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DIWALI SPARKLERS

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Equity market set to roar on the consumption boom

- In a season of global uncertainty underlying expectations for slower growth worldwide, India is going against the trend and building on steady economic momentum. Public-sector wage hikes, lagged impact of monetary policy easing, and a better monsoon season than the previous two years, should support growth in the near-term, while decent progress on structural reforms including the recent landmark passage of the Goods and Services Tax in parliament should facilitate a turnaround in investment over the medium term..
- Given these, We have identified **Tata Motors, Voltas, National Aluminium company(NALCO), Magma Fincorp and Kwality** as our key stock picks. These companies showing robust growth and returns offer better investment opportunities vis-à-vis other players. Also, being leaders and fast growing companies in their respective area of operations and having miniscule debt on their balance sheets, these companies are expected to capture more value in the upcoming economic growth.

Stock Picks	Market Cap(Rs bn)	CMP	Target(Rs)	Targeted Return
Tata Motors limited	1565	545	708	30%
Voltas Limited	130	394	508	29%
National Aluminium Company Limited	132	51	72	40%
Magma Fincorp Limited	28	117	170	45%
Kwality Limited	34	146	190	30%

BUY

TATA Motors Ltd

NSE:TATAMOTORS
BSE:500570

CMP: 545
Target: 708
Upside: 30%

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(In Rs mn)	FY13	FY14	FY15	FY16
Net Sales	1888176	2328337	2631590	2755611
EBITDA	265689	374029	421138	402367
EBITDA Margin	14%	16%	16%	15%
EPS (`)	32.4	45.8	43.0	32.6
EV/Sales (x)	0.8	0.7	0.6	0.7
EV/EBITDA (x)	6.0	4.3	3.8	4.8
P/E (x)	16.8	11.9	12.7	16.7

Price Performance	CY13	CY14	CY15	YTD
Absolute	20%	32%	-20%	40%
Relative to NIFTY	14%	0%	-16%	32%

Technical View

- We are expecting the uptrend in Tata Motors to continue. The positive DMI and the ADX line both are in the positive territory indicating a trending movement ahead. Coupled with the fundamental rationale the stock is expected to post 30% returns in next 10-12 months.

Source : Company, Destimoney Research

Investment Horizon: 10-12 months

Investment Rationale

- Tata Motors Limited, is a leading global automobile manufacturer with a portfolio that covers a wide range of cars, sports vehicles, buses, trucks and defence vehicles. They have a strong global network of subsidiaries and associate companies, including Jaguar Land Rover in the UK and Tata Daewoo in South Korea. It has the largest network of sales network in the country with over 1,800 touch-points. The company is a leader in the domestic CV segment with around 44% market share.
- Tata Motors is looking to substantially increase its market share in the commercial vehicle segment in south India. As part of its sales network expansion in the region the company has recently opened 10 sales, service and spare parts (3S) besides 10 sales outlets (1S) in Chennai, Salem, Warangal, Trichy, Madurai, Cochin, Tumkur among others. These new outlets have already started to contribute around 6 percent of its overall volumes in the region.
- Tata Motors regained the No 3 slot in the passenger car segment in the first quarter of FY17 banking on its recently launched Tiago. It is all set to launch Tata Hexa in January 17 which will push the sales of the PV segment. Tata has also struck a deal with a major South African car hire company to supply Tata Bolt 1.2 Turbo hatchbacks for its national rental flee.
- Jaguar's business which is very cirtrical to the company, as it forms whopping 90% of Tata motors's valuation, has grown at record breaking rate of 30% in the previous months which is expected to sustain.
- Despite of taking some hit by the falling pound, Tata motors is poised for robust growth as it has the right product mix and significant presence in SUV segment, which is expected to grow rapidly, through Jaguar Land Rover. We recommend ***buy*** on Tata Motors with a Price target of ***Rs 708***

BUY # Voltas Ltd

NSE: VOLTAS
BSE: 500575

CMP: 394
Target: 508
Upside: 29%

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(In Rs mn)	FY13	FY14	FY15	FY16
Net Sales	55310	52660	51831	58574
EBITDA	2380	2656	4100	4369
EBITDA Margin	4%	5%	8%	7%
EPS (`)	5.9	6.8	10.2	11.7
EV/Sales(x)	0.6	0.6	0.6	0.6
EV/EBITDA (x)	13.8	12.4	8.0	7.5
P/E (x)	66.8	58.0	38.7	33.7

Price Performance	CY13	CY14	CY15	YTD
Absolute	10%	109%	34%	22%
Relative to NIFTY	3%	78%	38%	14%

Technical View

- Voltas is trading near lifetime highs .The stock is in a healthy uptrend forming higher tops and higher bottoms. Again the testimony to the uptrend is from the ADX indicator which shows both the positive DMI and the ADX line are in trend zone.

