AJCON GLOBAL
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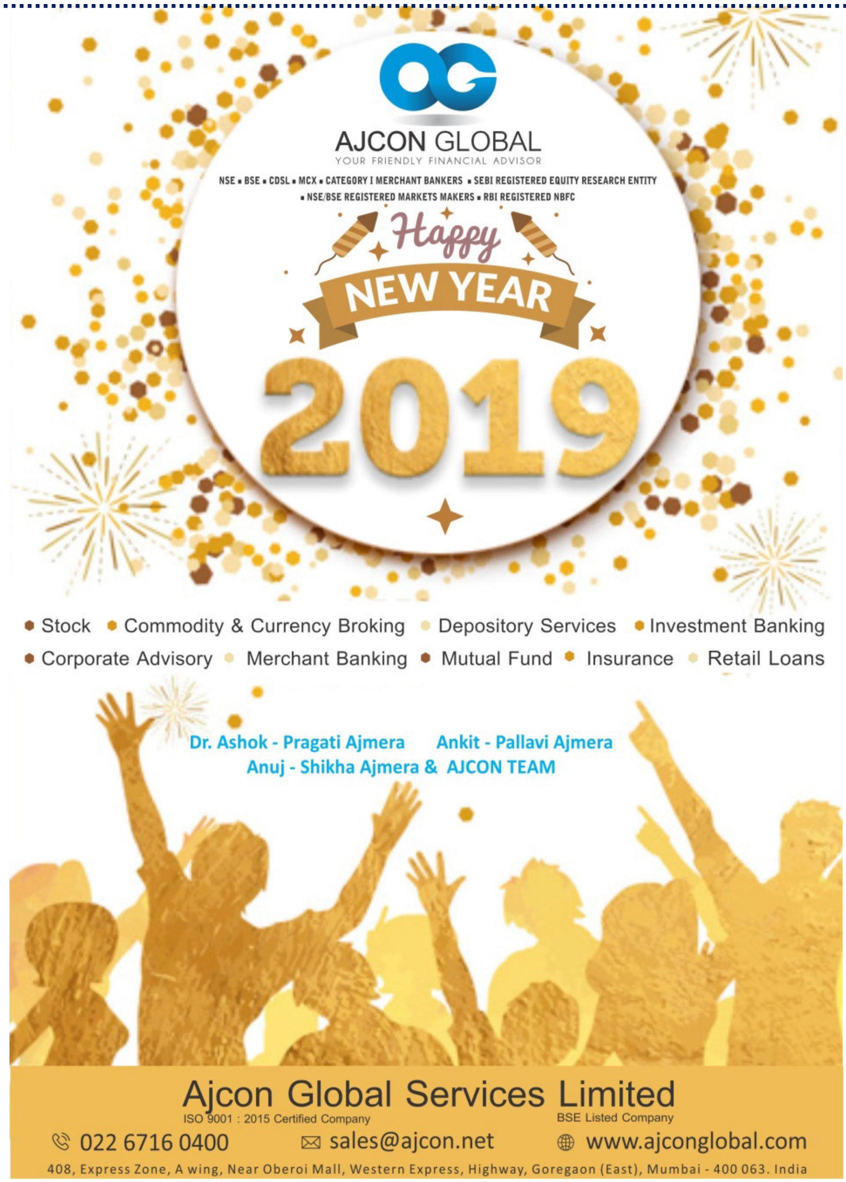
Top picks and view on Indian equities **Dec. 31, 2018**



Market outlook

Investors to track global cues, Q3FY19 earnings season and result of Upcoming General Election in 2019..

In a key domestic development, the Finance Ministry will be infusing Rs. 28,615 crore in seven state-run banks by December end to help meet the regulatory norms on maintaining adequate capital buffers. The government last week sought Parliament's approval for infusion of additional Rs. 41,000 crore in state-owned banks through the second batch of supplementary demands for grants. That takes total recapitalisation for 2018-19 to Rs 1.06 lakh crore.

