Model Portfolio update

Research
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March 16, 2018

ICICI Securities Ltd.

Latest Model Portfolio

Large cap

Name of the company	Weightage(%)
Auto	17.0
Tata Motor DVR	**3.0**
Maruti	**6.0**
EICHER Motors	**4.0**
Mahindra & Mahindra (M&M)	4.0
BFSI	37.0
HDFC Bank	10.0
Axis Bank	6.0
HDFC	9.0
Bajaj Finance	6.0
SBI	6.0
Capital Goods	6.0
L & T	**6.0**
Cement	4.0
UltraTech Cement	4.0
FMCG/Consumer	19.0
Dabur	5.0
Marico	4.0
ITC	**6.0**
Nestle	4.0
IT	6.0
TCS	6.0
Metals	6.0
Hindustan Zinc	6.0
Oil and Gas	5.0
GAIL Ltd.	5.0
Total	100.0

- **Exclusion** – Zee Entertainment, Asian Paints and reduced weight in Tata Motors DVR
- **Inclusion** – ITC and increased weight in Eicher, Maruti and L&T

Midcap

Name of the company	Weightage(%)
Auto	6.0
Bharat Forge	6.0
BFSI	20.0
Bajaj Finserve	8.0
J&K Bank	6.0
Indian Bank	6.0
Capital Goods	12.0
Bharat Electronics	6.0
Kalpataru Power transmission	**6.0**
Cement	6.0
Ramco Cement	6.0
Consumer	30.0
Symphony	6.0
Kansai Nerolac	6.0
Pidilite	6.0
Tata Chemicals	6.0
Bata	6.0
Metals	6.0
Graphite India	6.0
Infrastructure	8.0
NBCC	8.0
Logistics	6.0
Container Corporation of India	6.0
Textile	6.0
Arvind	6.0
Total	100.0

- **Exclusion** – Supreme Industries
- **Inclusion** – Kalpataru Power Transmission

Source: Bloomberg, ICICIdirect.com Research
**Diversified portfolio - Combination of 70% large cap and 30% midcap portfolio*

Outperformance continues across all portfolios…

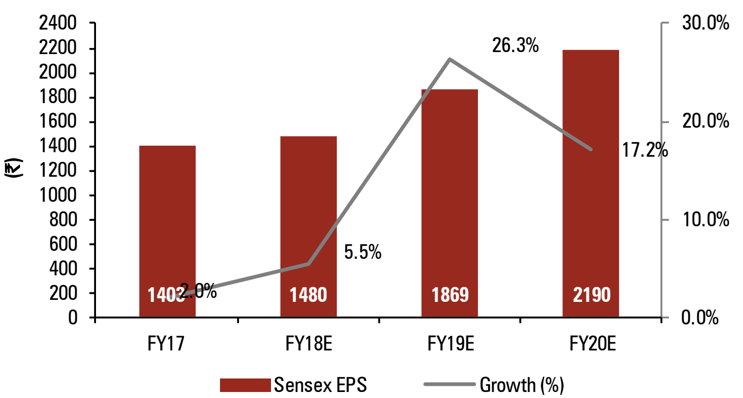
- Our indicative large cap equity model portfolio has continued to deliver an impressive return (inclusive of dividends) of 117.1% since its inception (June 21, 2011) vis-à-vis the index return of 97.7% during the same period, an outperformance of 19%. This validates our thesis of selecting companies with sound business fundamentals that form the core theme of our portfolio. Our midcap portfolio has outperformed the benchmark by 2.3x (since June 2011), posting returns of 350%
- Our consistent outperformance demonstrates our superior stock picking ability over these years aligned to our view of favourable risk-reward, good franchisee vs. reward-at-any-risk businesses. Some key performers of our portfolio are Bajaj Finance, HDFC Bank and HDFC in the large cap portfolio while Natco Pharma, Kansai Nerolac and Bajaj Finserv have delivered stupendous returns in the midcap portfolio. We continue to advocate the SIP mode of investment as the preferred mode of deployment given the rich valuations that some pockets of the market have reached. We highlight that the SIP return of our portfolio has consistently outperformed indices. This affirms our belief in the staggered and systematic approach of investment amid market volatility
- Quarterly results are encouraging thereby depicting upbeat domestic economic sentiments (also depicted by November-December 2017 IIP numbers) thereby reinforcing our view of a smart earnings recovery being under way. Sensex companies (ex-banks) posted a robust Q3FY18 performance partly due to the low base due to demonetisation in base quarter i.e. Q3FY17 and adapting of trading channel to the new GST regime. On the sectoral front, in Q3FY18, the auto space continued the positive momentum with overall 16% volume growth on a YoY basis. The key surprise was upbeat M&HCV sales (up 37% YoY)
- **Given the outperformance, we have increased the allocation to the auto sector by 100 bps to 17% (vs. earlier 16%). The portfolio ideology remains receptive to newer opportunities available in the market. Subsequently, we have made several changes to the portfolio. The new additions in our large cap portfolio is ITC. Moreover, in addition to the auto sector, we have increased allocated weights in L&T. In our midcap portfolio, we have added Kalpataru Power. Considering the near term challenges in the business profile, we have reduced our weightage in Tata Motors. We have exited Zee Entertainment from the large cap portfolio. Moreover, given the strengthening crude prices we have also excluded Supreme Industries**

