TOP PICKS

Sr.no.	Particulars	CMP	Target	Upside
1	Arvind Limited	365.10	464	27%
2	Axis Bank limited	494.15	631	28%
3	Larsen & Toubro Limited	1126.50	1377	22%
4	Bharat Electronics Limited	179.20	213	19%
5	ICICI Prudential Life Insurance Company Limited	420.55	481	14%

August 22, 2017

SMC RETAIL DESK

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ARVIND LIMITED

Target Price	**464**
Upside Potential	**27%**

VALUE PARAMETER

Current Mkt.Price (Rs.)	365.10
Face Value (Rs.)	10.00
52 Week High/Low	426.50/304.20
M.Cap (Rs. in Cr.)	9438.46
EPS (Rs.)	10.49
P/E Ratio (times)	34.80
P/B Ratio (times)	2.91
Dividend Yield (%)	0.66
Stock Exchange	BSE

SHARE HOLDING PATTERN

as on 201706	% Of Holding
Foreign	25.94
Institutions	13.83
Non Promoter Corporate Holding	3.64
Promoters	42.94
Public & Others	13.66

CHART

Investment Rationale:

- Recently, Arvind partnered with former Indian cricketer Sachin Tendulkar to launch men's apparel brand 'True Blue'. The company plans to open around 25 'True Blue' stores and is eyeing Rs 200-300 crore from the brand in five years.
- The textile segment continues to be its main revenue generating source and in line with that management of the company plans to focus on its garments business. To increase its margin, it is looking to increase the share of fabric sold as garments from 6% now to 20% in the next few years. The expected growth in the Indian retail space, due to rising incomes, urbanization, attitudinal shifts, etc., will be the main trigger for this expansion.
- Its garments segment holds several well-known foreign-licensed brands such as Arrow, Tommy Hilfiger, US Polo, Flying Machine, Calvin Klein, Nautica and Izod, Arvind should be able to benefit from the growth in the retail sector. The company owns & operates India's largest 225-outlet strong value retail chain under the brand name 'Megamart'. It is setting-up exclusive stores across the country - 'The Arvind Store' that brings the best of fabric and ready-mades to its customers.
- It has recently sold a 10% stake in its fully-owned subsidiary, Arvind Fashions, for Rs 740 crore to Multiples, a private equity firm. This strategic investment will help Arvind Fashions to improve its position in the domestic apparels market. The transaction was done at overall enterprise valuation of Rs 8,000 crore for the company's branded apparels business.
- Its valuation captures the increased growth opportunity in the garments business and will help in the counter's re-rating. Since sale proceeds will be used for paying-off debt, it will provide required financial support for future investments and acquisitions for the company.
- The company is already planning two garments units in Ethiopia and this would add additional annual revenue of around Rs 1,000 crore. Moreover, despite demonetization, It has reported 15% YoY increase in revenue to Rs 2346 crore led by 24% growth in branded apparel to Rs 770 crpre and 8% growth in textiles to Rs 140 crore.
- Meanwhile, the company is bullish on its newly-launched omni channel — NNNow.com, going ahead. NNNow.com redefines shopping for Indian consumers by linking online and offline retail shopping experience.
- Arvind Group has decided to step into the USD 5.2 billion footwear retail industry with the store name 'Stride' and plans to open five footwear stores in the next one and half years. Currently the fit-out cost for the stores is coming at Rs 2,200 per sq ft and each footwear store building should cost around Rs 50-70 lakh.

Valuation

The company enjoys a global leadership positions in textiles as well as Carries an unmatched domestic portfolio of apparel brands and retail formats. Lower investments in brands and repositioning of Unlimited, management of the company expects the operating margin to improve in near term. Company's capability in manufacturing garments, coupled with its positioning of the most preferred franchisee/distribution partner in India, it is poised to benefit from an increase in demand for apparels, thus it is expected that the stock will see a price target of Rs.464 in 8 to 10 months time frame on three year average P/E of 22.50x and FY18 (E) earnings of Rs.20.62.

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AXIS BANK LIMITED

AXIS BANK

Target Price	**631**
Upside Potential	**28%**

VALUE PARAMETER

Current Mkt.Price (Rs.)	494.15
Face Value (Rs.)	2.00
52 Week High/Low	638.00/424.60
M.Cap (Rs. in Cr.)	118469.25
EPS (Rs.)	16.49
P/E Ratio (times)	29.97
P/B Ratio (times)	2.10
Stock Exchange	BSE

SHARE HOLDING PATTERN

as on 201706	% Of Holding
Foreign	52.71
Institutions	8.69
Non Promoter Corporate Holding	2.88
Promoters	28.67
Public & Others	7.06

CHART

Investment Rationale:

