

Will stocks deliver in 2016?

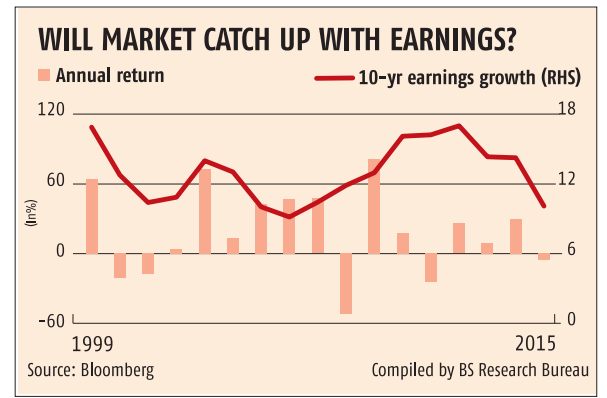
KRISHNA KANT
For Indian equity investors, year 2015 was mixed. The benchmark BSE Sensex ended 5.6 per cent lower in 2015, its worst performance in four years. However, many domestic investors ended the year in the green, thanks to a better show by smaller companies.

The prognosis for the new year varies from a high double-digit rally in benchmark indices to an equally big decline in large-cap stocks as valuation catches up with progressively weak fundamentals. For domestic investors, the relevant question is whether the dichotomy between large-caps (or benchmark indices) and mid/small

cap will persist or the law of averages prevail in the new year. For the first time in a decade, the BSE Midcap and Smallcap indices outperformed the benchmark index for a consecutive year. More than half the broadbased BSE 500 companies delivered positive returns in 2015 as domestic investors lapped up second and third-rung stocks

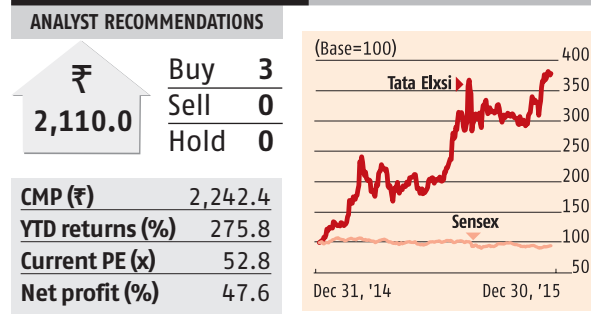
either directly or through equity mutual funds. Their stance was supported by a relatively benign correction in the index, despite weak corporate earnings. Sensex companies earnings decelerated for the fourth consecutive year but index valuation reached a four-year high.

The saviour in 2016 could come in the form of a step-up in public investment as the government fights to avert an economic slowdown. Consumption stocks could also get a boost from the pay commission award. Any delay in domestic growth or a worsening global economic scenario could impact stock market returns.



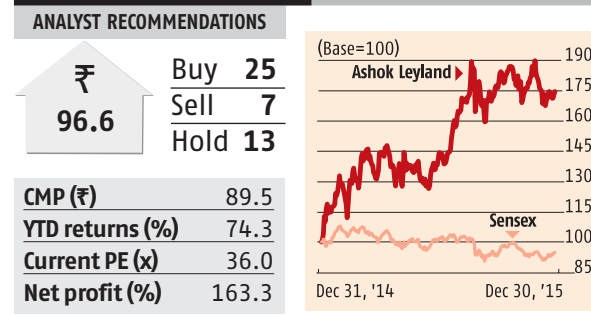
GAINERS MAJOR

TATA ELXSI (TECHNOLOGY)



- Shifted focus from system integration business to high margin software development business
- Higher share of software and support services in the business mix has improved the revenue composition and operating margins
- Increase in offshore projects and price hike in fixed price contracts worked in favour of Tata Elxsi

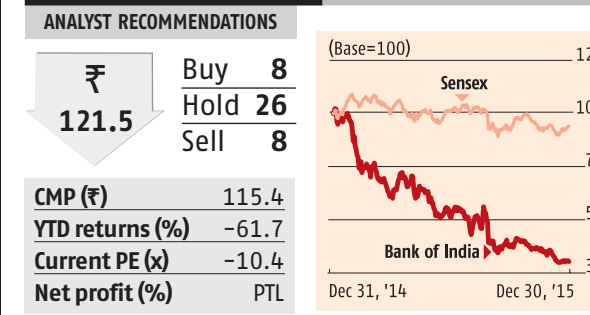
ASHOK LEYLAND (AUTOMOBILES)



