JOINDRE CAPITAL SERVICES LTD.

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2018 DIWALI PICKS

SAMVAT 2075

Dated 30th Oct 2018

Dear Investor,

In the year 2018, Nifty has made a classic topping formation at 11760, post which the market witnessed a sharp correction of almost 1700 points on the back of domestic negative news flow.

In fact the the carnage in mid and small cap stocks was even more severe and was caused by mutual funds, selling owing to new categorization of MF schemes, GSM/ASM circular of SEBI, change in equity taxation, etc. In addition to this the liquidity crisis led by the IL&FS default, was extended to other NBFCs, which were already reeling under increasing interest rate environment. This further impacted sentiments negatively.

The macroeconomic indicators are worsening due to rising crude oil prices, weakening INR against USD, fear of subsequent interest rate hikes by the RBI, US Fed rate hikes and concerns related to trade war. Moreover, state elections in MP, Rajasthan and Mizoram over December 2018 and general elections in 2019 have made investors cautious on equities.

Crude oil prices have also shot up by 36% in last one year as OPEC has created dearth of oil to support the crude oil prices, in addition to undersupply created by Iran sanctions. Meanwhile the INR has also depreciated by around 12% against USD which has magnified the impact on India.

As per RBI, the price of the Indian basket of crude oil has increased sharply by US$13 a barrel since August 2018. India's current account deficit has widened to $15.8bn (2.4% of GDP) in Q1FY19 due to a higher trade deficit of $45.7bn. In case oil prices continue to rise, the CAD will widen and weaken the INR against USD, and accelerate inflation forcing RBI to further hike interest rates. This may lead to a negative impact on interest sensitive sectors, however positive impact will be witnessed in export oriented sectors.

On the economy front, RBI has maintained the GDP growth rate at 7.4% for FY19, as various indicators suggest that economic activity has continued to be strong. However, it has raised concerns over rising input costs leading to contraction of profit margins and tightening in the domestic and global financial markets. RBI has also downgraded the CPI inflation projection to 4% in Q2FY19 from 4.6% and 3.9-4.5% in H2FY19 from 4.8% in October 2018 meeting. However, it changed the stance to ‘calibrated tightening’, which means more rate hikes are expected on the cards going ahead.

Nevertheless Retail investors continue to invest in equity mutual funds via SIPs. Notably, Indian mutual funds have received SIP inflow of Rs 64,675cr in first nine months of 2018 as compared to Rs 59482 crs in 2017. The total AUM of Indian mutual fund industry was at Rs 22.04 lakh crs in September 2018.

Going ahead in the coming year it will be a tough task for the NIFTY to cross the level of 11760 in the absence of any positive macro newsflows with both crude oil and rupee concerns lingering, however the possibility of hitting 11000 or 11200 cannot be ruled out. Nevetheless on the downside we may see levels of 9500 or 9700 in an unforeseen event.

The current correction however has given an opportunity to investors to invest in good quality businesses at reasonable valuations after a long spell of overvaluation. Investors should focus on sustainability of earnings growth and good companies run by efficient managements while investing in such volatile markets.

In line with Joindre's investment objective of providing our clients with prudent financial advice and long term wealth creation we suggest investors to focus on stocks which look attractive valuation wise, and which are run by good managements with clear sustainability of earnings growth in sectors which look strong and provide long term visibility to there business models. We have presented some good quality stocks here in this report for next Diwali which are also portfolio stocks which can generate good long term returns.

In conclusion we wish all our clients, business associates and partners a Happy and Prosperous Diwali.

Happy investing

Research Team

Mahindra & Mahindra Limited CMP 744 TP Rs 1050

M&M continues to be a leader in the domestic Tractor industry with ~43% market share as of FY18. The management expects domestic Tractor sales volume to grow by 8-10% in FY19 with upward bias.

The management has reiterated its stance of focusing on building a strong product pipeline in both FES and Automotive segment by introducing new product every year and further preparing itself in upcoming electric vehicle space by increasing the capex activity.

We believe M&M is geared up to take on the competition and to grab the opportunity arising from ongoing improvement in growth in auto industry and recovery in rural demand. We remain positive on the medium term potential of the company on the back of new product launches that is likely to drive revenue growth for the company in the next 12 to 18 months.

M&M's Marazzo MPV launched on 3 Sep 2018 is an important launch for M&M, as it comes after a significant gap of nearly 2.5 years and marks the company's entry into the premium MPV segment. The vehicle is priced at INR 999k to INR 1,390k (seven-seater variant).

It is the first product to be developed in collaboration with Mahindra's North America R&D centre and Mahindra Research Valley Chennai. The pricing slots it between the Maruti Suzuki Ertiga and the hugely successful Toyota Innova, both of which sell 5-6k units per month

We believe that the Marazzo is likely to boost volumes for the UV segment which would get reflected in better operational numbers from FY19 partly and fully in FY20.

We expect Mahindra & Mahindra to report a Topline of Rs 54939 crs and Rs 62235 crs in FY20 followed by a PAT of Rs 4750 crs and Rs 5640 crs in FY19 and FY20 resulting in a EPS of Rs 39.8 and 48 respectively.