- We continue to maintain our high allocation towards the BFSI space with total weightage of 37% in the large cap portfolio and 20% in midcap portfolio. Apart from this, we continue to remain positive on consumption theme with allocation of 19% and 30% in large cap and midcap portfolio, respectively
- Over the last quarter, companies continue to witness pressure on gross margins on account of a rise in commodity prices, which remains low in our portfolio pecking order. Our preferred picks are companies with higher capacity utilisation along with improved operating leverage
- A revival in the capex cycle coupled with a lower interest rate scenario would benefit the BFSI and construction space (SBI, UltraTech, L&T, HDFC and HDFC Bank)

House view on Index

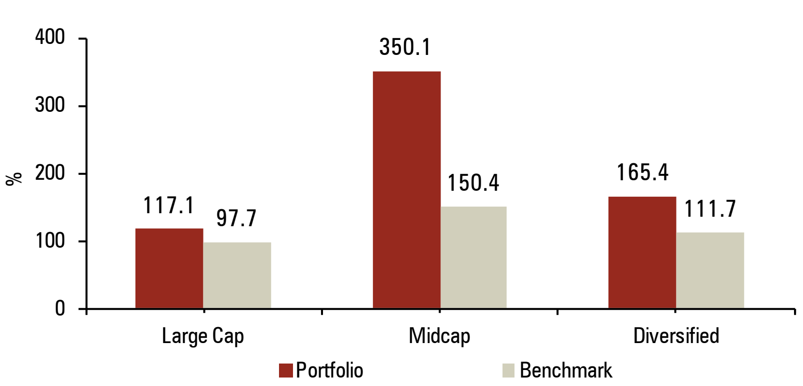
- **We maintain our index targets (Sensex at 37,600 & Nifty at 11,725) with revised Sensex earnings, implying ~17x P/E on FY20E EPS, which is in tandem with the long period average. The earnings growth at the index level will be led by the index heavy (~40% weight) banking & NBFC space primarily tracking bottoming of asset quality pressure and resolution of big ticket stressed assets through NCLT mechanism. In the consumer space, the earnings growth will be led by the auto space**