India's foreign exchange (forex) reserves rose by US$167.2 million during the week ended December 21, official data showed on Friday. According to the Reserve Bank of India (RBI)'s weekly statistical supplement, the overall forex reserves increased to US$393.287 billion from US$393.120 billion reported for the week ended December 14. India's forex reserves comprise foreign currency assets (FCAs), gold reserves, special drawing rights (SDRs) and India's position with the International Monetary Fund (IMF). FCAs, the largest component of the forex reserves, edged higher by US$105.2 million to US$367.97 billion during the week ended December 21. Besides the US dollar, FCAs consist of 20-30 per cent of other major global currencies. The RBI's weekly data showed that the value of the country's gold reserves rose by US$37.2 million to US$21.22 billion. Similarly, the SDR value went up by US$8.9 million to US$1.459 billion, while the country's reserve position with the IMF increased by US$15.9 million to US$2.63 billion.

In 2018, India saw more than $38 billion of inbound deals compared with China's $32 billion, buoyed by stable fundamentals, a bankruptcy code and fresh opportunities in sunrise sectors. With the state election results and uncertainty at RBI being over, the market would now track global cues and Q3FY19 earnings season. We believe Q2FY19 earnings season has been mixed bag but Q3FY19 could be much better. All eyes would be also on last budget of the current government to be presented before the general elections. We do expect volatility as the Central Government may resort to populist measures to gain back popularity amongst the rural community especially farmers after its loss in key states like Madhya Pradesh, Rajasthan and Chattisgarh which street participants may not prefer. With crucial assembly elections (which were considered as semi - finals to Lok Sabha elections in May 2019) results out, the question now comes to our mind as to which party manages to win the General elections. It may be difficult for both major parties BJP and Congress to get majority. Street participants would not prefer a coalition government as decision making and execution becomes difficult in coalition regime for obvious reasons. The strategy at present should be to invest in phased manner only in companies which are not connected to any political party, have a robust business model, strong earnings and cashflow visibility, low debt and backed by quality management especially on the corporate governance front. Considering the above factors, investors can have a stock specific approach in midcaps and smallcaps space as there are many companies which are trading at a discount of 50-70% to their peak price in early 2018. On a safer side, we would suggest investors to have a look at Pharma MNCs, Consumption stocks, PSU banks even after recent rally – trading at depressed valuations (looking better after the cleanup of NPA mess, progress made under the NPA resolution framework under IBC, faster resolutions under NCLT and proposed recapitalization), IT sector and Private Insurance Companies at the current moment. The year 2018 has wiped out the gains made in last 2 years but we believe CY2019 would be much better.

Top picks

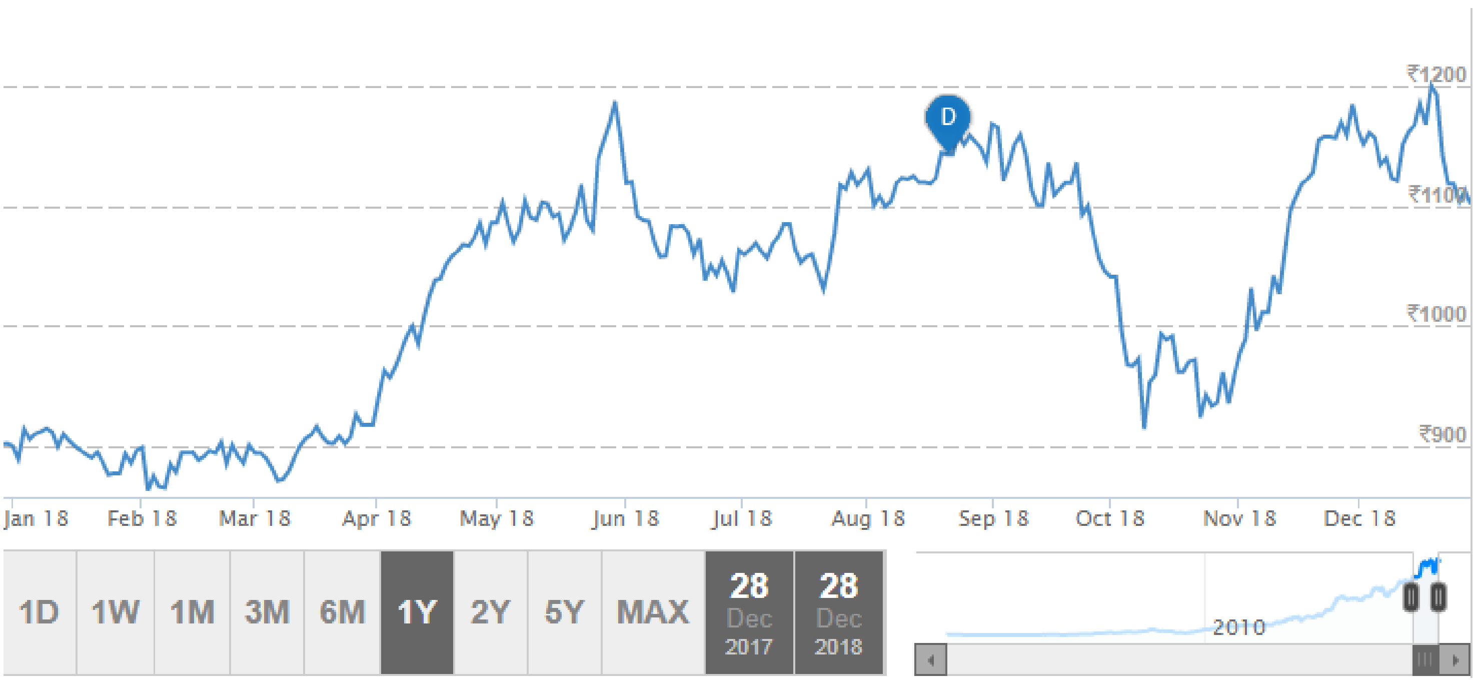
Pidilite Industries|CMP: Rs. 1,101, FV: Re. 1, Target price: Rs. 1,211, Upside: 10%

