

## 12 STOCKS TO WATCH OUT FOR

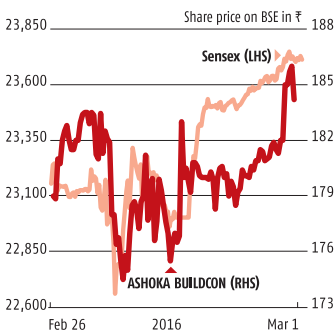
The Budget's proposals of hiking taxes for the rich and duties on certain products like automobiles and cigarettes may appear anti-rich. But, the emphasis and higher fund allocation to rural India and infrastructure could be game-changers. State allocation to social and infra schemes is also rising. All these should have a ripple-effect on consumption and industrial demand. Importantly, if the government is able to stick to fiscal deficit targets it will ease systemic liquidity and interest rates for corporates and consumers. The combined effect will lift economic growth and corporate earnings

POSITIVE NEGATIVE MIXED

### ASHOKA BUILDCON

PRICE IN ₹ **184.2** % CHANGE\* **11.2**

Market Cap (₹ cr)	<b>3,447.3</b>
Dividend Yield (%)	<b>0.8</b>
P/E Ratio (x)	<b>33.3</b>
TTM Net Sales (₹ cr)	<b>2,684.2</b>
% change y-o-y	<b>26.5</b>
TTM Net Profit (₹ cr)	<b>103.6</b>
% change y-o-y	<b>81.0</b>

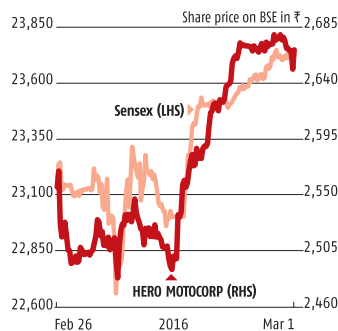


- Highest-ever budgetary allocation towards roads and other infra sectors are boosters for Ashoka Buildcon
- With over 65 per cent of revenues coming from EPC business, Ashoka will benefit from the focus on increasing EPC contracts
- Moderating interest rates and relatively strong balance sheet will help it aggressively bid for upcoming projects
- With EPC operating margins at 14 per cent, Ashoka Buildcon is better placed to combat price wars

### HERO MOTOCORP

PRICE IN ₹ **2667.0** % CHANGE\* **-0.6**

Market Cap (₹ cr)	<b>53,260.0</b>
Dividend Yield (%)	<b>2.6</b>
P/E Ratio (x)	<b>19.1</b>
TTM Net Sales (₹ cr)	<b>27,470.4</b>
% change y-o-y	<b>1.3</b>
TTM Net Profit (₹ cr)	<b>2,794.7</b>
% change y-o-y	<b>13.4</b>

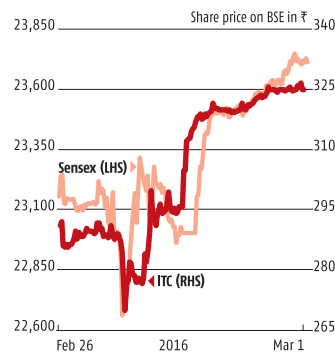


- Two wheelers are seen as the biggest beneficiaries of the government's thrust on improving farm income and investments in rural & urban India
- About half of the company's volumes comes from the rural segment, where the key growth triggers include fast-tracking of irrigation projects, increase in farm credit and extension of interest rate subvention scheme
- If the government manages its goal of doubling rural incomes in five years, it will be a big succour for Hero

### ITC

PRICE IN ₹ **325.1** % CHANGE\* **-10.00**

Market Cap (₹ cr)	<b>2,61,403.5</b>
Dividend Yield (%)	<b>2.3</b>
P/E Ratio (x)	<b>26.9</b>
TTM Net Sales (₹ cr)	<b>35,601.1</b>
% change y-o-y	<b>1.2</b>
TTM Net Profit (₹ cr)	<b>9,710.7</b>
% change y-o-y	<b>2.0</b>

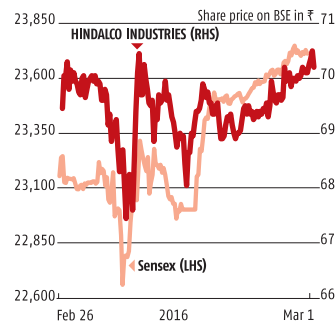


- Excise duty increase on cigarettes by 10 per cent was at the lower-end of expectations
- The lowest hikes in past five years (it was 15-20% in each of previous four years) will support cigarette volumes which have fallen by an estimated 9-12 per cent annually in the last two years; analysts estimate volumes to dip by 2-3 per cent in FY17
- ITC can easily pass off the hike to end users and sustain profitability
- Thrust on rural growth to benefit ITC's FMCG as well as e-choupal businesses
- Its peer HUL also stands to gain from rural measures given its higher rural exposure

