NALANDA SECURITIES PVT. LTD.

WEALTH MANAGEMENT AND FINANCIAL SERVICES

Diwali Picks

Vikram Samvat 2075

November 02. 2018

Dear Investors,

Thank you for choosing Nalanda Securities Private Limited as your preferred financial services provider. We are extremely delighted that you have been part of the Nalanda family for many years.

We wish you a Happy Diwali and prosperous New Year (Vikram Samvat 2075)

It has been an eventful year with Sensex and Nifty scaling new highs of 38,990 and 11,760 before witnessing a sell off due to liquidity crisis impacting NBFCs, INR depreciation, all time high crude prices, US China trade war etc.

Despite disruptions our Q1 GDP numbers clocked 8.2% and is expected to continue with the same run rate, Mutual funds inflows touched INR 89,000 crore YTD and INR 10,237 crore for September, 2018 while foreign exchange reserves are more than USD 400bn which can allow RBI to stem INR depreciation further.

Going forward next six months will be crucial for Indian economy as we have 5 state elections (MP, Rajasthan, Chhattisgarh, Telengana and Mizoram) and Lok Sabha elections in April, 2019; the markets are expected to be range bound with upward bias. We believe India will remain an attractive investment destination with higher GDP growth, consumer spending, rural pickup and infrastructure growth.

We advise all investors to pick up companies backed by good management, sustainable business model and good earnings growth momentum. We have cherry picked few companies for an investment horizon of 1 year.

- *Minda Industries*
- *ICICI Bank*
- *Coromandel International*
- *Dalmia Bharat*
- *Maruti Suzuki*
- *Bajaj Auto*
- *Aarti Industries*
- *Reliance Industries*
- *Shriram Transport*

- From the institutional desk of Nalanda Research

CMP: 311
Target Price: 481
Upside: 55%

Minda Industries

CMP: 354
Target Price: 440
Upside: 24%

ICICI Bank

CMP: 418
Target Price: 512
Upside: 23%

Coromandel International

CMP: 2,132
Target Price: 2,817
Upside: 32%

Dalmia Bharat

CMP: 6,710
Target Price: 8,417
Upside: 25%

Maruti Suzuki

CMP: 2,596
Target Price: 3,430
Upside: 32%

Bajaj Auto

CMP: 1,318
Target Price: 1,655
Upside: 26%

Aarti Industries

CMP: 1,056
Target Price: 1,434
Upside: 36%

Reliance Industries

CMP: 1,213
Target Price: 1,589
Upside: 31%

Shriram Transport

Minda Industries - *A Strong Play on the Changing Regulations*

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Market Data					
Industry: Auto Ancillary	**CMP**: 311	**Target Price**: 481	**Upside**: 55%	**52-w H/L**: 455/282	**Market Cap (Crores)**: 8,283

Well-built Competitive Advantage

Minda Industries has created a strong competitive advantage with a triple combination of 'Large Diversified Product Base' + 'More Than 50 OEMs are its Clients' + 'Tie-ups with 12 Global Technology Leaders'. We think no other auto ancillary company has this level of superiority, which itself has created a Strong Moat and an Entry Barrier. Another mastery is that the company is a Tier 1 supplier to almost all the largest OEMs in India as well as Internationally, and we believe with an ease, Minda has the ability to cross sell its products to OEMs.

Direct Beneficiary of Growth in the Automotive Industry

Minda Industries in the past several years grown more than 2.5x-3.5x of the automotive industry growth driven by the introduction of newer products, addition of OEMs & its new launches and increasing content per vehicle. We have conservatively estimated Minda Industries topline to grow by at least 2x of the automotive industry growth. The company is present across all the sub-segments of automotive industry viz. 2W, 3W, PV, CV & Off-road segments, which we believe gives a widespread exposure towards the industry and makes Minda a direct beneficiary of the growth in the automotive industry.

Enormous Opportunity led by Changing Regulations and Premiumization

As the industry has mandated to move towards BS6 and higher safety standards, we see strong demand for Sensors (including engine related sensors), Advance Filtration, Air Bags, Seat Belts Reminders, etc. The penetration level of Airbags, Reverse Parking Sensors and Seat Belt Reminders is low in India vis-à-vis developed nations and these products are going to get mandatory from 1st July 2019. Additionally, the market itself is moving towards premium components viz. LEDs, Advanced Driving Assistance System, Alloy Wheels, Infotainment System, Telematics, Wireless Chargers & AMT. All these products have enormous opportunity and high margin too. Minda Industries already manufactures all these products and we see a huge opportunity in it.

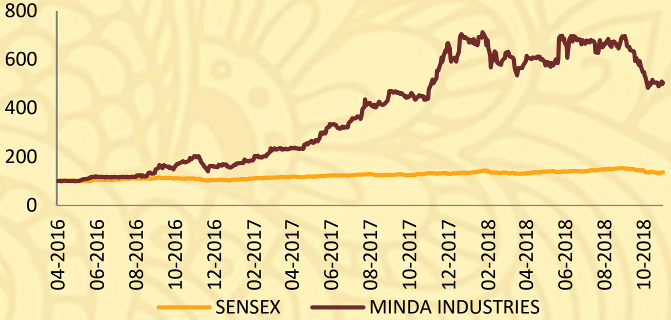
Overall, we trust that the combination of Regulatory Norms, Enhanced Safety Requirements, Premiumization and Electrification will eventually have a positive impact on the company's performance.

Valuations:

Based on the investment rationales discussed, we strongly believe in the company's business model and its potential growth in the medium to long term on account of its competitive positioning, this along with its continued strategy of introduction of newer products in its kitty. Minda Industries revenues, EBITDA & profits increased at a CAGR of 33%, 50% & 73% from FY16-FY18. In spite of the huge potential in the automotive industry, we have conservatively estimated Minda Industries revenue, EBITDA & PAT to grow at a CAGR of 20%, 25% & 24% respectively for FY18-FY21E.

At a CMP of 311, the stock is trading at a very attractive level of 18x FY20E EPS of Rs. 17.2. ***We recommend a Strong Buy on Minda Industries with an average target price of Rs. 481 per share***, valuing the company with DCF and EV/EBITDA Methodology. We have assigned 14.5x to its FY20E EBITDA, in-line to its last two years average EV/EBITDA on account of huge potential and growth opportunities in the $49bn domestic auto ancillary industry.