We like this Company in the Consumption space owing to its stable business model. The Company enjoys strong brand recall and its brand "Fevicol" has high appeal among masses. The Company is a dominant player in adhesive and sealants segment with significant market share. The Company has been major beneficiary of GST due shift from unorganised to organised trade which has resulted in good volume growth for the Company in last 4-5 quarters. The Company has extended its product line suited for construction activities and its key growth drivers would be its new age businesses like Nina, Percept (waterproofing services), ICA (wood coatings), Dr. Fixit (waterproofing), Roff (tiling solutions) and CIPY JV's (floor coatings).

In Q2FY19, Net sales witnessed a yoy growth of 11.9 percent to Rs.1509 Crores with an underlying volume and mix growth of 9.6%. This was driven by 10.7% growth in sales volume and mix of Consumer & Bazaar products and 4.8% growth in sales volume and mix of Industrial Products. Gross margins during the quarter was impacted by a challenging cost environment and saw 360 basis points contraction versus the corresponding quarter of the previous year. EBITDA before nonoperating income at Rs.349 Crores declined by 6.5% over the same quarter last year on account of higher input cost and higher A&SP spends. Profit after tax during the current quarter at Rs.245 Crores declined by 6.3% over the same quarter last year. For the half year ended September 2018 on a standalone basis, comparable net sales at Rs.3101 Crores grew by 16.8% adjusting for GST impact over the same period last year. EBITDA before nonoperating income grew by 4.3% given the input cost led contraction in gross margins by 2.1% and a higher A&SP spend. Profit after tax grew by 7% over the same period last year.

Bangladesh and Sri Lanka businesses continue to perform well and it remains focused on SAARC, Middle-East and Africa market as its growth drivers in the international business. The Company has delivered another quarter and half year of double digit volume growth; however, a challenging cost environment as a result of crude oil inflations and the depreciating rupee has resulted in lower gross margins. The Company has initiated several cost reduction measures as well as taken some price increases to address this. On trailing twelve months EPS, the stock trades at a P/E of 59x. Going forward, on estimated FY20 estimated EPS the stock trades at a P/E of 45x. We expect an upside of 10 percent from current levels for investors with a horizon of 6-9 months.