- In FY 2017, advances grew 10% to Rs 3.73 lakh crore and total deposits increased 16% yoy to Rs 4.14 lakh crore. Net Interest Income (NII) for Q4FY17 and FY17 grew by 4% YOY and 7% YOY, respectively. Net Interest Margin (NIM) for Q4FY17 and FY17 stood at 3.83% and 3.67%, respectively.
- CASA (current-saving accounts) deposits showed healthy growth at 26 percent year-on-year (21 percent QoQ) and constituted 51 percent of total deposits as of March 2017 (against 47 percent in March 2016).
- The bank also performed well on asset quality front. Gross advances as a percentage of gross advances dipped 18 basis points sequentially to 5.04 percent and net NPA as a percentage of net advances dropped 7 bps to 2.11 percent in the quarter gone by. In absolute terms, however, gross and net NPAs rose 4 percent each to Rs 21,280.5 crore and Rs 8,626.55 crore on sequential basis due to increase in slippages, respectively.
- Recoveries and upgrades were strong in January-March quarter at Rs 2,804 crore against only Rs 350 crore in December quarter while write-offs during the quarter were at Rs 1,194 crore against Rs 122 crore in previous quarter.
- There has been a sharp increase in system liquidity post demonetization. A material part of the super-normal incremental deposits that the bank gained post demonetisation continues to remain with the Bank. The bank has witnessed that nearly 42% and 82% of the incremental savings and current account deposit balances respectively have gone out till end March.
- The bank believes that investments are likely to remain modest, particularly in first half of FY18, but capex spend might gradually revive with spends on affordable housing, renewable energy, urban infrastructure and road and rail projects.

Valuation

The bank, is well positioned for future growth, is focusing on cross-selling to existing customers. This is a key driver for growth. In FY18, the management expects the Bank's Advances portfolio to grow around 5% faster than system growth. As has been the case in recent quarters, the Retail advances business is likely to continue to remain the key engine of growth in FY18. Thus, it is expected that the stock will see a price target of Rs.631 in 8 to 10 months time frame on a target P/BV of 2.7x and FY18 (E) BVPS of Rs.233.83.

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LARSEN AND TURBO LIMITED

LARSEN & TOUBRO

It's all about Imagineering

Target Price	1377
Upside Potential	22%

VALUE PARAMETER

Current Mkt.Price (Rs.)	1126.50
Face Value (Rs.)	2.00
52 Week High/Low	1222.67/863.54
M.Cap (Rs. in Cr.)	157771.45
EPS (Rs.)	30.48
P/E Ratio (times)	36.96
P/B Ratio (times)	3.43
Dividend Yield (%)	1.24
Stock Exchange	BSE

SHARE HOLDING PATTERN

as on 201706	% Of Holding
Foreign	20.18
Institutions	38.74
Non Promoter Corporate Holding	6.83
Promoters	0.00
Public & Others	34.24

CHART

Investment Rationale:

- Larsen & Toubro is a major Indian multinational engaged in technology, engineering, construction, manufacturing and financial services, with global operations. A strong, customer–focused approach and sustain leadership over seven decades.
- It has successfully won fresh orders worth Rs.142,995 crore at the group level during the year ended March 31, 2017 in the face of a challenging business environment. The International orders constituted 29% of the total order inflow. Order wins in Infrastructure segment, Hydrocarbon and Heavy Engineering segments contributed to the orderflow during the year.
- Consolidated Order Book of the group stood at a robust level of Rs. 261,341 crore as at March 31, 2017, higher by 5% on a y-o-y basis. International Order Book constituted 27% of the total Order Book.
- Its infrastructure Segment achieved Customer Revenue of Rs.52,924 crore for the year ended March 31, 2017 registering a y-o-y growth of 8% on progress of jobs under execution.It has secured fresh orders of Rs.78,492 crore, during the year ended March 31, 2017 and order Book of the Segment grew 3.4% on a y-o-y basis and stood healthy at Rs.193,796 crore as at March 31, 2017.
- On the financial ground, on yearly basis, it has reported consolidated gross revenue of Rs.110,011 crore i.e. increase of 8% and PAT grew by 43%. The Consolidated Gross Revenue in the quarter January to March 2017 totalled Rs. 36,828 crore recording an increase of 12% on a y-o-y basis and PAT has reported higher by 29.5%. It has also approved the issue of bonus equity shares in the ratio of 1:2 [one bonus equity share of ` 2 each for every two equity shares of ` 2 each held].
- Management expects order inflow to grow by around 12-15% and net sales growth of around 10-12% in FY 18. Moreover, it has completely come out from the legacy orders in hydrocarbon space. Significant order wins in this segment in FY 17 provides good margin and revenue visibility in this segment.

Valuation

The Company continues to focus on profitable execution of the large Order Book, selective order picking, on-time deliveries & operational excellence through digitalization. The management is also emphasizing on cost competitiveness, continuous optimization of working capital, restructuring of its business portfolio and value creation with an aim to enhance its Return on Equity. Implementation of GST is expected to have far reaching effects by bringing large parts of the informal economy into the formal system where compliance and accountability standards are of a higher order. Thus, it is expected that the stock will see a price target of Rs.1377 in 8 to 10 months time frame on a 2 year average P/Ex of 19.36x and FY18 EPS of Rs.71.11.