Minda Industries Vs SENSEX



Shareholding Pattern (in %)

	Sept '18	Mar'18	Sept '17
Promoters	71%	71%	71%
FIIs	9.5%	9.5%	7.8%
DIIs	5.3%	6.0%	7.4%
Retail	14.4%	13.4%	14%
Total	**100.0**	**100.0**	**100.0**

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	3,386	4,471	5,430	6,552	7,832
Growth (%)	*34.0%*	*32.0%*	*21.5%*	*20.7%*	*19.5%*
EBITDA	374	534	670	843	1,043
Growth (%)	*57.3%*	*42.8%*	*25.5%*	*25.8%*	*23.8%*
EBITDA Margin (%)	11.0%	11.9%	12.3%	12.9%	13.3%
PAT	185	331	366	481	624
Growth (%)	*68.2%*	*78.8%*	*10.8%*	*31.2%*	*29.7%*
Adj. EPS (INR)	6.3	11.8	13.1	17.2	22.3
P/E (x)	15.5	25.0	23.7	18.1	13.9
EV/EBITDA (x)	6.5	13.7	11.6	9.5	8.0

ICICI Bank Ltd. – *Poised for growth*

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Market Data					
Industry: BFSI	**CMP**: 354	**Target Price**: 440	**Upside**: 24%	**52-w H/L**: 365/256	**Market Cap (Crores)**: 2,27,842

Business growth looks sustainable: loan book grew 11% YoY and 3% QoQ led by 16 % YoY and 5% QoQ growth in domestic loans growth. Domestic loan book was led by growth in retail loans (+20.5% YoY & 5.0% QoQ) and SME (+21.8% YoY & 5.8% QoQ) segment. Even domestic corporate loan – excluding the gross NPA and write-off – grew in double digit. Further, we believe bank to benefit from the current liquidity crunch in NBFC space. Advances reported double digit growth on the back of 21% YoY growth in retail book, 22% YoY growth in SME book, -4% YoY in overseas book and 5% YoY growth in corporate book. Within retail, home loan segment grew 16% YoY, rural segment 19% YoY, credit card 27% YoY, personal loans grew 51% YoY & micro based grew 46% YoY. Retail book contribute 57% of total advance book.

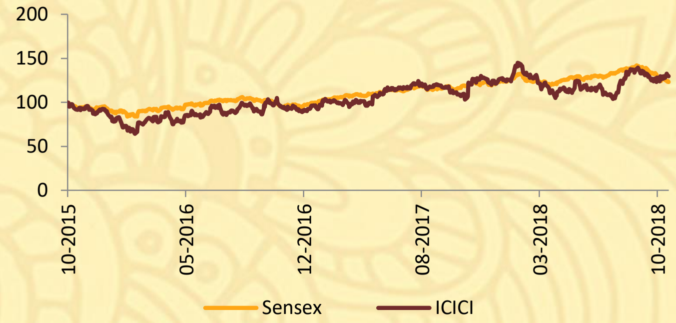
Uncertainty pertaining to top management is over: With concerns related to management transition getting resolved, bank can focus on growing its core operating profits. We believe earnings to accumulate from FY19 as the asset quality clocks improvement, domestic business growth is robust as indicated by H1FY19 and the rising mix of retail adds more granularity to loan book.

Bad phase of downgrade is over; strong recoveries expected: We expect bank to approach end of stressed cycle recognition. Gross NPA came at 7.87% (v/s 8.81% in Q1FY19, 7.82% in Q2FY18). In absolute terms, GNPA came at 44489cr (v/s 53465cr in Q1FY19, 46039cr in Q2FY18). Net NPA came at 4.43% (v/s 4.19% in Q1FY19, 4.20% in Q2FY18). Provision coverage ratio came at 45.8% (v/s 54.8% in Q1FY19, 48.3% in Q2FY18).

Valuations

We believe credit cost to normalize from H2FY19E, since stressed cycle is near end also indicated by improvement in provision coverage ratio. Also, uncertainty pertaining to top management team is over and new board of members highlighted strategy to maintain bank's leadership in corporate banking. Furthermore, we expect current crisis in NBFC space to help bank improve its corporate market share, given stable liability franchise and strong brand recognition of bank. PAT came at 909cr during Q2FY19 (v/s 2058cr in Q2FY18, loss of 120cr in Q1FY19). Return ratios came at 0.4% (RoA), 3.5% (RoE). We value stock at INR 440 (2.4x FY20 P/ABV of Bank + INR 120 of subsidiaries), assuming 20% holding discount, implying 24% upside from current levels.

ICICI Bank Vs SENSEX



Shareholding Pattern (in %)

	Sep'18	Oct'18	Sep'17
Promoters	0.0	0.0	0.0
FIIs	45.3	46.8	45.9
DIIs	24.9	23.2	22.6
Retail	7.1	7.2	7.8
Others	22.8	22.7	23.7
Total	**100.0**	**100.0**	**100.0**

(INR Crores)	FY17	FY18	FY19E	FY20E
Net interest income	21,737.3	23,025.9	25,671.4	29,089.3
Growth%	*2%*	*6%*	*11%*	*13%*
Pre-provisioning profit	26,486.8	24,741.5	22,923.4	25,557.3
Growth%	*11%*	*-7%*	*-7%*	*11%*
Adjusted PAT	9,801.5	6,777.4	3,109.3	5,077.2
Growth%	*1%*	*-31%*	*-54%*	*63%*
EPS (INR)	16.8	10.5	4.8	7.9
BVPS (INR)	171.6	163.6	168.2	176.1
ABVPS (INR)	128.3	120.3	121.4	133.6
P/B (x)	1.4	1.7	1.5	1.3
P/ABV (x)	1.6	2.3	2.0	1.8

Coromandel International – *Healthy Soil, Healthy Crop*

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Market Data					
Industry: Agrochemicals	**CMP**: 418	**Target Price**: 512	**Upside**: 23%	**52-w H/L**: 588/340	**Market Cap (Crores)**: 12,219

Coromandel International is India's second largest phosphatic fertiliser manufacturer, contributing around a fifth of domestic capacity. Furthermore increasing contribution from the crop protection business will boost top-line.