Price chart



Source: Moneycontrol

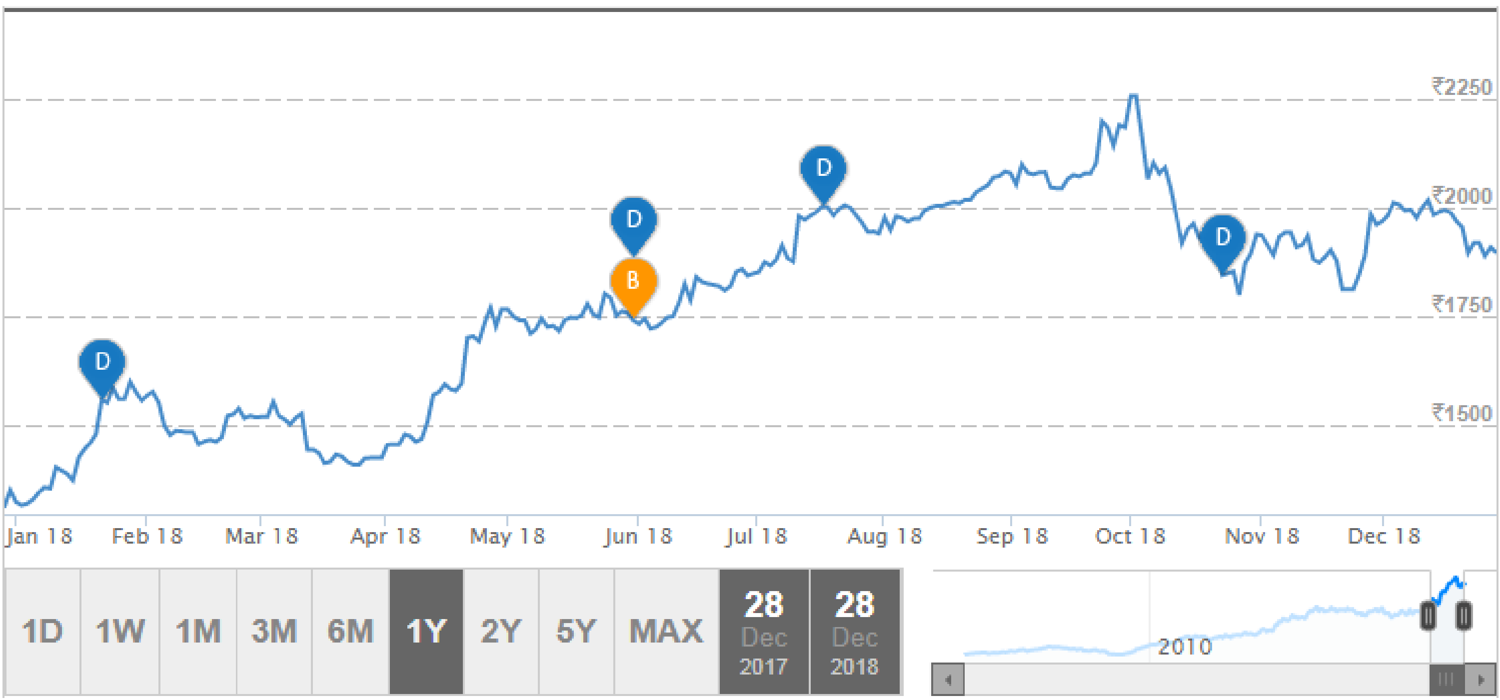
Tata Consultancy Services Ltd.|CMP: Rs. 1,893, FV: Re. 1, Target price: 2,100, Upside: 11%

We like the company as it is best suited to reap benefits of digital transformation. The Company has delivered decent set of numbers in Q2FY19 and given a good guidance. Our conviction stems from the fact that the Company has strong pipeline of orderbook and the deal size is much larger than of its peers. The Company added 4 new clients in Q2FY19 which were in US$100mn+ range, 7 in the US$20mn+ range, 10 in the US$10mn+ range, 11 In the US$1mn+ range.

Higher digital spending by clients provides a strong visibility of orders in the coming future. The management has stated that its Machine first philosophy and agile delivery model is auguring well with its clients and leading to improvement in market share.

The Company is confident of achieving double digit growth Constant Currency (CC) revenue growth over the next 3 years owing to its strong execution abilities which it has exhibited in the past as well. The Company enjoys strong return ratio with ROE in the range of 38 percent and expected to improve by around 300 bps in the next financial year. At CMP of Rs. 1,912 (Re. 1), the stock trades at a P/E of 25x, we recommend a “BUY” with a target price of Rs. 2,100 (Upside: 10 percent) for investors with a horizon of 6-9 months.

Price chart



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