Sushil Finance
ACTIONABLE KNOWLEDGE

New Year Recommendations

JANUARY 2013

Sushil Finance wishes you a very Happy New Year! We hope you made the best of 2012 whereby our indices provided returns in excess of 25%. Through our budget discussion in March 2012, we had indicated that market will see new highs by the next budget. A lot of positive developments like FDI in retail/aviation, subsidy related decisions, global liquidity measures etc. provided the impetus to the recent rally.

A few traders and investors are currently facing a dilemma of whether to enter markets now or wait for a correction?
If you have missed out on the recent rally, we feel there is no reason to be disheartened. We believe the Nifty could hit 6300 levels sooner than later & go on towards a new life time high.
We feel the following reasons could aid the upcoming rally:

- Government has shown an inclination to bring about reforms in Insurance, Banking, Fertilizer & Power sectors. The positivity of these reforms along with any slight correction in the fiscal imbalance, in spite of political pressures/compulsions, could add cheer to the sentiment
- Any significant drop in Interest Rates in intermediate term will definitely boost sentiment further. This could help a magnitude of sectors like Banking, Heavy Engineering, Real Estate, Infrastructure, Automobiles etc. However, a lower than expected drop in rates could act as a double edged sword which might provide a boost to debt markets & might not reflect in equity markets.
- Global markets continue to be awash with liquidity & might provide cheer to any emerging market which shows signs of improvement.

Bearing this in mind current Nifty level of 6000+, volatility is likely to stay till a strong direction is given by the Government. As we have seen, this market is going to continue to be a very stock specific market and only quality stocks will perform. We thus have a lot of comfort in giving a list of Stocks which would be ideal for investors/traders to play through this kind of market and get rewarded. A fall can also be taken positively and invested in these stocks. Ideal strategy should be to become greedier on sharp sell-off, rather than chasing it in up-moves.

Considering above influences, we present our New Year Recommendations in the form of best bets for 2013:

1. Aegis Logistics Ltd (ALL)

The Government has capped supply of LPG cylinders to 9 per household, which will ensure a level playing field for private players with the Oil/Gas Marketing PSUs. B2C Gas distributions will be a key growth driver for ALL going ahead as the company has around 88 retail auto-gas stations across 7 states (77 franchisees & 8 company-owned) and another 30 stations are under development.

2. Aditya Birla Nuvo Ltd (ABNL)

ABNL will be one of the biggest beneficiaries from the government's reform agenda especially on the front of FDI in multi-brand retail, Insurance bill and Urea de-control. ABNL is also, one of the key contenders to get the RBI's approval to start banking operations.

3. Jaiprakash Associates Ltd (JAL)

Robust assets and strong execution capability are the key strengths of JAL but servicing of its huge debt continues to remain an overhang on the stock. JAL had demerged cement operations into a separate entity & a stake sale will enable the company to reduce its debt and may lead to re-rating of the stock. Also many of the businesses, which were under stress are showing early signs of deleveraging, thus positively affecting cash-flows.

4. ICICI Bank Ltd

ICICI Bank's asset quality has shown a turnaround as its NPAs have continued to decline over the last eight quarters led by contraction in slippages leading to a sharp reduction in the provisions and an increase in its profitability. Further, with easing rates and higher growth in the domestic book (higher margins), we believe ICICI's NIM performance can surprise the street.

Sushil Financial Services Private Limited
Regd. Office : 12, Homji Street, Fort, Mumbai 400 001.
Member : BSEL, SEBI Regn.No. INB/F010982338 | NSEIL, SEBI Regn.No.INB/F230607435.
Phone: +91 22 40936000 Fax: +91 22 22665758 Email : info@sushilfinance.com

5. **SUN TV Network Ltd**

Sun TV is expected to be one of the biggest beneficiaries of digitisation in geographies like Chennai (1.3-1.5 mn cable subscribers and 0.5 mn DTH subscribers) and [Phase II] Bangalore, Hyderabad, Mysore, Coimbatore and Vishakhapatnam (~11 mn subscribers) where conversion from analog to digital transmission will increase the subscription income for the company without any additional capital expenditure going ahead.

6. **Wipro**

Client mining is continually gaining momentum with 8 clients above currently adding $100mn to top line compared to just 1 a few quarters ago. Management streamlining is starting to pay dividends. Value unlocking of consumer division will add to further gains. Currently investors are under-exposed to WIPRO and even a slight Expansion in Margin is likely to take the stock to newer highs due to re-rating and fresh interest in the company.

7. **Finolex Cables Ltd (FCL)**

Considering its strengths and the industry in which the company is operating, FCL being one of the leading players in the cable industry seems well placed to capture huge opportunities in Auto, Construction, Pumps, Motors, Consumer Electrical Goods, Power Distribution, Telecom, Networking. Given likely bottoming of its return ratios coupled with Cash flow of over Rs.150cr on Market Cap of Rs.900cr definitely warrants a re-rating.

Figure: Range of products offered by FCL. Picture Courtesy: FCL & Copyright Holder

8. **Hindustan Zinc Ltd (HZL)**

HZL expects a slight growth in mined metal production on a YoY basis for FY13, which implies good performance in H2FY13. Its cost of production (COP) is likely to be flattish on a full year basis; COP is thus likely to be lower in H2FY13. The zinc prices are also likely to hold up due to increasing mining cost, stable demand and supply side constraint in future. The company has also been engaged in new exploration possibilities which could be the next big trigger for HZL. Also very strong balance sheet with huge cash in the books makes the case more defensive.

9. **LIC Housing Finance Ltd (LICHFL)**

LICHFL has grown at a healthy pace in the past few years driven by strong growth in its loan book along with improved asset quality and high return ratios. Asset re-pricing, favorable borrowing mix coupled with strong disbursement growth to result in the reversal of NIMs which in turn would lead to healthy PAT growth. Reversal of rate cut will make the case more special with much attractive valuations.

