



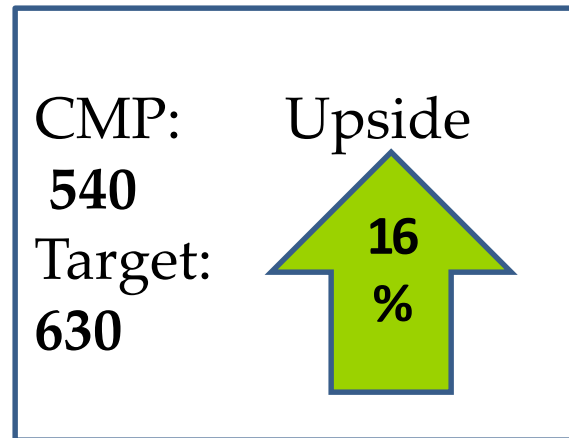
# Diwali Picks 2019



Happy Diwali... Happy Investing



# Kansai Nerolac Paints Ltd



CMP as on 30<sup>th</sup> Oct 2018

| Stock Info        |         |
|-------------------|---------|
| Sector            | FMCG.   |
| Market Cap (RsCr) | 29,102  |
| 52 Week High/Low  | 555/343 |

Established in 1920, Kansai Nerolac is one of India's leading paint manufacturer. It is a subsidiary of Kansai Paint, Japan. It has 4 manufacturing plants in India with a capacity of 4.8 lakh metric tonnes per annum. Industrial paint segment contributes ~45% to topline of FY19 and decorative ~55%. Automotive segment forms ~75% of the total Industrial segment.

## Investment Rationale

Indian Paint Industry is expected to grow by 12% CAGR to reach Rs 700Bn by 2021-22 according to Indian Paint Association. Paint Consumption in India is around 3.75 kgs per capita compared to global average of 12-15 kgs. The GST rate on paints has been reduced to 18% from 28% thus implying a level playing field between organized and un-organized sector. The painting cycle in India is also shortening to 3-5 years from 10 years over the last decade.

Kansai Nerolac is witnessing healthy demand in decorative paint segment led by rising geographic penetration, increasing urbanization, premiumisation and up trading. The automotive segment is expected to improve going forward led by government reforms, rise in system level liquidity and interest rate cuts. The benign commodity cycle will also aid the operating margins.

**Valuation:** The company is currently trading at 36x its FY21E EPS which is at 26% discount to Asian Paints. We value the company at 42x its FY21E EPS and give it a BUY rating considering the above mentioned growth drivers.

## FINANCIAL SUMMARY

| Y/E March | Sales (Rs Crs) | PAT (Rs Crs) | EPS (Rs) | TTMP/E | Operating Margin (%) | RoE (%) |
|-----------|----------------|--------------|----------|--------|----------------------|---------|
| FY19      | 5,174          | 467          | 8.7      | 46.6   | 14.3                 | 14.3    |
| FY20E     | 6,000          | 682          | 12.7     | 42.6   | 16.7                 | 18.5    |
| FY21E     | 6,900          | 805          | 14.9     | 36.1   | 17.0                 | 18.7    |

|         |        |
|---------|--------|
| CMP:    | Upside |
| 1064    |        |
| Target: |        |
| 1215    |        |

HCL Technology is Indian multinational information Technology (IT) company headquarter in Noida, Uttar Pradesh. HCL Technologies is a next-generation global technology company that helps enterprises reimagine their businesses for the digital age. Company offer products, solutions, services, [Mode 1-2-3 strategy](#) **Mode 1** Application, Infrastructure, Engineering and Digital Process operations, **Mode 2** Digital & Analytics, Cloud Native Service, Cybersecurity & GRC, IoT Works, Enterprise Studio, **Mode 3** HCL Software, DRYiCE, Actian.

**Investment Rationale :** During Q1 FY20 HCL tech won 12 transformation deal across its service line lead by Financial service, Manufacturing and Retail and majority of its vertical are delivering double-digit growth. The 17.0% YoY CC growth is the highest growth in the last seven and half year comprises 14.0% of organic growth. Top 5 and top 10 client contributes 16.6%/23.9% of revenue.

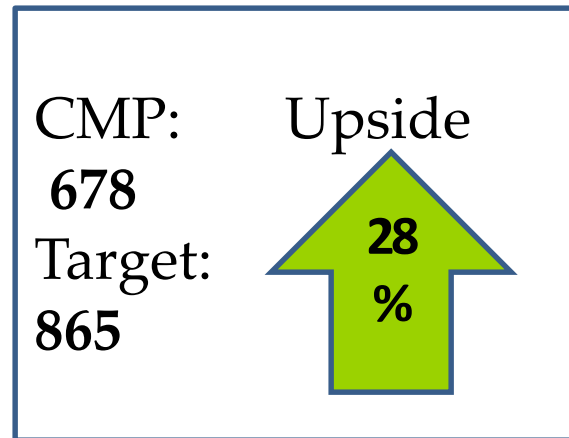
**Valuation:** High deal win and high organic growth have increased company confidence to increase guidance for the current year. The stock offers 20.1% revenue cagr (FY16-FY21) and 18.4% PAT cagr in the same period. Our price target of Rs 1,215 with 12.65x PE multiples to its FY21 earning of Rs 96.09 per share, implying an upside of 14%.

| Stock Info        |              |
|-------------------|--------------|
| Sector            | IT           |
| Market Cap (RsCr) | 1,44,382     |
| 52 Week High/Low  | 1190/920 .15 |

