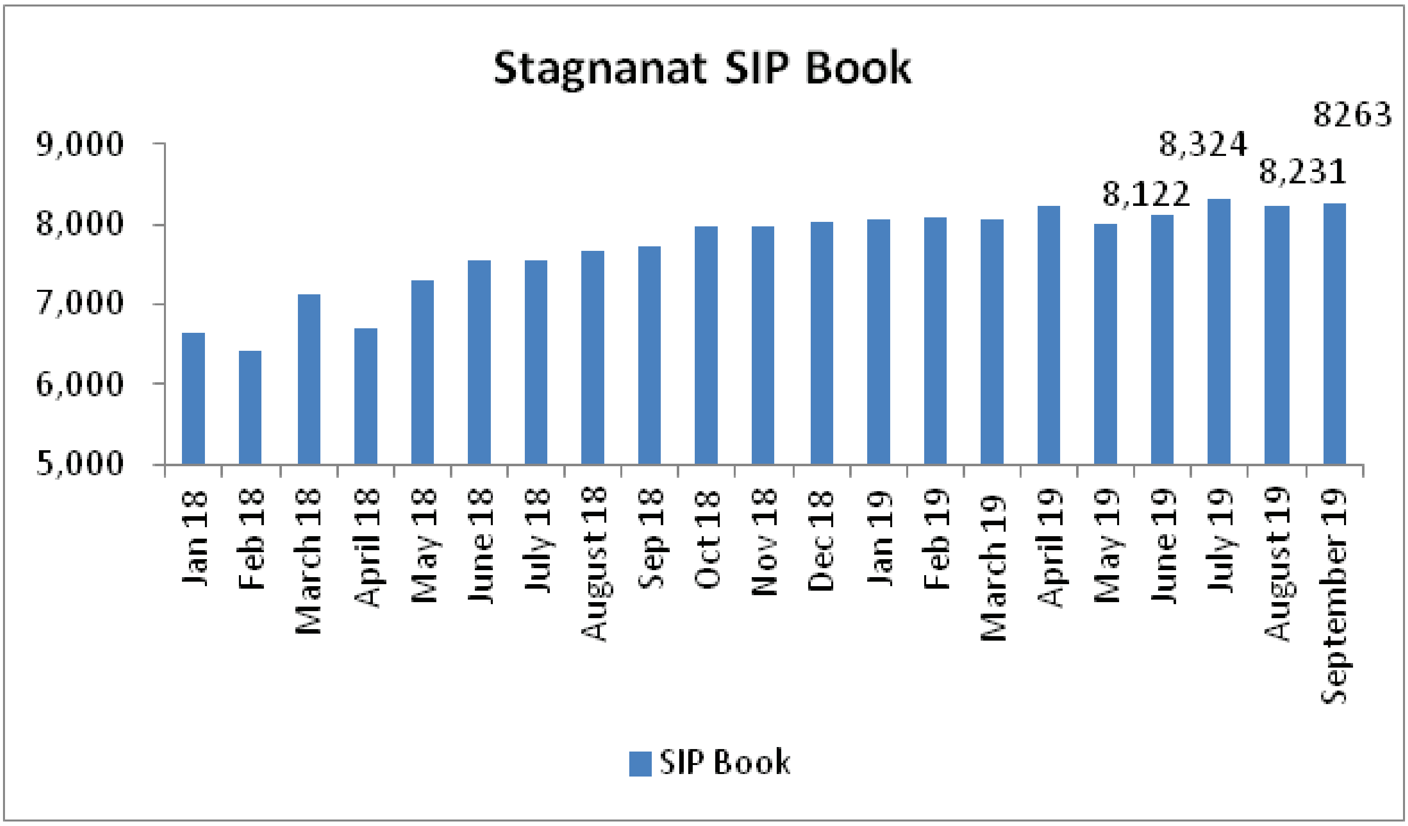
Given that labor arbitrage is favoring India as labor costs in China are way higher as compared to India. And now that tax arbitrage has disappeared too, lot of global MNCs could make India their manufacturing hub.