10. **Everest Industries Ltd (EIL)**

The Roofing Industry would continue to grow at a decent pace driven by the government’s thrust on rural development. Rapid Urbanization leading to increased demand for value added products like fiber cement sheets, boards & panels and growth in acceptance of Pre-Engineered Buildings (PEB), we believe would lead to EIL reaping the benefits of its de-risking strategy.

Figure: Pre-Engineered Buildings by EIL. Picture Courtesy: EIL& Copyright Holder

11. Maruti Suzuki

After series of labor unrest issues, demand for Maruti Suzuki Ertiga has got the company rolling. Labor issues have been left behind and with 'petrol engines' coming back into focus of buyers due to diesel price rise we expect Maruti to steer out as a clear winner. The expected Yen depreciation against USD, is considered positive for Maruti Suzuki and we believe is a good investment bet for the current calendar year.

Figure: Maruti Suzuki Ertiga. Picture Courtesy: Copyright Holder

12. Cipla

The earnings per share for Cipla over the last seven-to-eight quarters has been steady and stable and this should continue with the new CEO who has joined. Structural play in Domestic markets and Emerging markets across the globe combined with the strong leadership shown by aggressive new generation of management is likely to make Cipla a stand-out player in the Pharma space.

13. Reliance Industries

Improvements in existing retail operations & any future global tie-ups or an IPO of Reliance Retail can lead to value unlocking. Any clarity on the gas pricing dispute with Government could act as a trigger for the stock. Also, the company has a planned foray into 4G, which could lead to a significant prospective segment.

We also, suggest a set of stocks for investors with a very long term horizon stretching to 2016 and have potential of multiple times returns:

1. **Minda Industries Ltd. (MIL)**
   MIL is engaged in diversified businesses of manufacturing of auto electrical parts including switches, lights, horns, gas kits and batteries for the off road, two, three and four wheelers. The Company has a good hold in both OEMs and After-market segments. For technological advancements, the Company has tied up with several global leaders in each business segment. The Company commands a prominent market share in each of its business segments and leads the switches market with dominating 70% share.

2. **Alicon Castalloy Ltd.**
   The Company is one of the leading manufacturers of aluminum alloy castings in India and the market leader in the manufacture of cylinder heads for two wheelers. Alicon Business share in the Indian 2 wheeler segment is nearly 47%. It is also a single source supplier of many critical engine parts to some of India's largest OEM's. The Company offer end-to-end solutions across the entire value chain covering (Designing, Engineering, Casting, Machining and Assembling) and deliver Gravity Die Casting & Low Pressure Die Casting. The Management expects 'Alicon Group' to achieve a top-line of Rs.10,000 mn by FY15.

3. **Triveni Turbine Ltd. (TTL)**
   TTL is a leading turbine manufacturer in the domestic market and since 1968, caters to a wide range of industries throughout the globe having installed over 2,500 steam turbines across 18 industries in over 30 countries. While providing heat and power solutions to such a wide array of industries across the globe, the company has evolved as a dominant player in the field of domestic small steam turbine industry catering to the requirements of up to 30 MW capacities. The Company is a debt-free company, with no major capex plans, a negative working capital, robust operating margins and strong cash flows. On April 15, 2010, TTL entered into a Joint Venture with GE resulting into a new company named GE Triveni Ltd. (GETL) headquartered in Bengaluru.

4. **Vadilal Industries Ltd. (VIL)**
   VIL is engaged in the business of manufacturing ice-cream, frozen dessert and processing and exporting processed food products, such as frozen fruits, vegetable, canned pulp, ready-to-eat and ready-to-serve products & also is involved in forex management, money changing and cold storage. The Company is exporting nearly 60 products to various countries. The ice-cream exports, strengthening presence in the fast growing processed foods makes this small-cap company to participate in the much-talked consumption story of the country.

5. **Tide Water Oil India Ltd. (TWO)**
   TWO is a part of the Andrew Yule's group, which has diversified business interests in engineering, electrical, tea cultivation, power generation, digital communication systems and lubricants. The company has been engaged in the business of producing and distributing automotive and industrial lubricants in India since 1928. The company has recently acquired the Veedol brand from Castrol Ltd and Lubricants UK Ltd & TWO is on track to expand its reach to newer geographies. Besides, being a fundamentally strong business TWO, is also a divestment candidate which may provide further upside to the stock price.

6. **Dolphin Offshore Enterprises India Ltd. (DOEIL)**
   DOEIL is engaged in offshore business & provides diving and underwater services; fabrication/installation; marine operations and management services; turnkey engineering, procurement and construction projects; rig repairs and ship repairs, and design engineering. DOEIL offers underwater services, including air, mixed gas and saturation diving services. The slowdown in the offshore services has resulted into stock price bottoming out and any signs of revival in the offshore industry would uncover the potential of the Company. Meanwhile, the Company has been working on building up assets.

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	**High predictability / Low volatility**
Medium Risk	**Moderate predictability / volatility**
High Risk	**Low predictability / High volatility**

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	**Over 15 %**	**Over 20%**	**Over 25%**
Accumulate	**10 % to 15 %**	**15% to 20%**	**20% to 25%**
Hold	**0% to 10 %**	**0% to 15%**	**0% to 20%**
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
- **Stock Review Reports:** These are Soft coverage’s on companies where Management access is difficult or Market capitalization is below Rs. 2000 mn. Views and recommendation on such companies may not necessarily be based on management meeting but may be based on the publicly available information and/or attending Company AGMs. Hence Stock Reviews may be just one-time coverage’s with an occasional Update, wherever possible.