Source : Company, Destimoney Research

Investment Horizon: 10-12 months

Investment Rationale

- Voltas is a market leader with 22% market share in the domestic air conditioning space. The Unitary Cooling Products (UCP) division dealing in air conditioning products contributes dominantly to the company's overall revenues. The other two divisions are the Electro-Mechanical Projects (EMP) division and the Engineering Products Solutions division.
- Voltas follows an asset light business model enabling it to have a better control on capital allocation. With the lower capex requirement the company generates significant free cash flow and currently has a net cash of Rs13.6bn in its books. Further with the revival of Projects business and continuing with outsourcing model for UCP segment; we expect the ROEs to improve further.
- Voltas has a record of muscular growth with its top line CAGR of 29.2% and bottom line CAGR of 24.2%.The company thrives to double its profit in the next 4 years which seems possible given strong balance sheet position of the company which will allow the company to expand freely. However competition from Japanese firms like Daiken, Hitachi on the room-ac side is a concern.
- Voltas after a long time of unfavorable industry growth is seeing the uptick in both domestic as well as international Projects business, with new orders coming at decent margins. However the legacy projects of ~Rs10 bn in Middle East would continue to impact the segment margin in the near term,but that is temporary. With legacy projects' expected completion soon and contribution of high margin projects kicking-in, we are positive in this segment with a long term perspective.
- We expect the company to maintain its market leadership, catalysed by new product launches(forayed into the air cooler segment) and favourable economic conditions. We give a ***buy*** reccomendation with a price target of Rs ***508.***

BUY

NALCO Ltd

NSE: NATIONALUM
BSE: 532234

CMP: 51
Target: 72
Upside: 40%

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(In Rs mn)	FY13	FY14	FY15	FY16
Net Sales	69165	67809	73828	67033
EBITDA	9069	9342	17060	9380
EBITDA Margin	13%	14%	23%	14%
EPS (`)	2.3	2.6	4.8	2.8
EV/Sales (x)	1.1	1.1	1.1	1.2
EV/EBITDA (x)	8.6	8.3	4.6	8.3
P/E (x)	22.2	19.7	10.7	18.3

Price Performance	CY13	CY14	CY15	YTD
Absolute	-23%	42%	-26%	29%
Relative to NIFTY	-29%	10%	-21%	21%

Technical View

- Entire Metals sector witnessed a renewed interest at the start of the year 2016. Many stocks rose more than 100% in this period. However some of the companies did not participate in the rally, Nalco being one of them. The stock is rising after a good bottom formation and the trend indicators are positively placed. We expect the stock to post 40% returns on coming 10-12 months.

Source : Company, Destimoney Research

Investment Horizon: 10-12 months

Investment Rationale

- National Aluminium Company Ltd (NALCO) is a Navratna company and is a fully integrated producer of Alumina and Aluminium. It has an installed capacity of 2.28MT, 0.46MT, and 1200MW for Alumina, Aluminium, and Power, respectively. NALCO is lowest cost producer of Alumina globally, supported by captive bauxite mines at Panchpatmali in Odissa with capacity of Mines is 0.6825 MTPA (estimated reserve of 160 MT). NALCO is better placed compared to its peers owing to high sales of alumina.

- Company has cut alumina production cost by $30-40 per ton to $190 a tonne compared to the global benchmark of $220-230 per ton. The company also hopes to trim its Aluminium production cost by around Rs 500 per tonne in a couple of years. Also, it expects to begin coal production from Utkal D mine in two years. Availability of coal from this block would help to reduce production cost by about Rs 500 a tonne.

- NALCO's stable and efficient operations have strengthened its balance sheet and return ratios over the years. NALCO has had a healthy track record of generating free cash flow. Barring two instances (FY09 and FY13) in the last 12 years, it has generated positive FCF every year. Going forward, the FCF yield is set to decline as capex on the Damanjodi refinery expansion and other plans picks up.

- With concerns over slowing commodities demand set aside and expectation of higher margin on the back of lower raw material prices and consistency of dividend payout, we reccomend ***buy*** on NALCO with price target of ***Rs 66.***

BUY

Magma Fincorp Ltd

NSE: MAGMA
BSE: 524000

CMP: 117
Target: 170
Upside: 45%

(In Rs mn)	FY13	FY14	FY15	FY16
NII	7177	8743	10486	12768
PAT	1449	1596	1873	2136
Total Income	7752	9404	11526	13135
ROA	0.8%	0.7%	0.9%	1.1%
ROE	10.0%	9.6%	10.7%	11.5%
P/E (x)	17.7	16.0	13.3	13.0
P/B (x)	1.6	1.5	1.3	1.3

Price Performance	CY13	CY14	CY15	YTD
Absolute	-15%	52%	-12%	24%
Relative to NIFTY	-21%	20%	-7%	16%

Technical View

- Magma Fincorp is showing good signs of accumulation with a rising percentage ratio of traded to deliverable quantity. Coupled with a rising trend and a positively placed ADX this stock is expected to move at least 45% in next 10-12 months.