### HINDALCO IND

PRICE IN ₹ **70.2** % CHANGE\* **-54.1**

Market Cap (₹ cr)	<b>14,496.2</b>
Dividend Yield (%)	<b>1.5</b>
P/E Ratio (x)	<b>35.3</b>
TTM Net Sales (₹ cr)	<b>34,598.6</b>
% change y-o-y	<b>4.1</b>
TTM Net Profit (₹ cr)	<b>410.5</b>
% change y-o-y	<b>-59.5</b>

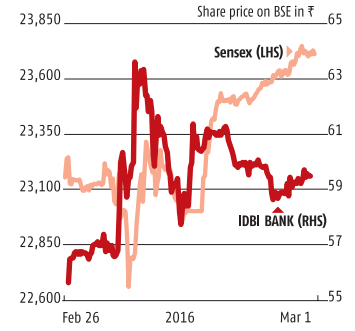


- Hike in import duty on aluminium from 5 per cent to 7.5 per cent is positive for Hindalco, Nalco and Vedanta
- Assuming LME prices of \$1,600 a tonne, analysts expect a \$40/tonne equivalent increase in domestic prices
- Estimates suggest that a per cent increase in aluminium prices will improve profits of Hindalco by 1.2-1.3 per cent
- Some of it will be offset by the increase in clean energy cess on coal
- But, Hindalco is best placed post expansions of aluminium capacities

### IDBI BANK

PRICE IN ₹ **59.5** % CHANGE\* **-19.59**

Market Cap (₹ cr)	<b>11,305.3</b>
Dividend Yield (%)	<b>1.1</b>
P/E Ratio (x)	<b>-</b>
TTM NII (₹ cr)	<b>6,322.0</b>
% change y-o-y	<b>11.7</b>
TTM Net Profit (₹ cr)	<b>-1,383.1</b>
% change y-o-y	<b>PTL</b>

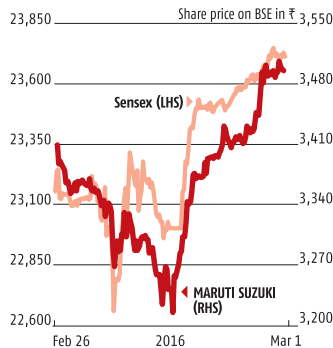


- Government may reduce its stake in the bank to sub-50 per cent from 80 per cent, giving more operational freedom
- While privatisation is not ruled out and will be a positive move, analysts are sceptical on whether there will be enough buyers for the stake
- A new management could turnaround the bank's fortunes from the current state of asset quality stress, low capitalisation
- Increased provisioning for bad debts though will continue to be a drag for some time, believe analysts

## MARUTI SUZUKI

PRICE IN ₹ **3495.5**      % CHANGE\* **-3.4**

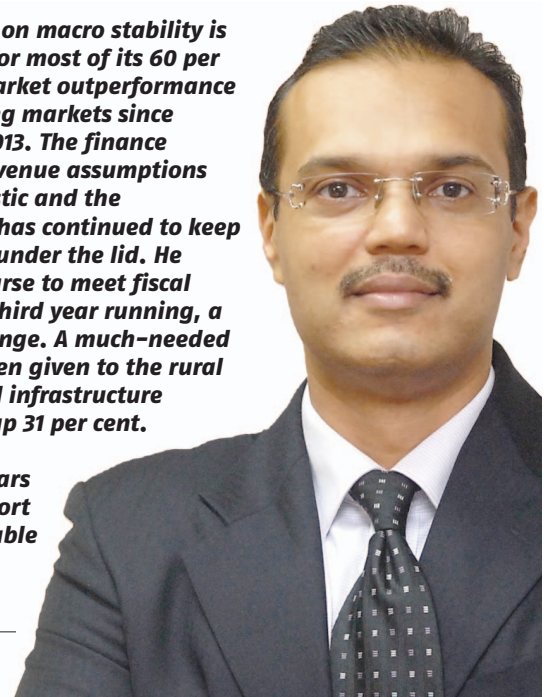
Market Cap (₹ cr)	<b>1,05,592.1</b>
Dividend Yield (%)	<b>0.8</b>
P/E Ratio (x)	<b>22.4</b>
TTM Net Sales (₹ cr)	<b>54,693.4</b>
% change y-o-y	<b>16.0</b>
TTM Net Profit (₹ cr)	<b>4,722.1</b>
% change y-o-y	<b>46.3</b>