DBT Rollout:

The fertiliser industry witnessed the phased roll out of Direct Benefit Transfer (DBT) scheme, that intends to bring traceability across the fertiliser value chain and promote balanced nutrient practices. Considering the mammoth scale and complexity involved in connecting more than 2,00,000 retailers, the industry, along with the Department of fertilisers (DoF), effectively took up the challenge and executed its implementation. DBT signals a significant shift in operating philosophy for the industry, and we expect its scope to be enhanced further in coming years, which will also help the industry to ease the working capital situation.

Crop Protection acquisition from EID Parry:

Crop Protection business has shown growth across the domestic and export sectors, despite decline in raw material supplies. With the addition of Bio Pesticide operations post acquisition of the business from EID Parry, we expect CRIN to expand their market presence and product offerings in the Indian, North American and European markets.

Government Policies:

During the year, government continued its initiatives targeting doubling of farmer's income by 2022, spanning in the areas of crop insurance, soil health & balanced nutrition, income security, market & credit access and infrastructure development.

Capacity expansion for phosphoric acid production:

Phosphoric Acid capacity augmentation project at Vizag, which aims to supplement additional one lakh ton of acid, is progressing as per the plan and is likely to come up in 2019-20, making the unit self-sufficient for its acid needs.

Improvement in Working Capital Cycle:

Up till FY18 the working capital cycle was stretched due to high receivables. The total subsidy received YTD is INR 1658 crore. This has caused the receivable days to come down and we see the trend to continue going ahead. This will ease the working capital situation for CRIN.

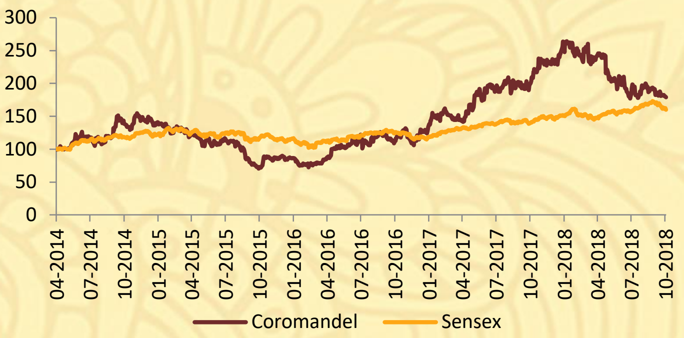
Valuation:

We expect the company to notch re-rating in its valuations on the back of:

- Up gradation of DBT procedure will fasten the process of transferring subsidies to the company and thus easing the working capital
- Acquisition of bio pesticides division from EID Parry will result in incremental revenues from the crop protection segment.
- Higher focus on speciality nutrients; Government policies which are aligned to help the farmers in the country will also benefit CRIN.
- Capacity addition for captive consumption of phosphoric acid will bring the raw material cost further down.

At CMP of INR 417.9, the company is trading at 6.6x FY20E EV/ EBITDA and 9.9x FY20E EPS. We value the company using average of EV/ EBITDA and P.E. multiple methodology. We have given an exit multiple of 8x for EV/EBITDA and 12x for PE to arrive at an average target price of INR 512 which is an upside of 23%.

Coromandel International Vs SENSEX



Shareholding Pattern (in %)

	Sep'18	Jun'18	Mar'18
Promoters	61.8	61.8	61.81
FIIs	3.76	4.36	5.58
DIIs	12.8	12.11	10.49
Retail	21.64	21.73	22.12
Total	**100.0**	**100.0**	**100.0**

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	10,030.8	10,946.7	12,425.1	13,306.4	14,159.5
YOY	*-13%*	*9%*	*14%*	*7%*	*6%*
EBITDA	982.7	1,226.9	1,687.3	2,116.5	2,479.8
YOY	*28%*	*25%*	*38%*	*25%*	*17%*
PAT	477.0	663.6	943.7	1,235.2	1,461.0
YOY	*33%*	*39%*	*42%*	*31%*	*18%*
P/E	19.1	23.1	13.0	9.9	8.4
EPS	16.4	22.7	32.3	42.2	50.0
EV/ EBITDA	11.4	14.3	8.3	6.6	5.6
D/E	0.8	0.9	0.7	0.6	0.5

Dalmia Bharat – *Pioneer in Aggressive Expansion*

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Market Data					
Industry: Cement	**CMP**: 2,132	**Target Price**: 2,817	**Upside**: 32%	**52-w H/L**: 3,350/1,930	**Market Cap (Crores)**: 19,292

Organic and Inorganic expansions continue to propel growth

- Historically, the company expanded rapidly from 1.2mt in FY06 to 25mt in FY18. This was through a slew of organic and inorganic (OCL and Jaypee Bokaro in the East and Adhunik and Calcom in North East) acquisitions which helped it cement its position in South and East India through consistent gain of market share.
- Going forward, we expect this growth momentum to continue as it expands its presence in the East with a clinkerisation line in Rajgangpur (through its subsidiary, OCL India) and grinding units in Odisha, Bengal and Bihar aggregating to an additional capacity of 7.8mt. DBL is estimated to set it up at a cost of USD 70/t and it is expected to be completed in about 25 months.

Foray into new markets through ramp-up of acquired distressed assets

- The company has successfully acquired the distressed assets of Murli Industries (expected to be handed over from NCLT in Q4FY19) and Kalyanpur Cement. This has opened the firm to the Maharashtra market (Murli) and further enhanced its presence in Bihar (Kalyanpur).
- We believe a successful turnaround of these assets is imminent due to DBL's track record of superior execution capabilities.

Operational efficiencies to continue through cost reduction initiatives

- DBL is one of the lowest variable cost producers in the industry. This can be explained by various factors such as modernization of its plants (leading to industry-leading lower electricity consumption), use of alternate fuels as well as a higher blending ratio.
- The company is also ranked first in the world for low carbon economy transition in the CDP (Carbon Disclosure Project) League table and has the lowest carbon footprint.