Further, the money India Inc saves on corporate tax will either be distributed to shareholders as dividend or will be re-invested in business. The money re-invested in business could be utilized to expand capacities, invest in new verticals or increase expenditure on marketing. This in-turn will lead to revival in private capex cycle in the long-run.

Strong Domestic SIP Flows Continue in Equity Market

Equity inflows in MFs have been decent and SIP book has seen no draw-down despite the volatility being so high in the markets as seen in the chart below. The SIP book has remained stagnant at around Rs 8100 crore every month. This is a very good sign for the market.

Provided subdued FII flow revive given the reforms present government is undertaking and given the stable flows into mutual funds, liquidity could certainly drive the market higher in the near term.

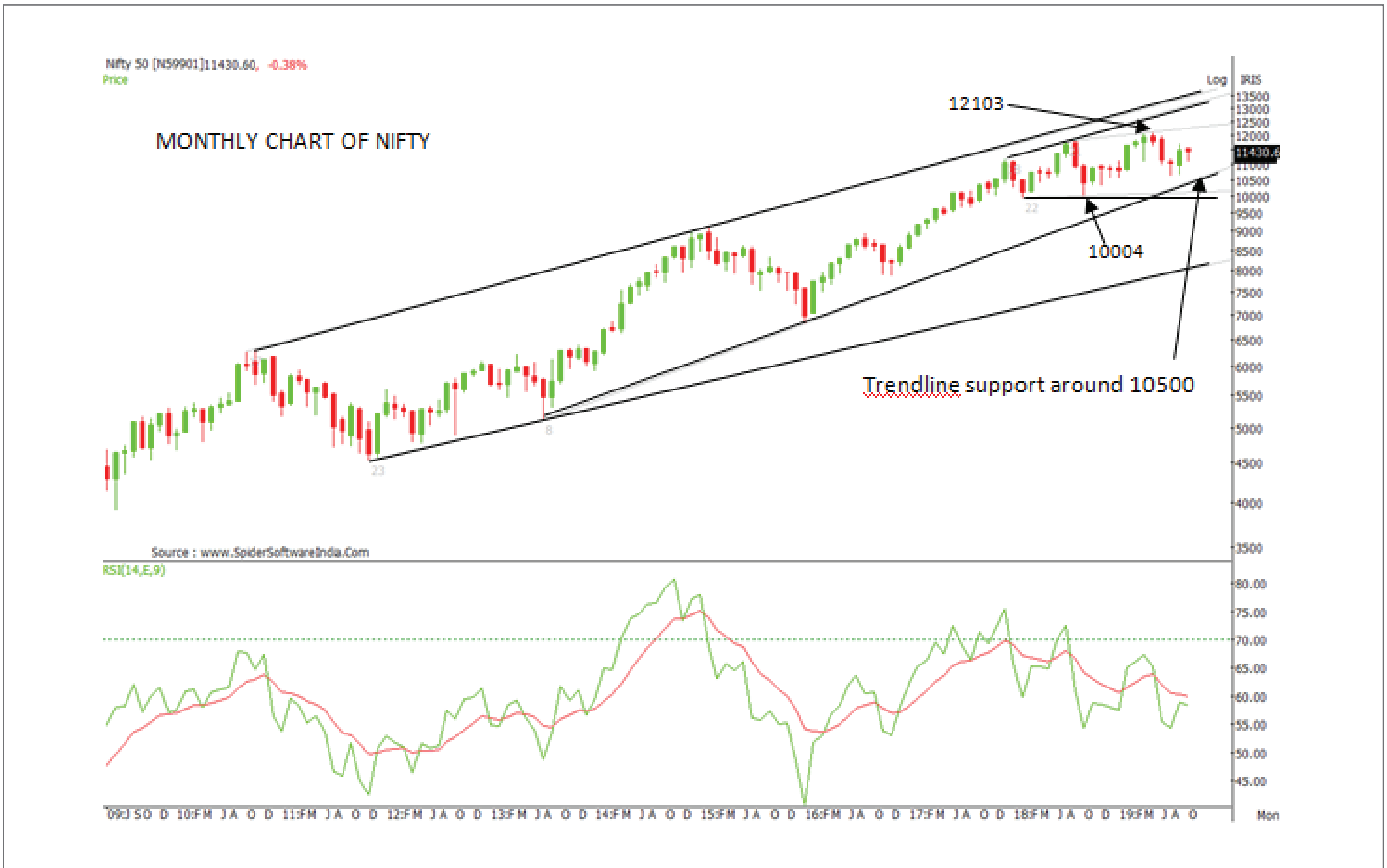


Source: AMFI Data

All these positive factors lead us to believe that all is not doom and there are certainly positive factors behind us which can drive up the stock markets.

Technical indicators, as discussed below, also support this thesis.

OVERALL TREND CONTINUES TO BE POSITIVE; 13100-13500 ABOVE 12103



- After making a top of 12103 in June this year, Nifty saw a steep correction of 12% and touched a low of 10637 in August which roughly coincided with the 67% retracement level of 10004-12103 upmove seen between October 2018 and June 2019.
- After this correction, Nifty rebounded smartly in September and is currently trading around 11650.
- The overall setup continues to be positive as the benchmark has not violated higher-top higher-bottom formation on its monthly chart.
- On the way up, 12103, the top made in June, is the important immediate hurdle. Upon crossover of 12103, 13100-13500 would be next major target/resistance zone as 13100 is where the trendline adjoining tops made in January and August 2018 is placed while 13500 is where the trendline adjoining tops made in November 2010 and March 2015 is placed.