Strategy 2018 - Sensex & Nifty Target



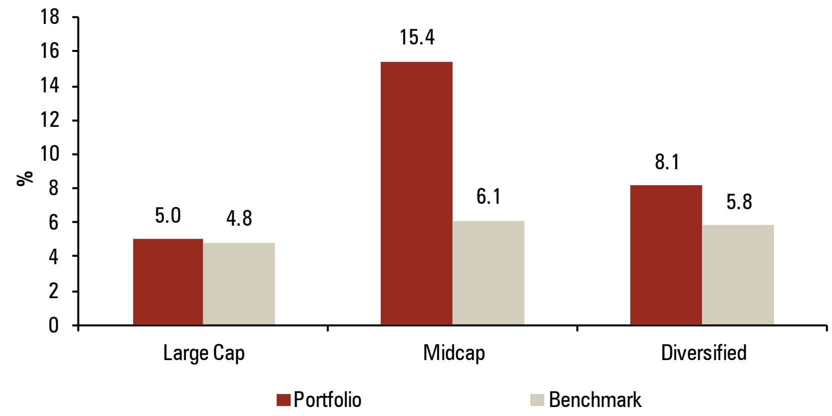
Performance so far* …

Portfolio performance since inception



- The large cap equity model portfolio continued its outperformance vis-à-vis the index with 117.1% return since its inception (June 21, 2011) vis-à-vis index return of 97.7% in the same period. Our sustained preference for high quality names has aided this outperformance on a consistent basis. We continue to be rewarded for our meticulous approach towards stock selection while we endeavour to emulate the broader index
- On the other hand, given the astute selection in the midcap portfolio, the outperformance in the same continues, with a return of 350.1% compared to the midcap index return of 150.4%
- Given the overall outperformance in both (large & midcap) portfolios, the diversified portfolio (combination of 70/30 ratio) has outperformed its benchmark indices

Portfolio performance since last update (August 2017)

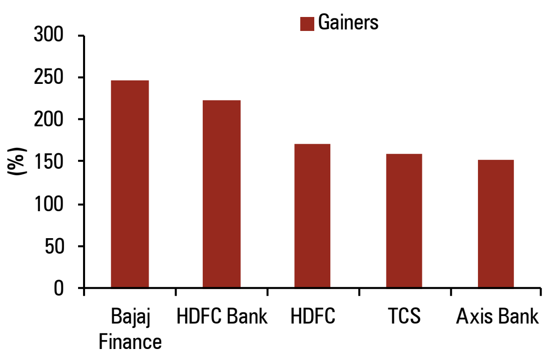


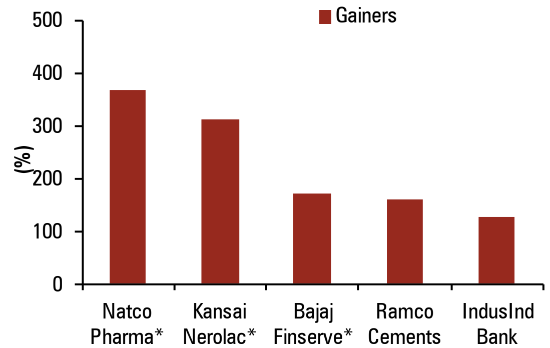
- Since the last update (August 2017), our large cap portfolio has slightly outperformed the benchmark index performance generating a return of 5% compared to benchmark return of 4.8%. The index outperformance was mainly on the back of performance in Gail and Maruti. Our large cap portfolio was impacted by the underperformance of Tata Motors and Eicher Motors
- Our conservative stock selection in the midcap portfolio continues to exhibit strong outperformance vs. the broader indices. The portfolio outperformed with a return of 15.4% compared to index return of 6.1%. Strong performance in Graphite India and Symphony resulted in the outperformance. However, the portfolio performance was impacted by J&K Bank and Bharat Electronics

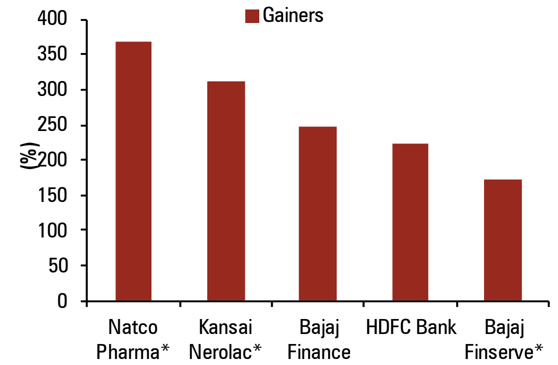
Source: Bloomberg, ICICIdirect.com Research