- Double-digit volume growth and sharp turnaround in finances
- Revenue was up 55 per cent and net profit quadrupled in the first half
- Likely to sustain profitability in FY17, thanks to revival in truck sales and benign metal prices
- High valuations will restrict near-term upside

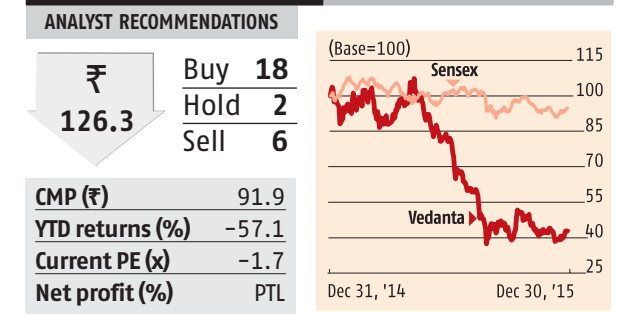
LOSERS MAJOR

BANK OF INDIA (BANK)



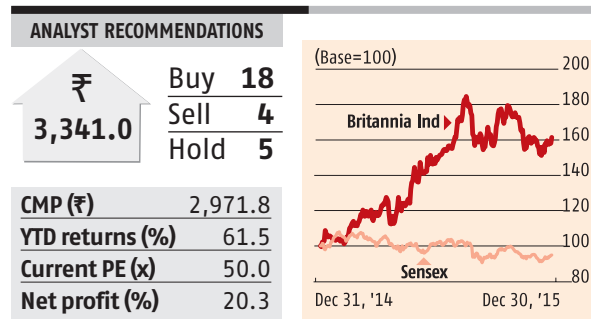
- Sharp fall in interest income, particularly in the first half of FY16, went against the bank
- A two and a half times jump in provisioning in the first half of FY16 suggests asset quality pressures are expected to continue in FY17
- Analysts have cut FY17 profit estimates further, despite equity infusion by the government

VEDANTA (METALS & MINING)



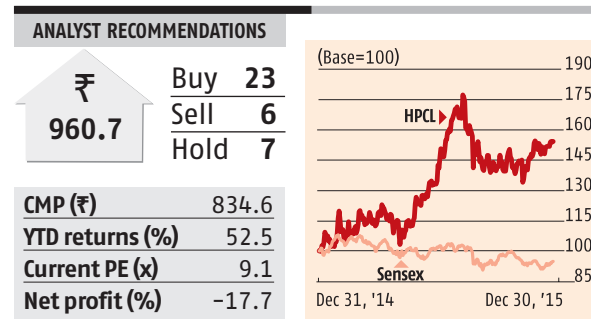
- Hit by a global meltdown in metal and energy prices
- Double-digit dip in revenues and profit due to low metal prices and high interest burden
- Could face more headwinds due to Chinese slowdown and elevated debt level
- Clarity on merger with cash-rich Hindustan Zinc and Cairn India, and low valuation make it a contra buy

BRITANNIA INDUSTRIES (FMCG)



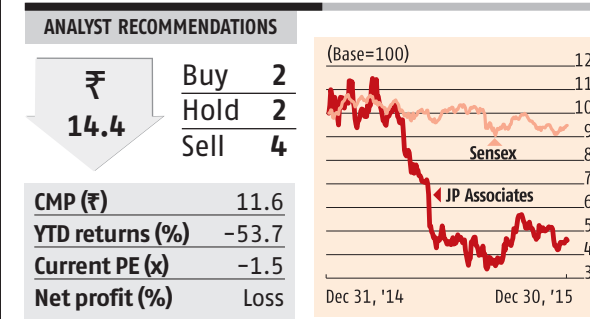
- Reported double-digit growth due to expansion in rural markets, despite tough demand conditions
- Geographical expansion and an expected pick-up in discretionary spending to help drive growth
- Benign input costs will drive profitability
- Remains a buy thanks to growth visibility, healthy cash flows and return ratios

HINDUSTAN PETROLEUM (ENERGY)