Higher mix of premium products to boost profitability

- The company has recently increased its proportion of premium products with the launch of composite cement under the brand, "Dalmia FBC". This product, along with its flagship product, "Dalmia DSP" command a price differential of ~INR 35-55/bag, translating to higher realization and in turn, higher margins.

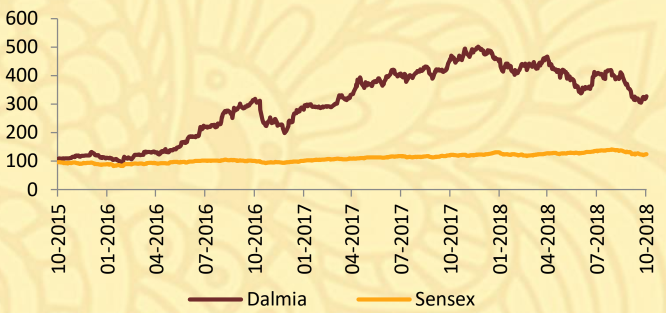
Simplified restructuring and strong management to command higher multiples

- The third generation of promoters were ushered in 2007, marking a significant change in the company. Various initiatives such as 1) bringing in private equity players for aggressive expansion (later exited in 2017), 2) sharp focus on geographical diversification and cost efficiencies as well as 3) business restructuring have fared well for DBL and has catapulted it into the top 5 cement companies in India.

Valuation

We expect DBL to report a revenue CAGR growth of 12.2% over FY18-21E to achieve INR 12165cr of net sales in FY21E. This is mainly driven by a volume CAGR growth of 11% on the back of ramp up of Murli and Kalyanpur assets as well as a higher capacity utilization. We expect power and fuel costs to moderate due to the set up of WHRS (to the tune of 30MW) over the next two years. EBITDA is expected to grow at a CAGR of 14.6% with margins improvement led by savings in power and fuel cost. At CMP of INR 2132/share, DBL trades at an EV/EBITDA of 7.9x on FY20E earnings and an EV/Ton of $101 on FY20E capacity. We value DBL's present capacity of 25mt at EV/Ton of $150 (asset-based) and EV/EBITDA at 10x (earnings-based) to reach at an average target price of INR 2817/share, giving a potential upside of 32%.

Dalmia Bharat Vs SENSEX



Shareholding Pattern (in %)	Sep'18	Oct'18	Sep'17
Promoters	57.92	57.92	58.04
FIIs	17.04	17.28	14.35
DIIs	5.97	5.88	7.97
Retail	16.12	15.97	16.69
Others	2.95	2.95	2.95
Total	**100.0**	**100.0**	**100.0**

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	7404.4	8608.8	9695.7	11095.0	12165.2
Growth	*15.5%*	*16.3%*	*12.6%*	*14.4%*	*9.6%*
EBITDA	1901.9	2026.6	2220.8	2705.1	3050.9
Growth	*19.5%*	*6.6%*	*9.6%*	*21.8%*	*12.8%*
PAT	344.8	535.9	661.3	899.0	1084.9
Growth	*81.5%*	*55.4%*	*17.1%*	*36.1%*	*20.8%*
EBITDA Margin(%)	25.7%	23.5%	22.9%	24.4%	25.1%
PAT Margin(%)	4.7%	6.2%	6.8%	8.1%	8.9%
EPS	38.8	60.3	74.4	101.1	122.0
P/E	38.6	45.1	27.6	20.3	16.8
EV/EBITDA	9.8	13.7	9.4	7.9	6.8
EV/Ton	110.9	151.9	98.8	100.5	77.5

Maruti Suzuki – *Dominance to Sustain*

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Market Data					
Industry: Automobile	**CMP**: 6,710	**Target Price**: 8,417	**Upside**: 25%	**52-w H/L**: 10,000/6,502	**Market Cap (Crores)**: 2,11,275

Supremacy Maintained – Massive Opportunities Exists

Maruti Suzuki in the domestic market has kept its dominance intact despite of increasing intense competition. Maruti's market share improved from 46.2% in Q1FY17 to 52.3% in Q2FY19. The company has been growing higher than the industry in the past several quarters led by the loyalty it has developed over the time, unrivaled distribution network and the ability to bring newer models & refreshers to keep the momentum going. The company doesn't have any capacity issues as we believe it has the ability to keep adding a block of 2.5L units every year.

There is a gigantic opportunity in the domestic passenger vehicle industry. India's PV penetration level is close to ~2.5% as compared to 56% in Australia, 54% in Germany and 46% in the UK. With the rising level of income in India, we believe there is a huge opportunities for the growth to sustain in the coming years and Maruti being a leader to benefit the most. Maruti has been preparing for the future with a target to sell 30L units by FY25 and getting ready with the electric vehicles. All this builds a trust on the management's execution abilities and makes Maruti Suzuki as our preferred pick.

Margins to remain upbeat

We expect the margins to remain soft in FY19E on account of increase in the commodity prices & higher sales promotional expenses. However, ***there are multiple levers for the margins to climb higher*** led by the operating leverage benefits, an increase in the localization and reduction in the royalty payments *(as per the new MoU with Suzuki)*. Along with it, the increase in the safety standards from FY20 & post the implementation of BS6 will raise the realization per vehicle. Additionally, the cost rationalization efforts have started yielding the benefits and expect the commodities to remain stable in the foreseeable future.

Maruti Suzuki has been doing a good job on the cost rationalization, as the raw materials to net revenues has come down by 70bps YoY to 68.1% in the latest quarter. On the other side, higher sales promotions and discounting has led to increase in the other expenses, which we believe is short-lived. Maruti has been putting rigorous efforts on the cost reduction starting with increasing localization, value engineering, volume discounts from vendors and many such steps. All this is reflected in RM costs in the latest quarter. We don't see commodities as a cause of concern as more or less the commodities have stabilized.