Top movers* so far…

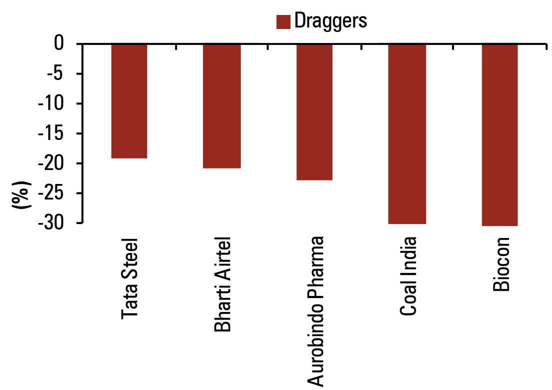
Large cap	Midcap	Diversified

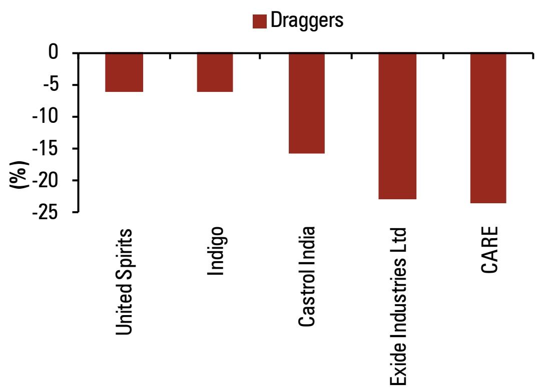


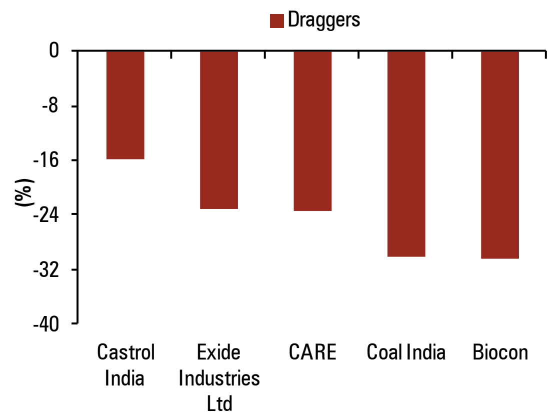




Large cap	Midcap	Diversified

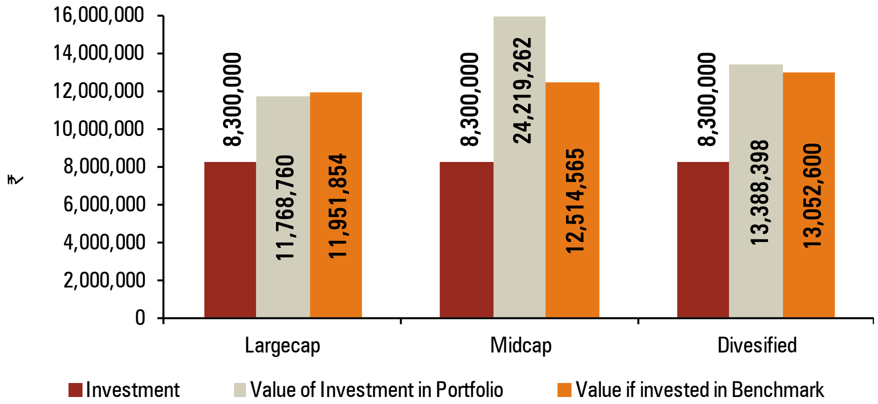






*Source: Bloomberg, ICICIdirect.com Research , *Starred stocks have been included in the portfolio since the last rejig in July 2012/May, August ,December 2013/ April, June, December 2014/ May 2015/July 2015/October 2015. Rest all are since inception in June 2011*

Performance* so far in SIP mode …



- Systematic investments at regular intervals in all our three portfolios have outperformed their respective benchmarks, acting as a perfect shield to the volatility that the market encountered last year
- Assuming ₹ 1,00,000 invested as SIP at the end of every month
- Start date of SIP is June 30, 2011

Source: Bloomberg, ICICIdirect.com Research

What’s in, what’s out?

What's in?