- At a time when overall demand is muted, 2.5 per cent additional tax on diesel portfolio, which is 32 per cent of volumes, will make such vehicles costlier
- Infra cess of 1% on small cars (petrol/LPG/CNG) and 4% on remaining vehicles of Maruti will also make vehicles costlier, but impact lower than peers due to petrol heavy portfolio
- With a third of sales from rural areas, highest among passenger vehicle makers, it will be a major beneficiary from higher rural spends
- It will be a major beneficiary of the Seventh Pay Commission

**“India's focus on macro stability is responsible for most of its 60 per cent stock market outperformance over emerging markets since September 2013. The finance minister's revenue assumptions appear realistic and the government has continued to keep expenditure under the lid. He seems on course to meet fiscal target for a third year running, a welcome change. A much-needed boost has been given to the rural economy and infrastructure spending is up 31 per cent. Overall, the market appears to have support from reasonable absolute valuations”**

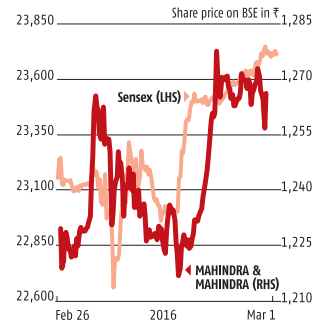
**RIDHAM DESAI**  
MD, Morgan Stanley  
India



## M&M

PRICE IN ₹ **1266.3**      % CHANGE\* **-2.0**

Market Cap (₹ cr)	<b>78,645.8</b>
Dividend Yield (%)	<b>1.0</b>
P/E Ratio (x)	<b>25.1</b>
TTM Net Sales (₹ cr)	<b>39,032.9</b>
% change y-o-y	<b>-1.0</b>
TTM Net Profit (₹ cr)	<b>3,134.3</b>
% change y-o-y	<b>-14.5</b>



- Barring the recently launched KUV 100, the rest of portfolio is diesel powered, so the impact on M&M is likely to be the highest among major passenger vehicle makers
- Given their larger size, XUV, Scorpio, Xylo and Bolero volumes could see some pressure due to the 4 per cent infra cess
- Luxury tax could impact the sales of XUV500, though TDS can be adjusted against buyer's tax liability
- Focus on improving rural incomes will benefit both its utility vehicle as well as tractors portfolio



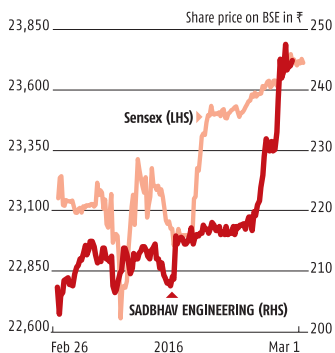
**"The government has tried to manage this tight rope walk through a judicious mix of infrastructure and rural spending, additional revenue generation and meaningful capital receipts. While this should help consolidate the current path of macro-stability, its success in meaningfully tackling growth challenges and sluggish job creation is to be seen. While valuations are close to historical long-term averages, returns going forward are likely to be a function of corporate earnings growth"**

**ANAND RADHAKRISHNAN**  
Chief Investment Officer,  
Franklin Equity, Franklin  
Templeton Investments - India

## SADBHAV ENGINEERING

PRICE IN ₹ **244.8**      % CHANGE\* **-23.2**

Market Cap (₹ cr)	<b>4,199.1</b>
Dividend Yield (%)	<b>0.4</b>
P/E Ratio (x)	<b>31.8</b>
TTM Net Sales (₹ cr)	<b>3,295.7</b>
% change y-o-y	<b>17.7</b>
TTM Net Profit (₹ cr)	<b>131.9</b>
% change y-o-y	<b>19.0</b>

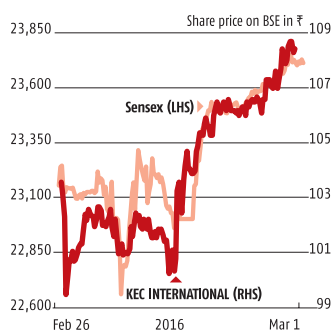


- Highest-ever budgetary allocation towards roads and irrigation sectors is a twin-booster for Sadbhav Engineering
- Total allocation to road sector is up 37 per cent to ₹97,000 crore in FY17
- Sadbhav Engineering draws over 87 per cent of its roadways revenues from EPC projects. And hence, it will gain substantially from the increasing focus on EPC contracts
- Irrigation business order book has shrunk in FY16 but that too should change for the better given the allocation of ₹186,500 crore to irrigation schemes over a five year period