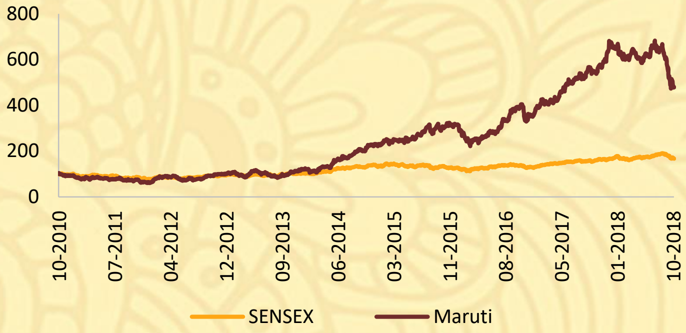
Getting Ready for the Future

With the recent deal with Toyota, the company gets an access to Toyota's R&D to develop electric vehicle. The company expects to launch its first Electric Vehicle in the domestic market by 2020. Maruti's access to EV technologies would help it to sustain its dominance. We believe the deal is a win-win combination, as if the deal doesn't happen Maruti would have to spend huge capex to develop new technologies. Positively, as per the reports, Maruti has built 50 units of the electric version of WagonR model, which is out for testing.

Eye-catching Valuations

We believe all the uncertainties for the next few months are already priced in and trust that the moat of Maruti remains intact w.r.t. low cost manufacturer, an unmatched distribution reach & over the years has created a loyalty among the consumers. The company has been gaining market share *(46.2% in Q1FY17 to 52.3% in Q2FY19)* from the last few years as they keep innovating & introducing newer products/refreshers which kept the consumers excited. The company has been trading at a forward P/E multiple of close to 21.4x in the past few years and 13.3x on EV/EBITDA. We have rolled over to FY21E and assigned similar earning multiples to its FY21E EPS & EBITDA to arrive at a **fair value of 8,417, seeking an upside of 25.4% from the current levels.**

Maruti Suzuki Vs SENSEX



Shareholding Pattern (in %)	Sept '18	Mar'18	Sept '17
Promoters	56.2%	56.2%	56.2%
FIIs	22.8%	25.2%	25.2%
DIIs	13.4%	11.5%	11.5%
Retail	7.6%	7.1%	7.1%
Total	**100%**	**100%**	**100%**

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	68,035	79,763	86,273	1,00,186	1,15,443
Growth (%)	*18.2%*	*17.2%*	*8.2%*	*16.1%*	*15.2%*
EBITDA	10,248	11,962	13,013	15,469	18,615
Growth (%)	*16.5%*	*16.7%*	*8.8%*	*18.9%*	*20.3%*
EBITDA Margin (%)	15.1%	15.0%	15.1%	15.4%	16.1%
PAT	7,350	7,722	8,022	9,609	11,703
Growth (%)	*37.0%*	*5.1%*	*3.9%*	*19.8%*	*21.8%*
EPS (INR)	243	256	266	318	387
P/E (x)	20.1	30.7	25.3	21.1	17.3
EV/EBITDA (x)	14.2	19.7	15.3	12.7	10.4

Bajaj Auto - *A Cherry Pick in the Tough Time!*

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Market Data					
Industry: Automobile	**CMP**: 2,596	**Target Price**: 3,430	**Upside**: 32%	**52-w H/L**: 3,473/2,425	**Market Cap (Cores)**: 77,727

We prefer Bajaj Auto as our top pick as it continued to report a bumper growth in sales in each & every month of FY19. The company's Exports, Domestic 3Ws as well as 2Ws are firing very well. On 2Ws, the strategy of reducing prices in the lower CC bikes must have worked in favour of the company as it has gained market share. Along with this, filling product gaps and successful new launches & refreshers in the past has supported the growth. We trust that the sales growth to continue for Bajaj and the powerful combination of '*Triumph + Husqvarna + KTM'* along with Bajaj's premium products would add muscularity to its premium 2W sales in the coming years.

Strong Two-Wheelers Demand

Bajaj has launched many new variants in 2Ws and filled up the required product gaps to regain its lost market share. Buyers are moving towards higher CC bikes, where Bajaj is the market leader and have a wide variety of options. We believe this trend of premiumization should continue and expect robust growth in the domestic motorcycles, led by Pulsars, Avengers, Dominar, Platina series and upcoming new launches in the near term. Bajaj auto has been outperforming the industry and has been gaining market share from the past few quarters. The cut in the recent prices aided Bajaj in gaining market share. We believe the move was perfect looking at the uptick in the rural economy and the Government's focused on the hinterland. This should push up the volumes. The overall volumes in the domestic as well as exports looks healthy in the coming years.

Boost in Three-Wheeler Demand

Few of the states have discontinued the permit raj, which has led to huge volume boost for three-wheeler manufacturers, where Bajaj is the market leader with a market share of mid-50s. The Maharashtra & Karnataka discontinued the permits required for 3Ws and we believe other states to follow soon. Additionally, the release of new permits in the states of Delhi & Telangana has yielded positive results for 3W makers. All this gives us a good short to medium term visibility. Bajaj Auto has been reporting higher growth than the industry in the past, and thus gaining market share gradually. On the Cargo side, the company has entered into this segment in FY16 and its market share is shoot up to 12% in FY17 and 17% in FY18. Overall, we expect a continued uptrend in the 3W volumes.

The Export Markets Rebounded..!

The export market has clearly emerged out after the commodity and oil price run-up. Moreover, to reduce the dependency from Africa, Bajaj Auto has entered into ASEAN and LATAM countries. The sales from these new countries have increased. Overall, the exports rebounded from the past several quarters led by a sharp rise in the oil and commodity prices, good performance in the newer geographies and stability in the African markets

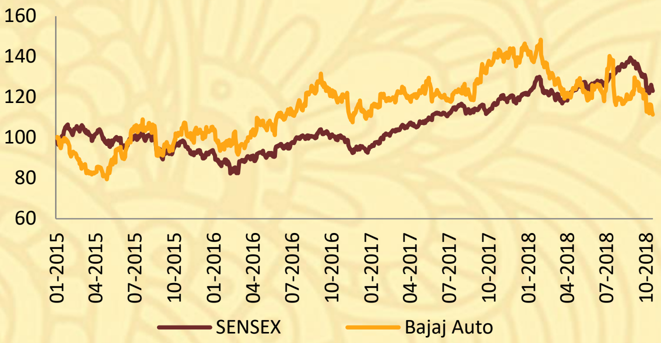
Soft Festive Demand for the Industry – Bajaj Stayed Strong

For the industry, the festive season has not progressed as per the expectation and has reported a de-growth of ~5%, however, Bajaj Auto is growing at double digit and expected to clock 10-15% growth in the entire festival season. The industry demand remained soft, however, directionally the trend is improving marginally. Although in the short-run, the margins to remain lower, however, we believe that **Bajaj has the ability to surprise us on the higher side** led by premium 2W & 3W sales, along with better operating leverage advantage.

