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Top Diwali Picks for Next Samvat

Gone are the days investors could pick and choose multi-baggers in the stock market. With valuations at elevated levels and earnings growth of most companies yet to show any improvement, brokerages say there will be a selective rush for companies that have the potential to stay afloat. ET spoke to a few brokerages for their top Diwali stock picks, which could turn out to be winners over the next few months. Many of these stocks could return 20-30% over the next one year.



ANGEL BROKING

Inox Wind
Inox had an order book of 1.2GW as of 2QFY2016, the largest order book size for any domestic wind turbine player. The stock is currently trading at an attractive valuation of 12.6 times its FY2017 estimated EPS.

IPCA Labs
IPCA has been successful in changing its business focus to high-margin chronic and lifestyle segments. For FY2016, the management has given a guidance of 7-8% yoy sales growth. While the problems are likely to persist, still, given the valuations, IPCA is a good buy.

Radico Khaltan
The company's premium offerings reported a CAGR of 26% over the last seven-year period, and we expect the growth momentum to continue. Radico is trading at 1-year forward EV/Sales multiple of 1.3x, which is at huge discount to its close peer United Spirits (4.6x).

Stock	CMP (₹)	YTD Return (%)	P/E	MF Holding (%)	Target Price (₹)
Inox Wind	387.20	-11.60	23.99	4.73	505
Ipsca Labs	755.35	4.90	119.33	14.64	900
Radico Khaltan	108.85	24.68	20.93	13.17	119

EDELWEISS

Cholamandalam Investment
Cholamandalam has been adding new lines of business like tractor, rural and SME financing, both in working capital and term loans. It has been constantly improving its efficiency. The operating cost as % of assets has come down from 5.1% in FY09 to 3.5% in FY15.

Indo Count Industries
Indo Count is the third-largest exporter of home textiles and has marquee global clients like WalMart, House of Fraser, JC Penney & B&B. Any shift in the market share from China to India would offer huge growth potential for Indian home textile players.

Stock	CMP (₹)	YTD Return (%)	P/E	MF Holding (%)	Target Price (₹)
Cholamandalam	637.50	34.35	20.64	7.47	727
Indo Count Ind	917.00	165.03	18.76	1.47	1,198
NIIT	91.05	86.01	-	12.66	125

ICICI SECURITIES

Ashoka Buldcon
A significant beneficiary of the upcoming NHAI road awarding programme. Fully-funded BOT projects and fund raising of ₹500 crore through QIP in Oct 14 throws up huge opportunity to bid for large projects and take care of funding needs of future BOT projects.

Bajaj Corp
Despite weak offtake in the hair oil category, the company has been able to increase its market share to 61% from 57% a year ago. The stock currently trades at PERs of 20.3x FY17E which is at a significant discount to that of its peers despite the healthy return ratio.

MCX
FMC merger with S&P is likely to boost prospects of the commodity exchange, which had seen a dip in volumes post the NSEI fiasco. Stock trades at PERs of 31.3x and 23.2x FY16E and FY17E earnings, respectively, below its long-term average of 27.5x 1-year forward earnings.

Stock	CMP (₹)	YTD Return (%)	P/E	MF Holding (%)	Target Price (₹)
Ashoka Buld	162.15	14.19	52.99	17.48	214
Bajaj Corp	417.75	12.40	32.33	1.85	530
MCX	894.10	-1.67	66.08	17.92	1,167

IIFL

Dewan Housing Finance
Govt's initiatives, expanding affordable housing and company's strong positioning will drive brick asset growth for Dewan Housing. Earnings are expected to grow faster aided by operating leverage. Valuation is attractive at 1 times FY18 price/adjusted book value.

Greaves Cotton
Strong growth in three-wheelers, industrial activity and development of irrigation infrastructure will translate into large business opportunities for Greaves Cotton. Valuation discount to market leader is more than adequate.

Techno Electric
Techno Electric would be one of the major beneficiaries of the strong domestic T&D capex. Led by strong execution skills, margin expansion and lean balance sheet, the company is expected to witness earnings CAGR of 30% over FY15-17E.

Stock	CMP (₹)	YTD Return (%)	P/E	MF Holding (%)	Target Price (₹)
Dewan Housing	220.05	6.59	9.51	1.56	300
Greaves Cotton	138.69	-5.77	35.20	24.28	180
Techno Electric	491.50	21.03	23.62	16.18	610

KOTAK SECURITIES

Century Plyboards
With its wide product portfolio, product premiumisation, higher branding spend and expected GST implementation by mid FY17, the company is likely to benefit from shift of customer's preferences from unorganised to organised segment.

PNC Infratech
PNC Infratech has a strong track record in the roads sector and has maintained high core RoCE of 25%-plus with working capital and net-debt/equity remaining at a controlled level of "100 days and less than 0.5x, respectively.

Stock	CMP (₹)	YTD Return (%)	P/E	MF Holding (%)	Target Price (₹)
Century Ply	180.90	12.75	24.38	3.38	239
PNC Infratech	527.00	46.31	40.35	13.45	602
Praj Industries	89.35	46.12	26.99	15.57	118

MOTILAL OSWAL

Bharat Forge
We estimate cumulative free cash flow generation of ₹3,000 crore during FY15-18, enabling balance sheet turning to net cash of ₹500 crore and profitability would drive improvement in consolidated RoE to 26.5% in FY18 from 24.1% in FY15 - the highest RoE since FY07.

Gruh Finance
Gruh has delivered best-in-class return ratios, with a 10-year average RoE & RoA of 28% and 2.5%. Earnings CAGR at 28% over the past three years has resulted in steady re-rating of the stock, with its one-year forward book multiple expanding from 3x in FY11 to 8x in FY15.

Torrent Pharma
The stock trades much above its historic PE due to higher revenue visibility and deleveraging prospects. We value Torrent's base business at 21x FY17E PE. Sustenance of high earnings growth and de-leveraging of balance sheet justify upward shift of its average PE band.

Stock	CMP (₹)	YTD Return (%)	P/E	MF Holding (%)	Target Price (₹)
Bharat Forge	858.30	-8.55	25.95	9.12	1,115
Gruh Finance	257.39	-12.21	42.41	3.34	300
Torrent Pharma	1565.60	36.77	20.16	5.95	1,850

* Bloomberg Consensus Target Price

Text: Rajesh Mascarenhas; Compiled by: ETIC Database