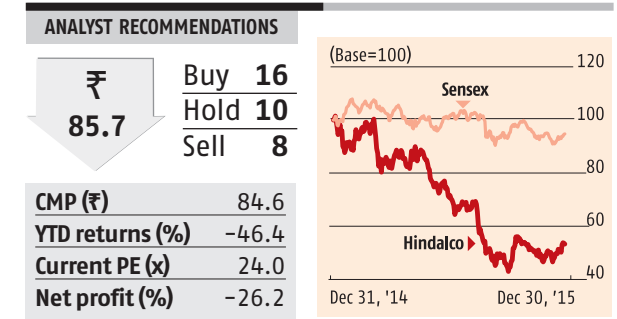
- Falling crude oil prices have been a boon for downstream companies such as
- Diesel price deregulation and other reforms have helped reduce underrecoveries
- Working capital requirements stand reduced
- These benefits will continue to accrue, though a large part of the benefits are factored in current stock price

JP ASSOCIATES (CONSTRUCTION & INFRA)



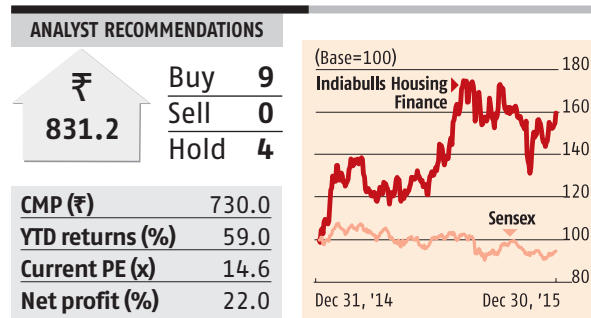
- Hit by falling profitability in its core cement and construction business and a mounting interest burden
- Losses quadrupled in the first half of FY16 as operating profit fell short of interest cost
- Sale of cement business could provide short-term relief but long-term outlook uncertain
- Contra investors could buy, given all-time low valuation

HINDALCO (METALS & MINING)



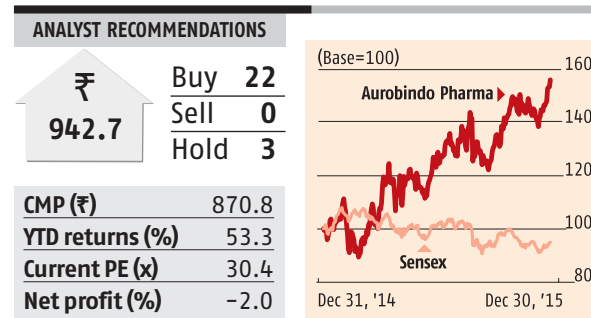
- Sharp hit in profitability due to fall in international aluminium prices
- Situated worsened by high debt and mounting interest burden
- Near-term outlook uncertain due to global metal glut and falling demand in China
- All-time low P/E and strong parentage limit downside

INDIABULLS HOUSING FINANCE (FINANCE)



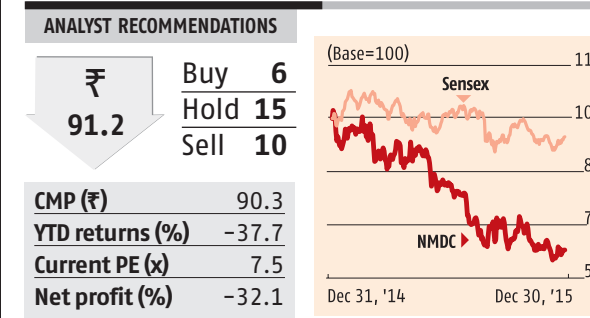
- Transformation from diversified lender to a focused mortgage player has improved its return on equity from three per cent in FY09 to 26 per cent H1 FY16
- With loan disbursement set to grow 25 per cent in FY17 and asset quality to remain stable, analysts believe will continue to outperform peers

AUROBINDO PHARMA (PHARMACEUTICALS)



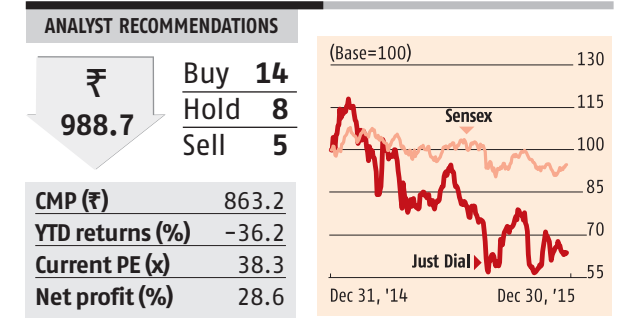
- Reaping benefits of aggressive filings for new products in the US in recent years
- Approval rate for new launches strong and run-rate of 30-plus approvals in current year among the highest in Indian generics space
- Investments in injectables and complex generics are leading to developing a strong product range in the US