Valuations

The stock has corrected by approximately ~25% from its 52W high, which makes the valuation very attractive. At a CMP of Rs. 2,596, the stock is trading at 13.8x of FY20E EPS of Rs. 189. The company is a cash generating machine and we believe it has a lot of potential in the coming years both in 2Ws as well as 3Ws. The company has been trading at a forward P/E of 16.0x in the past few years and have assigned a similar earnings multiple to its FY20E EPS plus KTM and Cash per Share takes the ***fair value to 3,430 per share***, seeking an upside of 32.3% from the current levels. We strongly recommend to buy this stock, as we believe the risk-reward is very favourable.

Bajaj Auto Vs SENSEX



Shareholding Pattern (in %)

	Sept '18	Mar'18	Sept '17
Promoters	49.3%	49.3%	49.3%
FIIs	16.4%	17.2%	16.9%
DIIs	8.0%	8.5%	9.1%
Retail	26.3%	25.0%	24.7%
Total	**100%**	**100%**	**100%**

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	21,767	25,165	29,329	34,890	40,715
Growth (%)	*-3.6%*	*15.6%*	*16.5%*	*19.0%*	*16.7%*
EBITDA	4,422	4,783	5,327	6,454	7,801
Growth (%)	*-7.5%*	*8.2%*	*11.4%*	*21.2%*	*20.9%*
EBITDA Margin (%)	20.3%	19.0%	18.2%	18.5%	19.2%
PAT	3,828	4,068	4,526	5,459	6,550
Growth (%)	*-2.6%*	*6.3%*	*11.3%*	*20.6%*	*20.0%*
EPS (INR)	132	141	156	189	226
P/E (x)	19.7	20.9	16.6	13.8	11.5
EV/EBITDA (x)	17.0	17.6	14.0	11.5	9.5

Aarti Industries – *King of Benzene Derivatives*

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Market Data					
Industry: Speciality Chemicals	**CMP**: 1,318	**Target Price**: 1,655	**Upside**: 26%	**52-w H/L**: 1,435/851	**Market Cap (Crores)**: 10,688

New business verticals to drive growth

- Expansion in nitro toluene(30,000 TPA) and downstream ethylation(10,000 TPA) at a capex of Rs 190 crore. Quadrupled PDA(Phenylene Diamines) capacity from 3000 TPA to 12,000 TPA provides strong footprint of future growth. We believe strong demand from end user industries like high end polymers will help the company to work on optimum utilization. Expanding chlorination capacity from 1,10,000 TPA to 1,75,000 TPA by FY19E. Setting up a new R&D lab at an investment of Rs 75 crore

Large deal wins gives incremental revenue visibility post FY20E

- Big deal wins of Rs 4000 crore (10 year revenue visibility) and Rs 10,000 crore (20 year revenue visibility) bagged by the company will give incremental revenues of Rs 900 crore every year from FY21E. The company plans to deploy capital worth Rs 690-700 crore in phases from FY18-20E and will generate cumulative revenues of Rs 14000 crore by FY35E. Blended margins from the deals will be approx. 26%.

Margins to expand further post expansion

- The company has consistently improved EBITDA margins from FY14-17. However, in FY18 company witnessed decline in margins to the tune of 230 bps and stood at 18.4% as compared to 20.7% in FY17. We believe stability of margins is linked to volumes which had consistently recorded growth of 10-15%. The company adopts a cost + margin model where the effective raw material price hike is passed on to end user with one quarter lag. We believe optimum utilization coupled with operating leverage in new business verticals will lead to improvement in margins and likely to be around 21-22% by FY20E and FY21E.

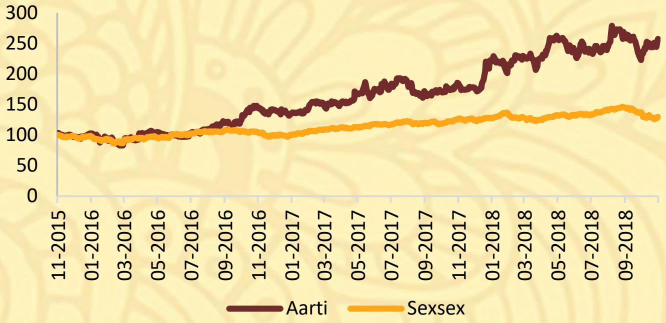
Impressive execution track record with sound fundamentals

- In the past the company has been able to demonstrate strong execution record by expanding customer base, de-risking business with multiple end user industries, focusing on value added products. This resulted EBITDA multiplying by 1.5x over FY15-18 and going ahead it is expected to be 1.9x from FY18-21E. The company has reinforced its cost leadership model and backward integration by reducing capital expenditure.

Valuations

- Aarti Industries Ltd has consistent track record of performance in terms of volume growth and revenue visibility, hence, we believe DCF valuation combined with EV/EBITDA multiple method would be much appropriate to value the company.
- In DCF valuation, we factor in WACC of 10.3% & Risk free rate of 7.21% (Average 10-Year G-Sec bond yield).
- For EV/EBITDA method, we assign target multiple of multiple of 17x by FY20E EBITDA.
- Combining the above valuation methods we arrive at a **target price of Rs 1655/share by FY20, thereby giving a potential upside of 25.6% from current valuations.**

Aarti Industries Vs SENSEX



Shareholding Pattern (in %)			
	Sep'18	June'18	Sep'17
Promoters	52.84	52.91	53.54
FIIs	4.22	3.82	3.97
DIIs	13.92	14.3	12.65
Retail	28.86	28.81	29.68
Total	**100**	**100**	**100**