Reliance Industries Limited CMP 1056 TP Rs 1300

RIL's 2Q EBITDA at Rs211bn (+36% yoy, +2% qoq) and PAT at Rs95bn (+17% yoy, +1% qoq) were in-line, with weaker refining and in-line petchem but stronger telecom & retail (the latter two contributed 23% to consol EBITDA).

Petchem EBITDA rose 3% qoq to Rs95bn, in-line with ests., primarily on strong polyester & intermediate spreads which offset weaker polymer spreads.

Telecom revenues/EBITDA rose 14% qoq (we expected 9%) as subs rose from 215m to 252m, ARPUs were down only marginally from Rs134 to Rs132, and margins remained stable at 39%.

Retail delivered another strong qtr, with revenues and EBITDA up by 25% & 15% qoq

RIL has also announced primary investment of Rs29.4bn via preferred share issuance for a 51.3% stake in Hathway Cable,along with Rs20.45bn via preferred share issuance and secondary purchase of Rs2.45bn from the existing promoters for a 66% stake in Den Networks. The acquisition could trigger an open offer (total outflow of Rs78bn) for Hathway Cable, Den Networks, GTPLand Hathway Bhawani.

We expect Reliance to report a PAT of Rs 43000 crs and Rs 51000 crs in FY19 and FY20 resulting in a EPS of Rs 70 and 84 respectively.

ICICI Bank CMP Rs 346 TP Rs 395

ICICI Bank reported profit of Rs9.1bn, with provisioning charges continued to remain elevated at Rs39.9bn with the bank's PPP growing at 10.3% yoy to Rs52.50bn

Business performance continued to be healthy, with 15.7% yoy growth in domestic credit, driven by retail loans growth of 20.5% yoy, accounting for 57.3% of advances.

Fresh slippages trend has eased, with slippages coming down to Rs31.2bn — the lowest in the past eight quarters

With a declining trend in fresh slippages after several quarters (at Rs31.2bn), we believe that the peak of NPA recognition cycle is over now, and the incremental additions to NPAs are expected to stay significantly lower than the previous years

The Bank reported a healthy growth of 16%YoY in domestic loans driven by retail loan growth of 20%YoY. Within retail loans, personal loans and business banking were the fastest growing segments clocking growth of 51% YoY and 50% YoY respectively.

As per management, provisions will remain elevated in H2 and it would like to achieve 70% coverage latest by FY20; however, YoY NPAs to remain lower in FY19, which is encouraging.

With a new management team firmly in place, financial performance is showing signs of stabilization. Decreasing share of overseas balance sheet provide some relief from the concerns of the past.

We believe that the time for corporate lenders like ICICI Bank has come with reasonable quantum of pain taken up over last few years, management change, slippages showing signs of normalization, adequate provisions on NCLT exposures/ GNPAs and some large lumpy cases (like Essar Steel) moving towards resolution in NCLT forum

We expect ICICI Bank to reports a BV of Rs 162 and Rs 175 respectively for FY19 and FY20.

Radico Khaitan CMP Rs 386 TP Rs 510

Radico Khaitan Ltd (RDCK) is the third largest volume player in IMFL segment in Indian market with annual sales of more than 20 million cases. Having entered in branded IMFL segment in late 90s, RDCK has established a wide range of products across different price levels and expanded its presence in the market.

RDCK owns six pillar brands, named 8PM, Magic Moments, Old Admiral, Morpheus, Contessa and After Dark, which have significant market presence and enjoys considerable market share in the industry. RDCK has three distilleries in Rampur, UP and holds 36% interest in a JV in Aurangabad, Maharashtra. It owns 5 bottling units and maintains 28 contract bottling units. It holds 7% market share in IMFL industry as on date

RCDKL reported a strong set of FY18 numbers with net sales at Rs 1882 crs as compared to a revenue of Rs 1679 crs last year, with EBIDTA placed at Rs 270 crs from Rs 211 crs last year with the PAT placed at Rs 123.50 crs from Rs 80 crs up by 54% YoY. RCDKL has declared a dividend of 50% for FY18

In Q2FY19 RDCK's revenue increased by 15.5% YoY to Rs5.2bn driven by 11% increase in IMFL sales volumes Robust sales volume growth was led by 14% increase in Premium category. This segment contributed 29% of total volume in 2QFY19. Regular category sales volume increased 10% YoY Sales volume growth was broad based across key states and key IMFL brands primarily driven by the recent price increases and favourable policy changes 8PM Black Whisky, Magic Moments Vodka and Morpheus Brandy delivered sustained growth

Net Debt was Rs3.7bn (Debt repayment of Rs1.4bn in 1QFY19 and Rs60 crs in 2QFY19). Overall Debt reduction of Rs5.7bn since March 2016 has led to healthy balance sheet improvement

Net Profit increased 73% YoY to Rs 49.5 crs as a result of higher volumes, margin expansion and lower finance costs

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 1975 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 165 crs in FY19E. Thus on a conservative basis, RDCKL should record a EPS of Rs 12.38 for FY19E. For FY20E and FY21E our expectation is that earnings traction for RDCKL would continue to be strong wherein we expect a EPS of Rs 16 and Rs 20 respectively