## FINANCIAL SUMMARY

| Y/E March | Sales (Rs Crs) | PAT (Rs Crs) | EPS (Rs) | P/E   | EBIT Margin (%) | RoE (%) |
|-----------|----------------|--------------|----------|-------|-----------------|---------|
| FY19      | 60,427         | 10,120       | 74.62    | 14.66 | 19.5            | 21      |
| FY20E     | 68,584         | 11,805       | 87.05    | 12.22 | 19.6            | 20      |
| FY21E     | 77,843         | 13,032       | 96.09    | 11.07 | 20.4            | 18      |

# HAVELLS India Ltd



CMP as on 30<sup>th</sup> Oct 2018

| Stock Info        |         |
|-------------------|---------|
| Sector            | FMEG.   |
| Market Cap (RsCr) | 42,451  |
| 52 Week High/Low  | 550/807 |

Established in 1983, Havells is India's largest electrical and home appliances company. Havells manufactures nearly 90% of its products in-house in its 13 manufacturing facilities. Havells business segments are Switchgears (16% of FY19 Revenues), Cables (32% of FY19 Revenues), Lighting and fixtures (12% of FY19 Revenues), Electrical consumer durables (21% of FY19 Revenues) and Llyods (18% of FY19 Revenues).

## Investment Rationale

According to the company the electrical and home appliances industry is expected to grow by around 12% and 15% (CAGR) during FY18-23 to reach Rs 450Bn and Rs 700Bn respectively. This growth will be led by rise in urbanization (from 30% to 40% by 2030), semi urban and rural electrification, improving availability of power, rising consumption and structural reforms.

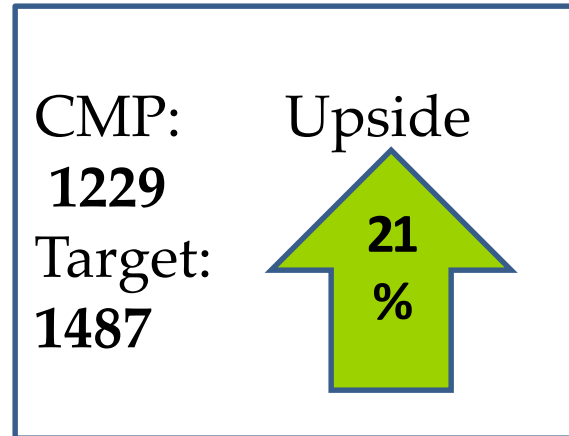
We expect the company's revenue growth to decline to 6% in FY20E impacted by economic slowdown and restructuring of Llyods business and bounce back to 14% in FY21E as the demand revives and the Llyods business recovers post its restructuring.

**Valuation:** The company is currently trading at 38x its FY21E EPS which is at 16% discount to its 3 year historical average one year forward P-E. We value the company at 48x its FY21E EPS and give it a BUY rating considering the above mentioned growth drivers.

## FINANCIAL SUMMARY

| Y/E March | Sales (Rs Crs) | PAT (Rs Crs) | EPS (Rs) | TTMP/E | Operating Margin (%) | RoE (%) |
|-----------|----------------|--------------|----------|--------|----------------------|---------|
| FY19      | 10,058         | 792          | 12.6     | 59.7   | 19.8                 | 19.8    |
| FY20E     | 10,644         | 929          | 14.8     | 45.7   | 20.4                 | 20.4    |
| FY21E     | 12,166         | 1,127        | 18.0     | 48.0   | 21.6                 | 21.6    |

# HDFC bank



CMP as on 30<sup>th</sup> Oct 2018

| Stock Info        |          |
|-------------------|----------|
| Sector            | Bank.    |
| Market Cap (RsCr) | 6,77,636 |
| 52 Week High/Low  | 1285/942 |

HDFC Bank Limited (HDFC Bank or the Bank), incorporated in Mumbai, India is a publicly held banking company engaged in providing a range of banking and financial services including retail banking, wholesale banking and treasury operations.

## Investment Rationale

Q2FY20, The Bank's loan book grew by 19% YoY and 8% QoQ to Rs8,976bn in 2QFY20 owing to strong sequential growth in Corporate Banking and non-vehicle retail portfolio. Its deposits grew by 23% YoY and 7% QoQ to Rs10,216bn in 2QFY20. Asset quality front across cycles, with average slippages of 2.1% for the last 13 quarters. Provisioning. Coverage Ratio (PCR) continues to remain stable at 70% over the last 5 years. The Bank has been able to maintain healthy margin despite pressure on cost of funds over the last few quarters. Despite a healthy growth in CASA deposits, origination, The Bank has been at the forefront on use of technology to improve business productivity. Driven by increased digitization and unassisted digital origination, it aims to bring down cost/income by 300bps over the next 3-4 years, which should aid its RoA by 7-8bps over the period, in our view.

**Valuation:** Bank will be able to gain market share driven by strong leadership position across segments, large distribution, digital focus and strong capital adequacy. HDFCB given its superior credit underwriting, structurally better NIM and the ability to maintain RoA at 2.0%. Value HDFC Bank at 4.2x FY21E ABV of Rs.362.6 to arrive at target price of Rs.1487, an upside of 21%.

## FINANCIAL SUMMARY

| Y/E March | NII (Rs Crs) | Net profit (Rs Crs) | ABV(Rs) | P/ABV | GNPA(%) | RoE (%) |
|-----------|--------------|---------------------|---------|-------|---------|---------|
| FY19      | 48,243       | 21,078              | 541.4   | 2.3   | 1.8     | 16.5    |
| FY20E     | 57,891       | 28,033              | 320.0   | 3.8   | 2.1     | 17.2    |
| FY21E     | 69,354       | 33,640              | 362.6   | 3.4   | 2.1     | 17.9    |

## BONANZA RESEARCH

### RATINGS, VIEWS AND RELATED RATIONALES

**Buy** - More than 10% upside

**Sell** - More than 10% downside

**Hold** - Between - 10% to 10%

#### Disclosure

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