- On the way down 10637-10500 is important support zone as 10637 is the bottom made in August this year, 10580 is where 34-month moving average is placed while 10500 is where the trendline adjoining bottoms made in August 2013 and February 2016 is placed.
- If 10500 gives way, 10000, where the bottoms made in March 2018 and October 2018 are placed, would be next crucial support to eye.
- Meanwhile, long term investment positions should be held on to with the stop-loss of 10000.

Performance of Stocks Recommended in Our Last Samvat Report....

Positions Open

Stock Recommendation	Recommendation Price (05 Nov 2018)	Current Market Price	Gain/Loss from Reco Price	Target Price	Outlook at Current Levels
Mahanagar Gas	845.7	969	14.6%	1150	Hold
PSP Projects	381.5	550	44.2%	613	Hold
CDSL	250.9	209	-16.4%	426	Buy

Positions Closed

Stock Recommendation	Recommendation Price (05 Nov 2018)	Target Price	Sell Price	Gain/Loss from Reco Price
Symphony	1002.4	1350	1358	35.5%
Karur Vysya Bank	79.1	114	66.7	-15.6%

As seen from the tables above, we have closed two positions since last Samvat. We have closed one position with decent gains of 35.5% and one position with a loss of 15.6%.

As far as open positions are concerned, we have done well in two positions with Mahanagar Gas and PSP Projects gaining 14.6% and 44.2% respectively since last Samvat. While, CDSL is in negative. Given the volatile capital markets, CDSL didn't perform as per our expectations. However, given the recovery in capital markets post the corporate tax reforms, stellar listing of IRCTC and new business verticals we are **very positive on CDSL from a longer term perspective and retain our target price of Rs 426.**

PICKS FOR SAMVAT 2076

FUNDAMENTAL PICKS

STOCK	CMP	TARGET
INOX LEISURE	352	403
BAJAJ AUTO	3087	3750
ULTRATECH CEMENT	4295	5200
MOLD-TEK PACKAGING	316	361

TECHNICAL PICKS

STOCK	CMP	TARGET	STOP-LOSS
RITES LTD	266	335	220
FINOLEX IND.	612	750	510
ALKEM LAB.	1959	2240	1780
KANSAI NEROLAC	541	650	455

FUNDAMENTAL PICKS

1) INOX LEISURE

Revenue Mix Shifting Towards High Margin Food & Beverage Segment

As seen in the table below, spends per head on food & beverages in Inox Leisure is on an increasing trend.