Source : Company, Destimoney Research

Investment Horizon: 10-12 months

Investment Rationale

- Magma Fincorp is one of the leading non- banking financial companies operating 267 branches in India. It provides commercial finance, Agri finance, SME finance and Mortgage finance.
- Magma Fincorp has realigned its product portfolio towards higher margin products. Now it is focused on mortgages, SME used assets and tractors while reducing its weightage on CV/CE. The company has a target to increase the share of high margin products to 70% of loan book and total disbursal till FY18 from the current levels of 58%.This will be supported by lower cost of funds and improved product mix.Also,the mortgage and SME segment loan growth is expected to be higher than used assets & tractor segment.It will help the company to reach its specified targets of ROA of 1.7% and ROE of 16% from the current levels of 1.2% and 10% respectively
- Magma's efforts in FY16 were on improving its delinquency scenario, especially in CV,CE & Tractor segments. The specific emphasis on better collections has helped the company to lower its elinquencies.Magma is currently adopting 120-dpd NPL recognition and the management has guided to migrate to 90-dpd NPL recognition by FY18.The rising GNPA however will be restricted by improving loan book, better recovery & upgradation due to improving rural income. It is expected that the recoveries will flow in from Q3 FY17 onwards as a result of the company's better collection efforts.
- With changing portfolio mix towards high margin products,growth potential in Loan book, asset stabilization,declining credit cost the company has improved its operational efficiences which is expected to sustain for long term.We give a ***buy*** reccomendation on Magma Fin Corp with a price target of Rs ***170.***

BUY

Kwality Ltd

NSE: KWALITY
BSE:531882

CMP: 146
Target: 190
Upside: 30%

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(In Rs mn)	FY13	FY14	FY15	FY16
Net Sales	39297	50110	58783	64141
EBITDA	2232	2934	3499	3887
EBITDA Margin	6%	6%	6%	6%
EPS (`)	5.2	7.13	8.1	7.9
EV/Sales (x)	1.2	1.0	0.8	0.8
EV/EBITDA (x)	21.9	16.6	14.0	12.6
P/E (x)	28.1	20.5	18.1	18.4

Price Performance	CY13	CY14	CY15	YTD
Absolute	-15%	39%	260%	5%
Relative to NIFTY	-22%	8%	264%	-3%

Technical View

- Kwality is a steadily rising forming a higher bottom higher top formation. The stock is trading near its 52 week highs which shows a renewed buying interest amongst investors. Any pause in the price of the stock represents a buying opportunity. Kwality is expected to rise as much as 30% form here to touch 190 levels in next year.

Source : Company, Destimoney Research

Investment Horizon: 10-12 months

Investment Rationale

- Kwality is one of the fastest growing private sector dairy companies with a new range of innovative products and enjoys a large presence in Northern India. Currently, Kwality has 6 manufacturing units located in northern India with a capacity of around 3 million litres of milk per day. Its customers include leading FMCG brands, government organizations, religious institutions, and retail chains. It is also the largest exporter of dairy products from India and to increase its market share internationally, it has set up 100% subsidiary at Jebel Ali Free Zone, Dubai..
- Largely a B2B company catering to institutional clients, Kwality is now shifting focus from institutions to consumer business. Currently the ratio of institutional & retail is 70:30 which the company wants to even out 50:50 due to better margins in the consumer segment, increasing distribution base and faster growth in the value added products.
- In the dairy industry, value added products have gained importance, Kwality ltd is enhancing and rebranding itself as a dairy product company with the introduction of more and more value added products to retail customers like Paneer , Flavored yogurt ,butter, etc. which will help to gain in better realization than liquid milk and result in a better product mix.
- Kwality has a robust history of growth with its revenue and PAT growing at a CAGR of 32% and 30% respectively over the past 5 years. Its reserves have also grown at a whopping CAGR of 63% over the same period. Kwality also has the best PAT margins(3%-4%) among its peers.
- We remain positive on the stock with the growth and changing strategy from B2B to B2C player as it would help expand margins. We recommend ***buy*** on Kwality ltd with price targets of ***Rs 190***

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