## KEC INTERNATIONAL

PRICE IN ₹ **108.4**      % CHANGE\* **32.1**

Market Cap (₹ cr)	<b>2,787.0</b>
Dividend Yield (%)	<b>1.0</b>
P/E Ratio (x)	<b>16.0</b>
TTM Net Sales (₹ cr)	<b>8,382.9</b>
% change y-o-y	<b>4.8</b>
TTM Net Profit (₹ cr)	<b>174.6</b>
% change y-o-y	<b>31.8</b>

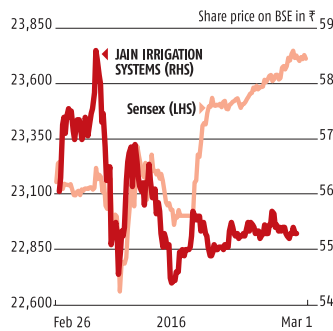


- The ₹8,500 crore push for rural electrification is a big near-term boost to KEC as all villages are being targeted to be electrified by May 2018
- Electrification of 2,000 kilometres of railway lines is another positive
- Though railways account only for about three per cent of KEC's revenues, it is the fastest growing segment with revenues from railways having doubled in FY16
- A low exposure to SEBs -- 13 per cent of its order books, gives KEC leeway to aggressively bid for state projects without adversely altering revenue mix

## JAIN IRRIGATION

PRICE IN ₹ **55.3**      % CHANGE\* **-23.5**

Market Cap (₹ cr)	<b>2,526.4</b>
Dividend Yield (%)	<b>0.9</b>
P/E Ratio (x)	<b>26.0</b>
TTM Net Sales (₹ cr)	<b>6,240.0</b>
% change y-o-y	<b>6.7</b>
TTM Net Profit (₹ cr)	<b>97.0</b>
% change y-o-y	<b>201.3</b>

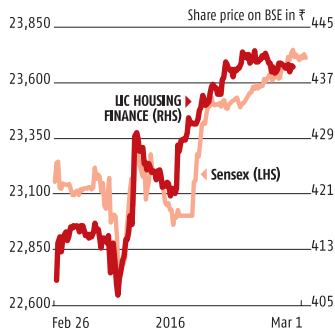


- The proposal to boost the rural economy, especially like irrigation systems, crop protection, is positive for Jain Irrigation
- The focus on doubling rural incomes in five years will give more spending power to farmers boosting its prospects
- The company is the largest player with over 55 per cent market share in micro irrigation sector and among leading companies in food processing business
- While high debt is an overhang, expected reduction in interest rates will rub positively on its finances. Analysts expect it to retire some debt by FY18

## LIC HOUSING FINANCE

PRICE IN ₹ **439.3**      % CHANGE\* **-8.2**

Market Cap (₹ cr)	<b>22,169.3</b>
Dividend Yield (%)	<b>1.2</b>
P/E Ratio (x)	<b>13.9</b>
TTM NII (₹ cr)	<b>2,999.2</b>
% change y-o-y	<b>25.9</b>
TTM Net Profit (₹ cr)	<b>1,591.0</b>
% change y-o-y	<b>15.5</b>

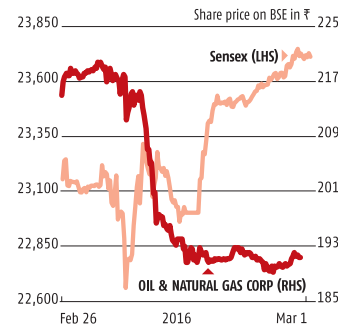


- Additional interest deduction of ₹50,000 per annum on home loans up to ₹35 lakh and home value of up to ₹50 lakh for new buyers is a key positive
- Motilal Oswal estimates that 70% of its customers fall in this category and in FY15 two-third of disbursements were below ₹35 lakh
- It's pan India strong distribution network in tier 2-5 cities will further drive home loan demand
- Stable asset quality, strong earnings growth as well as capital position are some of LIC Housing's key strengths

## ONGC

PRICE IN ₹ **191.5**      % CHANGE\* **-41.1**

Market Cap (₹ cr)	<b>1,63,837.6</b>
Dividend Yield (%)	<b>4.8</b>
P/E Ratio (x)	<b>10.6</b>
TTM Net Sales (₹ cr)	<b>82,959.4</b>
% change y-o-y	<b>1.5</b>
TTM Net Profit (₹ cr)	<b>15,522.6</b>
% change y-o-y	<b>-16.9</b>



- Proposal to change crude oil cess to 20 per cent ad valorem is disappointing for upstream companies ONGC and Cairn India; industry demand was an 8-10 per cent cess
- The earnings estimates that have already been cut factoring lower crude prices and rupee depreciation will further be tweaked on the downside
- Expectation of cut in gas prices and increase in employee expenses due to implementation of pay commission recommendations will also weigh on ONGC's share price