Spends Per Head on Food & Beverages of Inox Leisure

PARTICULARS (IN RS)	FY15	FY16	FY17	FY18	9MFY19
Spends on F&B	55	58	62	66	74
YoY Increase		5%	7%	6%	12%

As this vertical has a gross margin of a whopping 75%...an increase in revenue mix from food & beverage division will benefit Inox in terms of higher operating margins and a higher bottomline growth.

As seen in the table below, the F&B proportion is steadily increasing in the overall revenues.

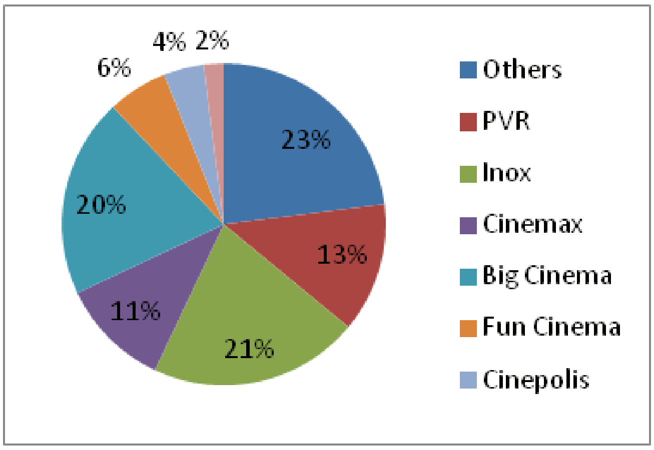
Percentage Contribution of F&B to Overall Revenues

DESCRIPTION	Mar-16	Mar-17	Mar-18	9MFY19
F&B as a % of Revenues	22.9%	23.3%	22.7%	25.8%

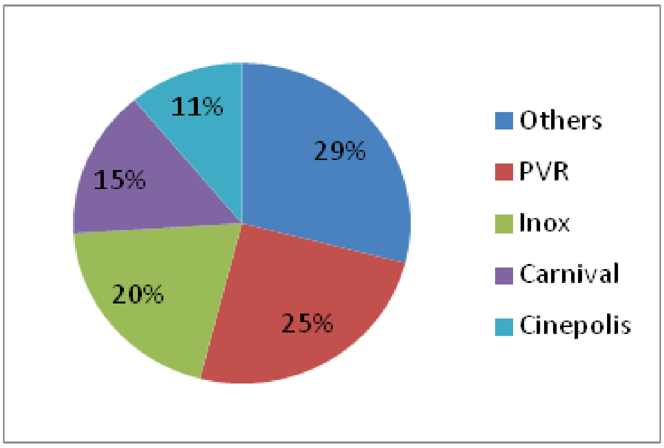
Consolidation in the Industry Driving Ticket Prices Higher & Increasing Bargaining Power with Producers

As seen in the chart below, the multiplex industry has move from a fragmented one with too many players in FY12, to a more oligopolistic with just few players in FY16.

Market Share in FY12



Market Share in FY16



Source: Media Reports

This has helped the industry to increase ticket prices. The table below indicates the increase in average ticket price for Inox Leisure:

PARTICULARS (IN RS)	FY14	FY15	FY16	FY17	FY18
Average Ticket Prices (in Rs)	156	164	170	178	193
YoY Increase		5.1%	3.7%	4.7%	8.4%

As Inox's strategy going forward to add more screens in metro cities & premium locations, the average ticket prices will see a spurt going forward.

Lower Interest Rates to Boost Bottomline

The promoters recently brought in equity worth Rs 160 crore in the business at a price of Rs 250 per share. The money is being utilized to repay the debt. Hence, a debt of Rs 160 crore will be paid-off from the amount brought in by promoters.

