AJCON GLOBAL
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Top picks and view on Indian equities.. **July 28, 2018**

On the domestic front, focus will now shift to the RBI policy meeting that is scheduled next week. Expectation is that the central bank could hold rates unchanged but hawkish comments from the governor would be slightly supportive for the currency.

Q1FY19 results so far have been encouraging on a lower base due to GST impact on earnings last year. In the coming week, around 450 companies will declare their corporate earnings, which include largecaps like HDFC, Tata Motors, ONGC, Tech Mahindra, Shree Cement, Axis Bank, Vedanta, UPL, Power Grid and Titan Company. In the broader space, IDFC Bank, InterGlobe Aviation, Avenue Supermarts, Escorts, Idea Cellular, Central Bank of India, Godrej Consumer Products, IDFC, Dabur India, Bharat Electronics, Bank of India, Tata Global, Marico, SAIL and Wockhardt will announce earnings.

Investors will also keep an eye on macroeconomic data like India Core Infrastructure Output for June which will be released on Tuesday. India Nikkei Manufacturing PMI for July will be announced on Wednesday and Nikkei Services PMI for July on Friday.

India's Foreign Exchange Reserve for the week ended July 27, and deposit & bank loan growth for the week ended July 20 will also be released on Friday.

Larsen and Toubro (L&T)

CMP: Rs. 1,311, Target price: Rs. 1,450, Upside: 11%

L&T posted stellar set of numbers in Q1FY19. Consolidated PAT for Q1FY19 registered a strong growth of 36 percent on yoy basis to touch Rs. 1,215 crore.

While revenue came in at Rs. 28,283 crore for the quarter ended June 30, 2018, registering a growth of 18% on a y-o-y basis with pick up of execution momentum in project businesses, robust growth in services business and recognition of revenue on completed performances in Realty business under the newly introduced accounting standard for revenue recognition (IND AS 115). International revenue during the quarter at Rs 9,669 crore constituted 34% of the total revenue in line with previous year.

In Q1FY19, its key infrastructure segment, accounting for 43 percent of revenue, delivered 9.7 percent year-on-year growth due to improvement in execution. Apart from the power segment which saw a degrowth of 39 percent, which accounts merely 3.8 percent of the business, other segments such as heavy engineering delivered 29 percent growth, followed by a 37.4 percent growth in defence and a robust 38.5 percent growth in the hydrocarbon segment. Hydrocarbon, which accounts for 12.4 percent of the total topline witnessed a strong revival owing to higher oil prices and growth in capex.

Order flows of Rs 361.42 billion during the quarter, marking a growth of 37 per cent, with pick-up in domestic ordering activity during Q1FY19 indicates better days for the firm ahead. The company has given 10-12 percent order inflow guidance for the current year, most of which is expected to come in the first half or by the third quarter of current fiscal.

The Company has bagged new orders worth Rs 36,142 crore at the group level during the quarter ended June 30, 2018, recording a growth of 37%, International orders at Rs 9,404 crore constituted 26% of the total order inflow. Infrastructure, Hydrocarbon and Heavy Engineering businesses largely contributed to the growth in order inflows during the quarter.

Consolidated Order Book stood at Rs. 271,732 crore as at June 30, 2018 which provides strong visibility in terms of the revenue growth and profits over the next two years. International Order Book constituted 23% of the total Order Book. At CMP of Rs. 1,311 (Face value: Rs. 2), the stock trades at a P/E of 25x on FY18 EPS. Going forward, L&T management is expecting order inflows to remain strong in FY19 ahead of the general elections in 2019. And with the execution improving and other businesses such as technology and finance making higher contribution, it should deliver double-digit growth in sales and earnings. We expect a target of Rs. 1,450 in 9-12 months (25x at estimated FY19 EPS).

Asian Paints Ltd.

CMP: Rs. 1,434, Target price: Rs. 1,600, Upside: 12%

Decorative paints business in India registered double digit volume growth in Q1FY19, aided by the low base effect of Q1FY18.

The Company witnessed 30.56 per cent rise in consolidated profit at Rs 558.02 crore for the quarter ended June 2018. It has posted a net profit of Rs 427.41 crore in the corresponding quarter last year.

The company believes the GST rate reduction from 28% to 18% is a good move in the right direction and will help boost demand from small consumers. The Company plans to pass on the benefit of rate reduction due to GST to consumers.

However, the management is cautious about the fact that the input prices have been increasing continuously, and they expect costs to inflate by at least 10% in the next quarter. The management has said that the price hikes taken in March 2018 and May 2018 (cumulatively 3.3%), only partially pass on the impact of the rise in RM costs. It expected to take further price increases to mitigate the impact. However, it has deferred the decision in lieu of the GST rate reduction.

In the Industrial business, good demand conditions in the General Industrial and Auto Refinish segment helped performance of the Automotive coatings JV (PPG-AP). While the Industrial Coatings JV (AP-PPG) saw good growth across both – protective coatings as well as powder coatings segment.

Overall, International operations faced challenging conditions with issues like forex unavailability, difficult weather conditions impacting business performance.

The Company expects the recent reduction in GST rate on paints from 28% to 18% to reduce price differential between organized and unorganized players and drive market share gains. The Company is taking steps to pass on the benefit of the 10ppt GST rate reduction to consumers. This would entail re-stickering of all company owned inventory to reflect the GST rate adjusted price.

While the reduction in GST rate should automatically drive 10% reduction in MRP, actual benefit passed on to the consumer may depend on the competitive intensity within the dealer network as most paint products are sold below MRP.

The company remains hopeful of recovery in demand going forward on the back of upcoming festive season as well as demand recovery in key South India market. The Company plans a capex of Rs. 1,000 crores in standalone books in FY19, of which Rs. 800 crores would be incurred for its under-construction greenfield facilities in Mysuru and Vishakhapatnam. Consolidated capex is likely at Rs. 1,200 crores.

At CMP of Rs. 1,434 (Face value: Re. 1), the stock trades at a P/E of 67x on FY18 EPS which is at premium to its peers in the sector. Overall the rally in FMCG stocks is owing to a rush by investors to grab a piece of India's consumer demand story which has rerated the valuation of FMCG companies to the highest in nearly three decades. The sector's rich valuation is owing to a combination of strong fund inflows on and a relative lack of opportunity for investors.

The stock of Asian Paints has rallied in recent times owing to strong result in Q1FY19, we still believe there is upside as it is one of the strong play on India’s consumption theme with quality management pedigree. We believe the stock will always trade at a premium as it is a market leader with a gigantic scale achieved over the years. We expect a target of Rs. 1600 by FY19 end.

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