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	3163.5	3806.2	4554.5	4824.7	6036.2
Growth%	***5.2%***	***20.3%***	***19.7%***	***5.9%***	***25.1%***
EBITDA	653.5	699.3	870.2	983.8	1254.6
Growth%	***14.2%***	***7.0%***	***24.5%***	***13.0%***	***27.5%***
PAT	327.5	346.3	418.1	466.9	647.8
Growth%	***22.9%***	***5.5%***	***20.7%***	***11.7%***	***38.7%***
EPS (INR)	38.5	41.0	49.5	55.2	76.6
P/E (x)	34.3	32.2	26.6	23.9	17.2
P/B (x)	7.9	6.8	5.7	4.8	4.1
EV/EBITDA(x)	12.0	15.4	14.0	12.6	9.9

Reliance Industries – *Most Valued Company*

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Market Data					
Industry: Oil & Gas	**CMP**: 1,056	**Target Price**: 1,434	**Upside**: 36%	**52-w H/L**: 1,329/862	**Market Cap (Crores)**: 6,69,816

Refining to benefit from IMO regulations and full ramp up of petcoke gasification

RIL will be the biggest beneficiary of IMO regulations which is stipulated to come into force by FY20. IMO regulations stipulate a mandatory shift from bunker fuels (used in shipping) to low sulphur diesel fuels. RIL is among the most complex refiners and has the ability to process heavy grades into high value products. Diesel cracks can see a spike by USD 8-10/bbl from the shift and will eventually increase the refining margins. Further more ramp up of petcoke gasification will give a boost to refining margins as it help to lower the refinery's energy cost by using petcoke instead of costly R-LNG. RIL has 10 petcoke gasifiers of which 4 are already in the ramp up phase and remaining 6 are likely to be commissioned in Q4 of this fiscal.

Pet-chem will be boosted by ROGC and capacity additions

Volume growth will be led by successful stabilization of the world's largest ROGC downstream units and new PX facility. Robust operations of ROGC complex and deep refinery integration underpin RIL's cost leadership and will propel RIL to the top among global peers.

Retail business reported multi-year profits, expanding in a big way

Reliance Retail recorded continued growth momentum and strong profitability and is among the fastest growing retailers in India with 4600+ stores. The strong growth is attributable to accelerated store expansion, strong value proposition and focus on customer experience across all consumption baskets.

Reliance Retail received over 1 crore footfalls representing a growth of over 30% y-o-y during the big sale period of 11th - 15th August 18. Deep analytics of the shopping behavior and continued customer connect helped in drawing customers to shop at Reliance Retail stores during the period.

Acquisition of Hathway and Den

Den and Hathway cumulative have 2.4 crore home passes in 750 cities, 0.1 crore cable broadband subscribers and 1.5 crore cable customers. It will provide RIL access to 27,000 local cable operators.

JIO to propel further growth

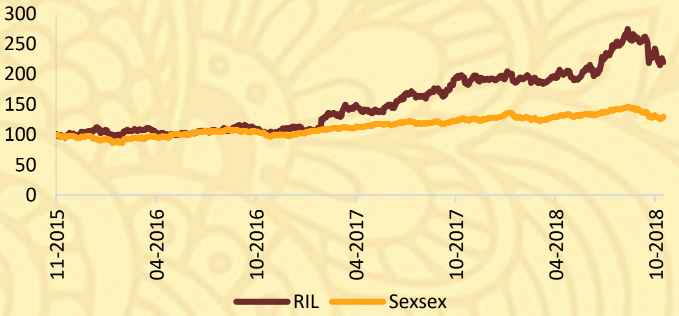
We expect Jio to perform strongly going ahead and subsequent increase in tariffs will ramp up revenue going ahead. Subscriber base as on 30th September 2018 stood at 252.3 million. The company has lowest churn in the industry at 0.66% per month. ARPU stood at INR 131.7 per subscriber per month.

Valuations

We remain positive on Reliance on the backdrop of recently commissioned downstream projects and expect that the company will deliver superior margins and higher cash flows. We expect the telecom segment to grow steadily and key drivers are launch of Jio Gigafiber and acquisition of Hathway and DEN network.

We value the company using SOTP valuation, thereby, valuing refining & petchem business at 7.5x FY20E EBITDA & telecom at 7x FY20E EBIDTA to arrive at a target price of INR 1434/share indicating 35.8% upside.

Reliance Industries Ltd Vs SENSEX



Shareholding Pattern (in %)	Sep'18	June'18	Sep'17
Promoters	47.27	47.35	47.55
FIIs	24.41	24.53	23.83
DIIs	11.91	11.6	11.69
Retail	16.41	16.52	16.93
Total	100	100	100

(INR Crores)	FY17	FY18	FY19E	FY20E
Revenue (Net of excise duty)	3,05,382	3,91,677	6,21,239	7,15,749
Growth	*11%*	*28%*	*59%*	*15%*
EBITDA	46,206	64,176	88,734	1,02,122
Growth	*11%*	*39%*	*38%*	*15%*
Net Profit	29,938	36,021	49,065	58,703
Growth	*1%*	*20%*	*36%*	*20%*
EV/EBITDA	18.7	17.4	12.5	9.5
P/E	21.0	15.9	15.6	10.1

Shriram Transport Finance Company – *Sole Player in the Jungle*

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Market Data					
Industry: BFSI	**CMP**: 1,213	**Target Price**: 1,589	**Upside**: 31%	**52-w H/L**: 1,668/902	**Market Cap (Crores)**: 27,521

Differential & Dominant presence in pre-owned CV financing

STFC's closest peers are Cholamandalam Investment & Finance Company (CIFC) and Mahindra & Mahindra Financial (MMF). STFC has total AUM exposure of INR 645bn towards CV financing (new CV: 77bn, pre-owned CV: 567bn) and branch count of 1213. CIFC and MMF has total AUM exposure of INR 168bn (new CV: 129bn, pre-owned CV: 39bn) and INR 121bn (new CV: 77bn, pre-owned CV: 44bn) respectively towards CV financing. CIFC has 873 branches and MMF has 1284 branches. STFC's 567bn v/s CIFC's 39bn & MMF's 44vn suggest differential & dominant presence in pre-owned CV financing.