Borrowings of Inox Leisure

DESCRIPTION	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Secured Borrowings	48.72	15.9	21.04	41.34	38.02	79.43	129.6	90.0
Unsecured Borrowings	151	193	202.7	173.4	162.4	137.5	162.3	162.4
Debt/Equity	0.67	0.66	0.76	0.57	0.32	0.46	0.53	0.38

Post repayment, debt-equity will move at negligible levels which will reduce the finance cost and boost the bottom-line.

Advertisement Revenues Per Screen Showing Signs of Improvement

As see in the table below, advertisement revenue per screen of Inox in FY17 was 0.2 crore. While that of PVR was almost double at 0.44 crore/ screen!

Advertisement Revenue per Screen of Inox & PVR

PARTICULARS	FY17	FY18	9MFY19
Inox	0.22	0.29	0.35
PVR	0.44	0.48	0.49
Differential	-101%	-64%	-41%

On account of this significant difference, Inox had taken a lot of steps post FY17 to improve the advertisement revenues. Earlier it used to do business with just two advertisers namely Khushi Advertisement and Interactive. However, now it has expanded the agencies with which it will be doing business. Apart from this, it has increased its rate cards and it has been accepted by the advertisement agencies. As it moves towards constructing more screens in premium locations, the advertisement revenues per screen will move higher.

And this is bearing fruits, with the difference narrowing from almost 100% in FY17 to 41% in 9MFY19.

Given the multiple triggers ahead, we give Inox Ltd an exit multiple of 23x and derive at the target price of Rs 403 from an FY21 perspective. This leaves investors with absolute returns of 18% and a compounded annual growth rate of 12.5% from an FY21 perspective.

2) BAJAJ AUTO

Investment Thesis

Sole Player amongst Biggies Ending FY19 with 29% Volume Growth in Domestic Motorcycle Industry

Bajaj Auto started the financial year 2019 with a market share of around 14-15% and it ended the financial year with a share of 22.4%. That's a growth of around 8% market share in a year. The growth in the market share of Bajaj Auto in just a matter of year is equivalent to the overall market share of TVS and Royal Enfield which is a tad less than 8%. Hence, what market share TVS Motors and Royal Enfield has created in a decade or more, Bajaj Auto has achieved that in a matter of one year. This is huge! This growth in market share is largely attributable to these three bikes:

a. Bajaj CT100
b. Bajaj Platina Family
c. Bajaj Pulsar 150

And this is bearing fruits, with the difference narrowing from almost 100% in FY17 to 41% in 9MFY19.

PARTICULARS (IN UNITS)	Jan-18	Feb-19	Growth
Bajaj CT100	18479	37346	102%
Bajaj Platina	37136	53044	43%
Bajaj Pulsar 150	30425	63673	109%

Source: Autopunditz.com

Geographical Diversification Provides Immunity from Slowdown in Domestic Market

Unlike other listed auto majors, Bajaj Auto has significant exposure to export geographies. In FY18, exports formed around 39% of the revenues for the company. You will be surprised seeing Bajaj Auto's market share in some of the export nations.

COUNTRY	Market Share
Uganda	95%
Kenya	42-45%
Ethiopia	65%

Within the export geography, Africa accounts for 45% of the overall export revenues. A lot of African countries economic growth is based on crude & commodity prices. With crude touching USD 70 again and commodity prices too seeing a spurt, provided these prices remain stable at current levels there could be a spurt in this demand from this geographies. Bajaj Auto expects this geography to contribute to 50% of the overall export revenues in the near term.

Market Leader in Three-Wheeler Passenger Carriers

The company has dominated this space since the time it has entered. Given the traffic & parking situation in many cities is getting worse, people increasingly prefer rickshaws and cabs to travel.

PARTICULARS	FY13	FY14	FY15	FY16	FY17	FY18
Market Share	42%	39%	44%	58%	60%	67%

Source: Annual Report

As the population of India surpasses that of China in a few years from now, government will have to issue new three-wheeler licenses which can lead to a spurt in three-wheeler sales.