Name	Portfolio	Weight
ITC	Largecap	6%
L&T	Largecap	Increased from 4% to 6%
Maruti	Largecap	Increased from 5% to 6%
Eicher Motors	Largecap	Increased from 3% to 4%
Kalpataru Power	Midcap	6%

What's out ?

Name	Portfolio	Weight
Zee Entertainment	Largecap	4%
Asian Paints	Largecap	5%
Tata Motors DVR	Largecap	Reduced from 4% to 3%
Supreme Industries	Midcap	6%

Source: ICICIdirect.com Research

The story of the stocks…

Kalpataru Power (KALPOW)

- Kalpataru Power is a leading power T&D EPC player with well diversified operations in both domestic and international markets. The company has also emerged as a leading EPC player in the railways and oil & gas pipeline infrastructure
- As of 9MFY18, KPTL commands a strong order backlog of ₹ 10532 crore which renders comfortable revenue visibility till FY20E. Till 9MFY18, the company has won significant orders to the tune of ₹ 8440 crore. Going ahead, opportunities in the power T&D space (international markets), railways and pipeline segment will add to order wins. Hence, we build in order inflow of ₹ 10500 crore and ₹ 12000 crore in FY19E and FY20E, respectively
- With robust wins in the infrastructure segment (railways and pipeline), overall revenues are likely to witness revenue CAGR of 15.9% during FY18E-20E. EBITDA margins are likely to be in the 11-11.8% range, which is expected to result in PAT CAGR of 21.9%
- JMC's improved performance and robust outlook in the core EPC business and lower capex intensity in BOT assets may further aid the consolidated performance while the logistics subsidiary that is likely to turn around at PBT level by FY19E may further aid the performance
- Scalability of new business segments, operating leverage gains supported by consistent growth in base business may drastically improve return ratios of the company from 11.4% in FY17 to 13.2 in FY20E. We believe KPTL is on a very strong footing and will get rerated. We value the company on a SoTP basis and arrive at a fair value of ₹ 600/share

(₹ Crore)	FY17	FY18E	FY19E	FY20E
Net Sales	4,894.1	5,508.8	6,483.5	7,399.4
EBITDA	546.3	621.4	745.2	864.5
PAT	284.7	322.2	398.9	478.6
EPS (₹)	18.5	21.0	26.0	31.2
P/E (x)	24.8	21.9	17.7	14.7
RoE (%)	11.2	11.4	12.5	13.2
RoCE (%)	15.5	16.1	17.5	18.4

ITC (ITC)

- ITC is a leading player in the Indian cigarettes industry with a market share of over 80%. Apart from cigarettes, it has a diversified presence in the hotels, agri, paperboards & packaging and FMCG industry. ITC has successfully built the FMCG brands, which have recorded strong sales growth over a short span of time, e.g. Aashirvaad (~₹ 3500 crore), Sunfeast (~₹ 3000 crore) and Bingo (more than ₹ 1000 crore)
- Additionally, it is foraying into new segments like dairy (Aashirvaad Svasti ghee), premium chocolates (Flabelle), juices (B Naturals) and Coffee (Sunbean), which bodes well for the company's long term revenue target of ₹ 1 lakh crore by FY30. Post GST implementation, ITC would be the key beneficiary of a) demand revival, b) shift in consumption pattern (from unorganised to organised) and c) supply chain benefits
- We value the cigarettes business at ₹ 223 (P/E multiple of 25x FY20E EPS), FMCG at ₹ 61 (5x MCap/sales FY20E), paperboards at ₹ 9 (6x FY20E EV/EBITDA), agri-business at ₹ 6 (3x P/BV FY19E) and hotels at ₹ 8 (2x EV/room FY20E) and also added the cash per share of ₹ 13. We believe revenue growth and profitability of FMCG business would be the key driven catalyst for the growth over the long term period. We maintain our BUY rating on the stock price with a target price of ₹ 320 per share

