

# Where should you put your money this Diwali?

As investors struggle to find quality stocks following the sharp rise in the benchmark indices, four brokerages give their picks.

## Macquarie Securities

**Bharti Airtel (₹476):** Headline tariff increases, lower trade margins and tactical withdrawal of discounted packages to drive ARPM growth. Africa business shows satisfactory improvement. Balance sheet strength to absorb excess spectrum charges, new policy to favour incumbents, leading to earnings upgrades

**Coal India (₹396):** Coal resources of over 65 bn tonnes (mine life of over 150 years) gives enough visibility to grow. Given the focus on reforms, CIL could see pressure to increase production. The stock looks cheap for a monopoly business, no demand or margin risk and move towards market prices move towards market prices

**L&T (₹1,834):** Revenue growth to be driven by existing order backlog. Revenue growth is likely to remain healthy as execution cycle is decreasing, margins to remain stable at 11.5-11.7%. Adjusted for subsidiaries at book value, L&T is trading at 12.5x FY13 (discount of 10% to broader market) making it very attractive

**Maruti Suzuki (₹1,600):** MSIL's sales volumes should grow 19% to 1.32 million in FY13 led by higher diesel engine availability, normalisation of production and growth from new models and segments. We expect MSIL's realisations to increase 5% in FY13E, as diesel variants and premium compact cars are likely to grow faster. **ICICI Bank (₹1,255)** Improvement in NIM supported by change in loan mix. Loan growth to remain above industry levels supported by retail loan growth. Asset quality risk are lower as pipeline of restructured assets benign and smaller SME portfolio. Risk of equity dilution is less as it is adequately capitalised

## Motilal Oswal Securities

**ICICI Bank (₹1,225):** Continues its focus on 5Cs (Credit growth, Casa, Cost efficiency, Credit quality and Capital conservation). Improving domestic loan growth, stable margins and containment of credit cost would help further enhance its return ratios.

**Tata Motor/ DVR (₹349/210):** JLR product action, market expansion to drive 13.4% CAGR (FY12-15). Domestic M&HCV segment, which has been facing downtrend, could witness revival in FY14. Tata Motor/DVR is trading at 8.5x/5x FY13E and 5.1x/4.2x FY14E consolidated EPS

**Dr Reddy (₹2,080):** DRL expects to achieve its revenue guidance of \$2.7 billion revenue (30% growth) and 25% RoCE for FY13 without any major inorganic initiatives. The US market will be a key contributor led by its pipeline of 80 ANDAs and contribution from FTF/low-competition opportunities

**LIC Housing (₹300):** LIC HF continues to deliver strong performance on growth and asset quality fronts. However, it consistently disappointed on spreads (one of the key RoA drivers) leading to underperformance vs sector. The spreads have bottomed out and should improve as benefits on cost of funds start accruing

**L&T (₹1,795):** L&T is the best play on capex with its strong execution skills, diversified portfolio and strong balance sheet and is well placed to capitalise on long-term infrastructure demand. L&T's order backlog is worth ₹1,58,500 crore implying order book/sales ratio of 2.8x on trailing 12-month basis

## Ambit Capital

**Bank of Baroda (₹875):** At less than 1x our one-year forward adjusted book value, the only credible large-cap public sector bank that merits a structural BUY. Prudent and disciplined approach towards underwriting, ability to generate consistently high return ratios and superior efficiency ratios

**HCL Technologies (₹633):** After strong quarterly earnings supported by volume growth and offshore shift, we expect HCL Tech to continue to benefit from a strong position in enterprise application services and remote infrastructure management

**Torrent Power (₹285):** Torrent currently trades at a price/book discount of about 33% vs peers. Given Torrent's superior free cash flow yield (FY13E is 11%), higher FY13 RoE (13.3% vs 11.8% for peers) and improving visibility on the project pipeline, we believe it deserves to trade at a premium versus peers

**Ashok Leyland (₹33):** We expect an improvement in the economy and hence corporate spending going forward. This would mean a pick-up in the M&HCV segment's volumes from H2'FY13. Ashok Leyland, with its high operating leverage and attractive valuations, remains the best play

**Maruti (₹1,500):** We expect the passenger vehicle industry to recover in H2'FY13. The early signs of increased demand during the festival season are evidenced by October volumes as well. We also expect margins to improve owing to higher volumes and better product mix

## Kotak Securities

**Grasim (₹3,662):** Expect the company to benefit from volume expansion as well as pricing improvement going forward. Along with this, company also has a healthy balance sheet and is open for further expansion in cement capacity through organic or inorganic means

**KPIT Cummins (₹146):** Management commentary echoes the optimism sounded by other leading peers about the continuing traction in automotive, manufacturing and hi-tech verticals, the mainstay of KPIT. The company has decent visibility on revenues, going ahead

**TCS (₹1,460):** The management has maintained its optimism of beating NASSCOM's target growth rate of 11-14% (USD terms) in FY13 in CC terms and has also maintained an optimistic macro outlook. Revenue growth in the past few quarters has been better than Infosys and it has been able to restrict impact on margins

**Adani Port (₹156):** Total cargo handling capacity for the company in India is expected to increase from 150 million tonnes currently to 225 million tonnes by FY14E. As a large portion of the volumes is linked to energy imports, we expect volumes for the port to grow at 18% CAGR to 90 million tonnes by FY14E

**Engineer's India (₹275):** Domestic oil refining sector is likely to see significant capacity in 12th five-year Plan. EIL is likely to benefit from this as it enjoys entrenched relationship with PSU majors. To widen its offerings, EIL has formed various JVs with domestic and global players