Aksh Optibre Limited CMP Rs 27.5 TP Rs 60

Aksh Optifibre Ltd (AOL) is a vertically integrated player with Optical Fibre and Optical Fibre Cable capacity housed under one single manufacturing facility & amongst the largest Optical Fibre Cable manufacturers in India. AOL's operations are also diversified with FRP rods, with a sizable capacity & coupled with the only Ophthalmic Lens manufacturing facility in India

AOL has 7 manufacturing plants located at Bhiwadi, Silvassa,Reengus, Kehrani in India & Jafza Dubai, Jiangsu China & Mauritius with a total capacity of 7 mn FKM for OF & 10.7 mn FKM for OFC, 4,2 mn Kms FRP capacity & 25mn nos pa for the Ophthalmic Lens capacity.

Aksh reported a strong set of FY18 numbers with net sales at Rs 624.81 crs as compared to a revenue of Rs 509.78 crs last year, with EBIDTA placed at Rs 74.15 crs from Rs 49.90 crs last year with the PAT placed at Rs 20.86 crs from Rs 9.51 crs up by 119% YoY

Key drivers for fiber demand in India are 1) Big projects like Bharat Net, 2) New 4G network roll out by Reliance Jio, 3) aggressive network expansion by other telco operators and 3) ongoing NFS project (Network for Spectrum from Government of India). Hence increasing data demand will drive network expansion and up gradation by telecom service providers, which will in turn, benefit optic fiber companies.

While 3G network requires 15-18% of the sites to be fiberised, 4G requires 65-75% of the network to be fiberised. Advent of 5G will require not only 100% of the network to be fiberised, but also significant densification of the network and fiberised fronthaul investments to support the Cloud Radio Access Network (C-RAN) architecture. Hence going ahead it is quite clear that almost every telecom player plans to increase investments towards fiberisation of networks to augment data capacity to meet future demand. The government also continues to invest in building networks to bridge the digital divide and strengthen the country's defence networks

Higher data usage is pressing the need for capacity expansion in OF. Factors such as high bandwidth communication, opportunities across sectors and government's focus on developing network infrastructure through higher funding are driving the global OF market. Hence demand in OF demand globally over the next 2-3 years is expected to grow @15% pa
We expect India also to register 15%+ CAGR in OF/OFC demand over next 2 years on FTTH deployment and better execution of government's broadband infrastructure projects

OF and OFC demand in India is estimated to be equally split between private and public utilities/communication service providers. Private telecom service providers currently contribute around 35% to 40% of the total OF and OFC demand while government utilities, including BSNL, MTNL, Power Grid and BharatNet project (rural broadband project) account for another 35% of the OFC demand with the balance 25% accounted by MSOs, ISPs, CATVs players etc.

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 750 crs in FY19E.

In H1 of FY19 the company has already posted a Topline of Rs 319 crs from RS 268 crs – up by 19% YoY EBIDTA at Rs 72 crs from Rs 28 crs in H1 last year – up by 156% YoY followed by a PAT of Rs 30 crs from Rs 7 crs – up by 319% YoY

On the bottomline level we expect the company to record a PAT of Rs 65 crs in FY19E. Thus on a conservative basis, Aksh should record a EPS of Rs 4 for FY19E and Rs 5.50 for FY20E.

Care Ratings Limited CMP Rs 1084 TP Rs 1275

CARE Ratings (CARE) having started operations in Apr'93 is the 2nd largest credit rating agency in India

CARE provides the entire spectrum of credit ratings that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. CARE's offerings for small and medium enterprises (SME) include SME ratings, bank loan ratings, channel partner evaluation, SME fundamental grading and due diligence services.

With better NPA recognition and recoveries; and the gradual pick-up in lending across segments, there is bound to be an incremental requirement for due diligence and ratings. Further, the regulators such as RBI, SEBI and others have mandated credit rating for new products and/or companies, thus resulting in new sources of income for the rating agencies

The company has a strong clientele of +19,000 clients as of 31 Mar'18 (incremental 4,079 during the year) and an addition of 671 new clients in Q1FY19. In all, the total instruments rated in Q1FY19 were 1,806 vs. 10,243 in FY18. CARE's list of clients includes banks, NBFCs, public and private corporates, SMEs and microfinance companies among others.

The ratings business has proven to be high profit margin business with EBITDA margins remaining in excess of 60%. This has yielded high return ratios with RoE at 28.7% in FY18

However, the Q1FY19 results were affected by several one-offs due to change in accounting policy and ESOP expenditure, adjusting for which the operating income grew 6.7% YoY to Rs 57.4 crs while the net profit declined 13.4% to Rs 25.6 crs

Neverthess Financials for CARE continue to be robust with zero debt on the books and cash on hand of roughly Rs 350 crs. CARE has also been rewarding shareholders with liberal dividends.

We expect Care to report a Revenue of Rs 346 crs and Rs 400 crs by FY19 and FY20 followed by a PAT of Rs 166 and Rs 190 crs in FY19 and FY20 giving a EPS of Rs 56 and Rs 64 respectively.

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