Valuations

Our target price for the stock is Rs 3,750 from an FY21 perspective and provides point-to-point returns of 21% and compounded annual growth rate of 15.6% including dividend yield of 1.9%.

3) ULTRATECH CEMENT

How a Cut in Tax Rates can Benefit UltraTech...

Corporate tax rate cuts will leave more money in the hands of corporate. Provided this money is not distributed as dividends to shareholders, a lot of this money will be ploughed back in the business. The money ploughed back could either be used to provide incentives to dealers, expand existing capacities (i.e brownfield expansion), build new factories (i.e greenfield expansion) or invest in research & development to gain benefits in the long-run. Further, any new manufacturing companies incorporated after October 1, 2019 would be eligible to pay a tax rate of just 15%. This can lead to a lot of foreign institutional money (FII) money entering India as it places India at par with tax rates in other developing countries.

All this can revive the private capital expenditure which was subdued since a while now. And one of the biggest beneficiaries of revival in private capex cycle will be the cement industry.

Why we Prefer UltaTech over other Cement Players

Cement is a commoditized business. This means that there is no product differentiation between UltraTech and its peers. As product differentiation is negligible, pricing power is almost negligible in the industry. In such a scenario, we always prefer to go with a player who is the most cost efficient in a commoditized industry.

- One of the main raw-material used for manufacturing of cement is limestone. Securing cheap limestone is essential to maintain low cost of production. UltraTech through its captive limestone mines is able to keep these costs under check.
- Further, power & fuel cost forms around 20-25% of the total cost of cement industry. UltraTech manages 85% its power consumption through captive thermal power plants and waste heat recovery systems. This helps in keeping power costs under check.
- Further, cement is a bulky material – hence handling this bulky material takes a lot of effort. It occupies a lot of space and carries a lot of weight. Hence higher the distance a cement bag travels, higher is the freight and handling cost involved and lower is the profit a manufacturer makes. Freight costs forms around 30% of total cost of industry.

Given that UltraTech is largest player in India, lead distance to reach end consumer is relatively lesser as compared to other companies. UltraTech has seen lead distance reducing from 450 kms to 400 kms in the preceding two years on account of large acquisitions such as Jaypee Cement and Binani Cement. That itself is a big reduction! Further, once capacity utilization increases, UltraTech will start selling closer to the plant and that could see a lead reduction. The large scale of UltraTech keeps the freight costs under check.

All of the above factors have led to UltraTech commanding a higher EBIDTA/tone as compared to peers. EBIDTA/tone is the one of the key parameters in cement industry.

Demand Drivers....

- Demand from infrastructure is witnessing growth at a fast pace, backed by Government's thrust on infrastructure development viz. construction of roads, metro rail projects, airports renovation, irrigation projects.
- To add to this, there is a significant improvement in low-cost houses constructed under the Pradhan Mantri Awas Yozana ("PMAY") in rural area.
- The cherry on the cake being the corporate tax rate cut, which ensures demand to improve in the long run.

Investments to Drive Returns Going Forward...

Further, UltraTech has been busy investing in the last five years. Their capital employed which stood somewhere around Rs 26,000 crores as at March'14 had more than doubled to nearly Rs 55,000 crores as at March'19.

These investments have obviously impacted their return on capital. However, having reached 84% capacity utilization for last quarter, they have enough gunpowder in their system to meet the growing demand and improve the ROCE. With the investments cycle largely over, it is in one of the best positions in the industry to reap these benefits in the upcycle which we are seeing in the coming years.

All these factors lead us to initiate coverage on the stock with a target price of Rs 5200 from an FY21 perspective. This leaves investors with absolute returns of 22.1% and compounded annual growth rate (CAGR) of 14.8% from the current levels.