BHARAT ELECTRONICS LIMITED

Target Price	213
Upside Potential	19%

VALUE PARAMETER

Current Mkt.Price (Rs.)	179.20
Face Value (Rs.)	1.00
52 Week High/Low	187.40/119.05
M.Cap (Rs. in Cr.)	40026.61
EPS (Rs.)	6.82
P/E Ratio (times)	26.27
P/B Ratio (times)	5.17
Dividend Yield (%)	0.00
Stock Exchange	BSE

SHARE HOLDING PATTERN

as on 201706	% Of Holding
Foreign	7.62
Institutions	16.69
Non Promoter Corporate Holding	3.44
Promoters	68.19
Public & Others	4.07

CHART

Investment Rationale:

- Bharat Electronics Limited is engaged in design, manufacture and supply of electronics products/systems for the defense requirements, as well as for nondefense markets. The Government of India held 68.19% stake in the company as on 30the June 2017.
- At the end of Q4FY2017, the company's total order book stood at Rs 40,000 crore and the management is expecting another Rs 13,000 crore (plus) order requisition during the current year on account of the government's greater thrust on the modernization of the country's defence equipment. Its export business is roughly about 6% of turnover and it is planning to increase it to 10%.
- The Company planned to spend is around Rs 700 crore on two new plants at Anantapur and Machilipatnam in Andhra Pradesh. At Nimmaluru village, near Machilipatnam, the company is building new advanced night vision products factory and plans are afoot to expand night vision devices business. At Anantapur, a dedicated defence systems integration complex at Palasamudram is planned.
- In addition to above plants, the company is also creating dedicated business groups to address home land security and smart city business. On the sales outlook for 2017-18, company plans to cross Rs 10,000 crore.
- The Company is looking forward for R&D expenditure between Rs 900 to Rs 1,000 crore. It has initiated many programmes with DRDO and also within Bharat Electronics. It is working on the next generation tactical missile programme called quick reaction surface to air missile programme. This is a joint development between Bharat Electronics, BDL and DRDO.
- The company plans to continue indigenisation efforts in line with Make in India. It plans to enhance capacity and create new test facilities for defence business and are pursuing new opportunities in solar, energy, homeland security, smart cities, smart cards and telecom.

Valuation

With the robust order backlog, along with a better execution environment provides healthy revenue visibility for the coming years. Government's greater emphasis on 'Make in India' initiative in Defence sector provides a great opportunity for the Company to enhance its indigenisation efforts and to address the opportunities in Indian Defence sector. Thus, it is expected that the stock will see a price target of Rs.213 in 8 to 10 months time frame on a target P/E of 29x and FY18 (E) EPS of Rs.7.36.

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ICICI PRUDENTIAL LIFE INSURANCE COMPANY

ICICI PRUDENTIAL LIFE INSURANCE

Target Price	**481**
Upside Potential	**14%**

VALUE PARAMETER

Current Mkt.Price (Rs.)	420.55
Face Value (Rs.)	10.00
52 Week High/Low	507.90/273.65
M.Cap (Rs. in Cr.)	60366.92
EPS (Rs.)	10.93
P/E Ratio (times)	38.47
P/B Ratio (times)	9.86
Stock Exchange	BSE

SHARE HOLDING PATTERN

as on 201706	% Of Holding
Foreign	8.40
Institutions	3.45
Non Promoter Corporate Holding	0.49
Promoters	80.72
Public & Others	6.95

CHART

Investment Rationale:

- ICICI Prudential Life Insurance Company is the largest private sector life insurer in India. ICICI Prudential is a joint venture between ICICI Bank and Prudential Corporation Holdings, a part of the Prudential Group, an international financial services group. The company is one of the first private sector life insurance companies in India. It commenced operations in October 2000 and offers a range of life insurance, health insurance and pension products and services.
- The company continued to focus on savings opportunity through customer centric product propositions, superior customer service, fund performance and claims management. Protection is a big focus area for the company, while it has a multi-pronged product and distribution approach to tap this market.
- It has maintained a balanced channel mix. Its growth is well supported by strong performance across channels. For Q1FY2018, agency channel has highest growth, while growth of Bancassurance channel was also higher than overall private sector growth, however, due to relatively stronger growth in agency.
- The total assets under management of the company has increased 16% yoy to Rs 126591 crore ends June 2017 over June 2016, which makes the company one of the largest fund managers in India.
- The company has a debt equity mix of 54:46 at end June 2017. Over 90% of debt investments are in AAA rated and Government Bonds.
- The retail weighted received premium or RWRP grew 74.7% in Q1FY2018, much stronger than industry growth of 28.6% and private industry growth of 45.5%. Consequently, the market share of the company was strong at 15.3% in Q1FY2018. The company has continued to maintain leadership position amongst the private companies.

Valuation

According to the management focusing on improving protection business, persistency and costs, the company would get good growth in coming years. The key strategy of the company has been to grow the Value of New Business through growing the protection business, while the company achieved its strategic goals for FY2017. The company is well capitalized for growth opportunities. The solvency ratio was at healthy level of 288.6% end June 2017, which is much above the regulatory requirement of 150%. Thus, it is expected that the stock will see a price target of Rs.481 in 8 to 10 months time frame on a one year average P/Bvx of 9.38x and FY18 BVPS of Rs.51.29.

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