Deep penetration and hold in HCV segment

STFC manages assets of INR 953bn, of which HCV constitutes 47% of total assets under management. While financing of new vehicles constitute 12% of HCV AUM, that of pre-owned vehicles constitute 88% of HCV AUM. STFC commands 23% market share in the new HCV financing space and 61% market share in pre-owned HCV financing.

Presence of deep moat

It is estimated that 80% of trucks are owned by individuals, thus for any competitor to get hold of the truck market would entail tapping these single operators, which requires considerable effort and duration. Further, STFC has cultivated its strong hold due to 39 years of persistent relationship building. Additionally, STFC's 18.6lac customers having average ticket size of INR 5.1lacs provide enormous diversification benefit. Furthermore, STFC's conscious effort of providing loans at lower than industry rate (average yield – 15.2% in FY18 v/s CIFC – 16.9%) has helped company retain customers and continue to attract new customers through word of mouth publicity. Commingled, this formulates into a deep moat for the company.

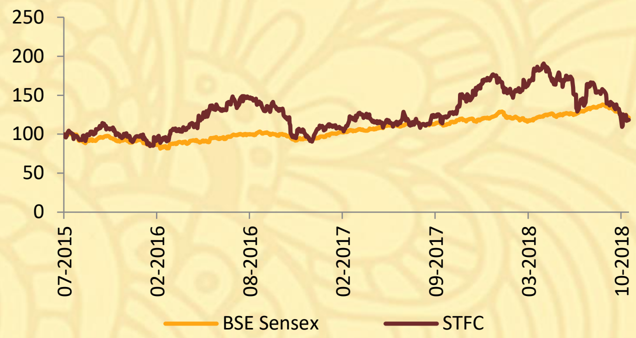
Robust AUM growth on back of strategic branch addition & higher disbursement per branch

STFC added 295 branches in FY18 to take its branch count to 1213. Company is further planning to add 200 branches in FY19. We expect branch addition to take place in lesser penetrated areas such as rural areas of northern India, which also typically have higher yields. We estimate higher disbursement per branch to eventually improve AUM per branch from 78.6cr in FY18 to 79.9cr & 79.4cr in FY19 & FY20. We also estimate revenues per branch to improve from 10.0cr in FY18 to 10.4cr & 10.5cr in FY19 & FY20.

Valuations

STFC's market is expected to grow at 16% on the back of a) revival in the manufacturing sector, b) increasing demand of consumer goods on retail side, c) logistics demand from ecommerce industry and d) better road connectivity due to infrastructural push by the government. We expect STFC AUM to grow at 19% in FY19 due to strategic placement of branches. Company is expected to maintain constant NIMs despite rise in borrowing cost a) due to single operator customer base b) fixed-rate borrowing. With robust market growth, stable NIMs, best in class operational efficiency and undergoing reduction in credit cost, we expect STFC to undergo re-rating. At CMP of INR 1213, stock is trading at P/BV of 1.7x on FY20E book value of 730. We assign P/BV of 2.2x and arrive at a target price of INR 1589 with an upside potential of 31%.

Shriram Transport Vs SENSEX



Shareholding Pattern (in %)	Sep'18	Oct'18	Sep'17
Promoters	26.1	26.1	26.1
FIIs	48.7	47.4	49.5
DIIs	4.1	5.3	2.5
Retail	6.1	6.1	6.3
Others	15.0	15.2	15.6
Total	**100.0**	**100.0**	**100.0**

(INR crores)	FY17	FY18	FY19E	FY20E
Interest Income	9801	11003	16269.2	19716.9
Growth	3%	12%	48%	21%
Net Interest Income	4592.0	5594.5	7969.7	9399.5
Growth	3%	22%	42%	18%
Total Operating Income	5528.0	6746.5	7986.4	9803.8
Growth	9%	22%	18%	23%
Provisions	2444	3,122	3,146	3,614
PAT	1257	1,568	1,980	2,618
Growth	7%	25%	26%	32%
Book Value (INR)	498	554.1	628.2	730.3
P/BV (x)	2.2	2.2	1.9	1.7

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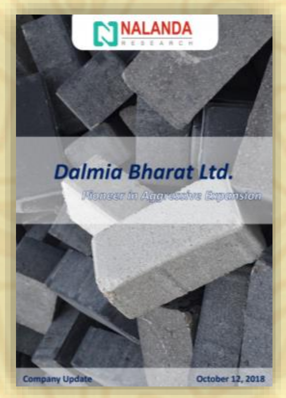

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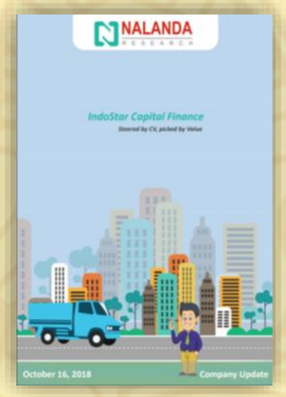

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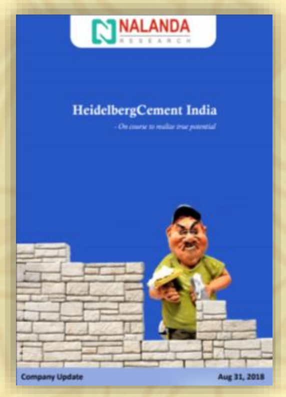

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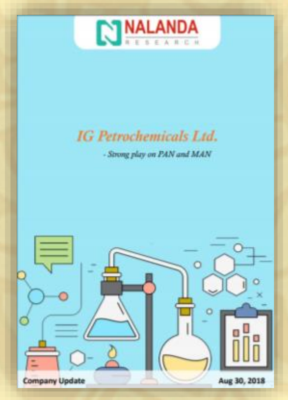

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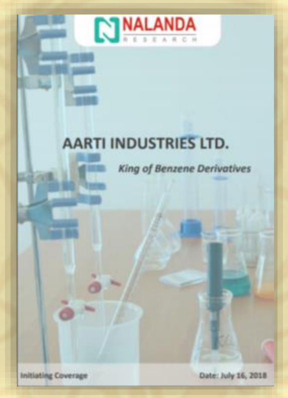

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Shriram Transport

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