4) MOLDTEK PACKAGING

- The company is the **pioneer in bringing in-mould labeling (IML) technology in India.** This technology not only helps in better presentation of the product but it also helps to enhance brand image & brand recall.
- This technology has led to **paint & lubricant companies shifing from using tin containers for packaging to plastic containers with in-mould labelling technology.** The tin containers suffered from problems of rusting & foul smell. To large extent these has been elminated with the IML technology.
- The company derives 81% of its revenues from paints & lubricant industry and the balance 19% comes from the fast moving consumer goods (FMCG) segment. **The FMCG segment holds great growth potential for the company going ahead.** And the margins too in the FMCG segment are significantly higher as comapred to paint & lubricants segment.

  This is well reflected in the increasing margins over a period of last three years wherein the share of fmcg in overall revenues is increasing

PARTICULARS	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
EBIDTA Margins (%)	11.7%	14.2%	16.6%	16.7%	17.7%

Source: Prudent Broking Service Pvt Ltd

- Talking about FMCG, FSSAI-the **food regulator of India recently showed IML to be the best choice for packaging products such as milk, milk products, fruit products, edible oils & vegetables** and may come out with stringent guidelines to stop the hazardous usage of Inks in printing which can contaminate the products and instead use the IML packaging in these products. Further, the competition in IML in FMCG space is almost negligible and Mold Tek could be the biggest benefitiary of this shift in FMCG space to IML packaging.
- The company has been successful in pitching its IML Technology in the ice-cream segment. Biggies such as Hindustan Unilever, Vadilal & many more have assigned Mold-tek to do the packaging for them. Another lucrative opportunity is in the edible oil space. This is a huge opportunity for the company and lot of companies have already started to adapt this packaging form from Mold Tek Packaging.
- Further, the **company has pricing power & historically it has been able to pass on any increase in raw material costs to its clients.** It happens with a lag of one-month & not instantly, but the re-pricing does take place.
- **Given the multiple triggers ahead, this is one of the stock to indirectly play the consumption boom in the country. We derive at a target price of Rs 361 leaving investors with absolute returns of 18% and compunded annual growth rate of 12.1% from an FY21 perspective.**

TECHNICAL PICKS

1) RITES LIMITED — CMP: 266

- After getting listed in July 2018, RITES made a high of 260 in August 2018.
- From there, the stock, went into a correction mode and touched a low of 160 in February 2019 .
- In this correction/consolidation phase of more than a year, the stock repeatedly found resistance in 250-260 zone and made multiple tops in this region.
- Recently the stock has broken out of this resistance zone with good volumes.
- The stock should be accumulated between 267-248 zone for a target of 335 in next 12 months. The stop-loss should be placed at 220 on weekly closing basis.

2) FINOLEX INDUSTRIES CMP: 612

- FINOLEX INDUSTRIES LTD. (FIL), after making a top of 756 in October 2017, went into a correction mode and touched a low of 440 in May 2019.
- Since then the stock has been in a recovery mode and has recently broken out on its weekly chart.
- The stock should be accumulated in 615-560 range for the target of 750 in next 12 months. The stop-loss should be placed at 510 on weekly closing basis.

3) ALKEM LABORATORIES CMP: 1959

- ALKEM, after making a high of 2469 in January 2018, went into a correction mode and touched a low of 1660 in August 2019.
- From there, the stock has rebounded and broken out of the upper band of the Bollinger with good volumes recently.
- The stock is also on the verge of crossing a downward sloping tendline adjoining tops made in January and September 2018.
- The stock should be accumulated in 1960-1870 range for a target of 2240 over next 12 months. The stop-loss should be placed at 1780 on weekly closing basis.

4) KANSAI NEROLAC PAINTS CMP: 541

- KANSAI NEROLAC, after making a high of 614 in December 2017, went into a correction mode and touched a low of 343 in October 2018.
- Since then, the stock had been in a recovery/consolidation mode and has recently broken out of the upper band of the Bollinger on its weekly chart.
- The stock should be accumulated between 542-490 range for a target of 650 over next 12 months. The stop-loss should be placed at 455 on weekly closing basis.

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