NMDC (METALS & MINING)



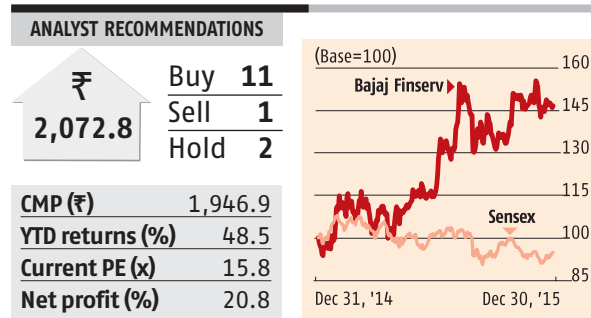
- Revenues and net profit halved in the first half due to a sharp dip in iron price prices
- Outlook remains uncertain due to poor global steel demand and Chinese economic slowdown
- A high dividend yield of 9 per cent and low valuation limits downside for the stock
- Cash and bank balance of ₹18,500 crore provide comfort

JUST DIAL (TECHNOLOGY)



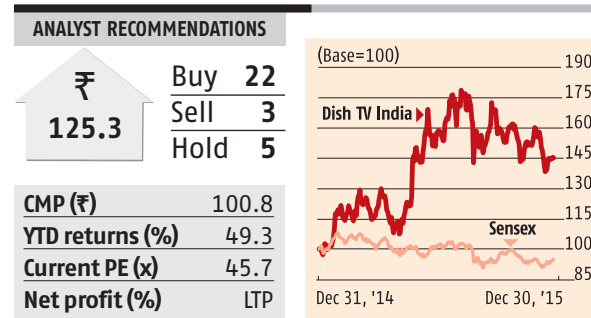
- Earnings growth picked up in first half but Street sceptical about its search and transaction model
- Monetisation of Search Plus key monitorable as downloads have attained a decent size
- The worry stems from growing proliferation of vertical specific apps and new incumbents
- At 38 times trailing earnings, stock is expensive

BAJAJ FINSERV (FINANCE)



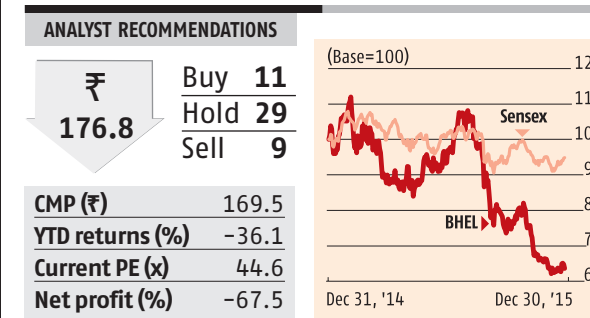
- Earnings growth in three business segments, with retail lending arm Bajaj Finance leading the profit charts
- Recent deals in insurance space holds potential for value unlocking of Bajaj Finserv's insurance businesses
- Analysts expect consolidated revenue and profit to grow 13 per cent and 24 per cent, respectively, in FY17, making it a buy

DISH TV (ENTERTAINMENT)



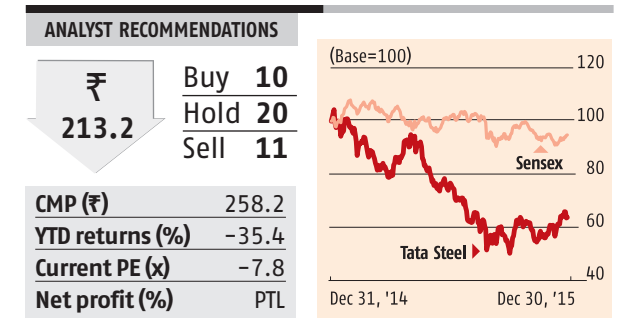
- Turned profitable thanks to subscriber growth and kicking-in of operating leverage
- Set to report sizable profit in FY16 vs losses in past few years
- Positive trend should continue thanks to its market position, digitisation gains and sector consolidation
- Analysts expect profits to double in FY17, making it a buy

BHEL (CAPITAL GOODS)



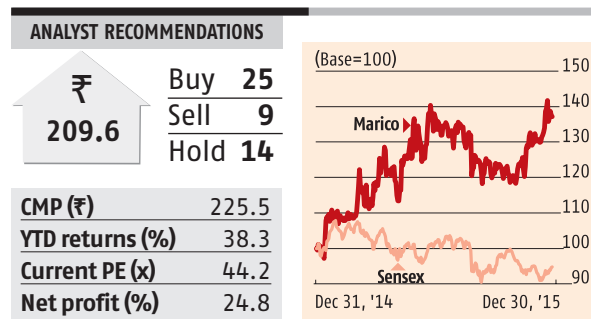
- First quarterly loss in 50 quarters as demand for new power equipment hit new lows
- Power capex cycle yet to take off
- Near-term outlook remains uncertain, given falling power deficit and losses of state utilities
- High valuations and poor visibility on new orders will keep stock subdued

TATA STEEL (METALS & MINING)



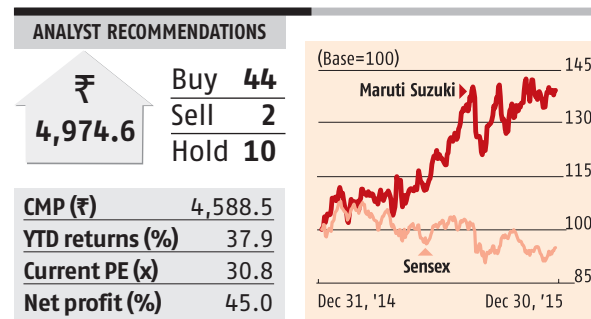
- Impacted by lower steel demand as Chinese demand slowed
- Difficulty magnified due to continued losses at European unit and high debt and interest burden
- Short-term relief from safeguard duty on steel imports
- A historic low valuation and likely asset sale in Europe limit downside

MARICO (FMCG)



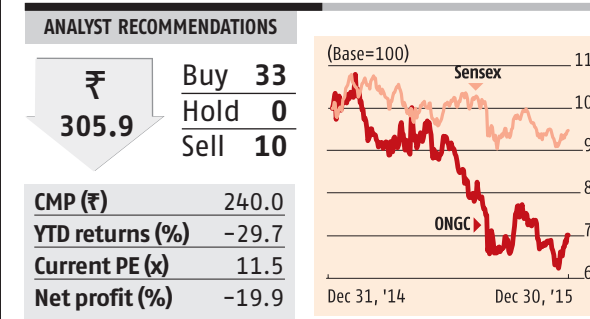
- Rural growth showing signs of slowdown but revenue from flagship brands Parachute and Saffola helped it maintain operating margins at 16 per cent
- Benign commodity prices, higher promotional activities, product launches and market expansion should help maintain 20 per cent earnings growth in FY17

MARUTI SUZUKI (AUTOMOBILES)



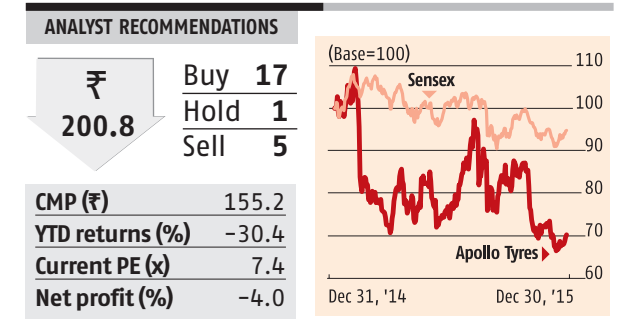
- Continues to gain from volume growth and depreciation in yen, its key importing currency
- Sales volume up 13 per cent in first eight months of FY16, beating industry growth of 9 per cent
- Likely to sustain momentum, thanks to strong product pipeline and diesel vehicle ban in Delhi
- Analysts expect further upside to the stock

ONGC (ENERGY)



- Hit by falling crude oil prices and lower realisations
- Oil and gas production remain stagnant as its oilfields mature
- Investment in marginal fields and new projects could lift production
- Uncertainty on subsidy sharing mechanism, however, weighs on the stock

APOLLO TYRES (TYRES)



- Hit by fall in tyre demand due to a mix of decline in truck cargo and weak automobiles sales
- Continued depreciation in Chinese yuan and surge in tyre imports weigh on stock price
- Pick-up in truck sales and rubber price fall to help
- Stock could fall further if forced to cut prices due to surging imports and poor domestic demand