(₹ Crore)	FY17	FY18E	FY19E	FY20E
Revenue (₹ crore)	39,641.9	39,114.9	44,534.9	48,688.1
EBITDA (₹ crore)	14,578.0	14,478.7	16,908.0	18,598.1
Net Profit (₹ crore)	10,200.9	10,590.2	11,987.4	13,155.3
EPS (₹)	8.4	8.7	9.9	10.8
P/E (x)	32.4	31.2	27.6	25.1
P/BV (x)	7.3	6.7	6.6	6.4
ROE (%)	22.5	21.0	23.8	25.4
ROCE (%)	32.9	29.9	34.3	36.7

Source: Bloomberg ICICIdirect.com Research

Large cap portfolio

Earlier

Name of the company	Weightage(%)
Auto	16.0
Tata Motor DVR	4.0
Maruti	5.0
EICHER Motors	3.0
Mahindra & Mahindra (M&M)	**4.0**
BFSI	37.0
HDFC Bank	**10.0**
Axis Bank	**6.0**
HDFC	**9.0**
Bajaj Finance	6.0
SBI	6.0
Capital Goods	4.0
L & T	4.0
Cement	4.0
UltraTech Cement	4.0
FMCG/Consumer	18.0
Dabur	5.0
Marico	4.0
Asian Paints	5.0
Nestle	4.0
IT	6.0
TCS	6.0
Media	4.0
Zee Entertainment	4.0
Metals	6.0
Hindustan Zinc	**6.0**
Oil and Gas	5.0
GAIL Ltd.	5.0
Total	100.0

Now

Name of the company	Weightage(%)
Auto	17.0
Tata Motor DVR	**3.0**
Maruti	**6.0**
EICHER Motors	**4.0**
Mahindra & Mahindra (M&M)	4.0
BFSI	37.0
HDFC Bank	10.0
Axis Bank	6.0
HDFC	9.0
Bajaj Finance	6.0
SBI	6.0
Capital Goods	6.0
L & T	**6.0**
Cement	4.0
UltraTech Cement	4.0
FMCG/Consumer	19.0
Dabur	5.0
Marico	4.0
ITC	**6.0**
Nestle	4.0
IT	6.0
TCS	6.0
Metals	6.0
Hindustan Zinc	6.0
Oil and Gas	5.0
GAIL Ltd.	5.0
Total	100.0

Source: Bloomberg, ICICIdirect.com Research

Midcap portfolio

Earlier

Name of the company	Weightage(%)
Auto	6.0
Bharat Forge	6.0
BFSI	20.0
Bajaj Finserve	**8.0**
J&K Bank	6.0
Indian Bank	**6.0**
Capital Goods	6.0
Bharat Electronics	6.0
Cement	6.0
Ramco Cement	6.0
Consumer	36.0
Symphony	6.0
Supreme Ind	6.0
Kansai Nerolac	6.0
Pidilite	6.0
Tata Chemicals	**6.0**
Bata	**6.0**
Metals	6.0
Graphite India	**6.0**
Infrastructure	8.0
NBCC	8.0
Logistics	6.0
Container Corporation of India	6.0
Textile	6.0
Arvind	6.0
Total	100.0

Now

Name of the company	Weightage(%)
Auto	6.0
Bharat Forge	6.0
BFSI	20.0
Bajaj Finserve	8.0
J&K Bank	6.0
Indian Bank	6.0
Capital Goods	12.0
Bharat Electronics	6.0
Kalpataru Power transmission	**6.0**
Cement	6.0
Ramco Cement	6.0
Consumer	30.0
Symphony	6.0
Kansai Nerolac	6.0
Pidilite	6.0
Tata Chemicals	6.0
Bata	6.0
Metals	6.0
Graphite India	6.0
Infrastructure	8.0
NBCC	8.0
Logistics	6.0
Container Corporation of India	6.0
Textile	6.0
Arvind	6.0
Total	100.0

Source: Bloomberg, ICICIdirect.com Research

Diversified portfolio (1/2)

Earlier

Name of the company	Weightage(%)
Auto	13.0
Tata Motor DVR	2.8
Maruti	3.5
Eicher Motors	2.1
Bharat Forge	1.8
Mahindra & Mahindra (M&M)	**2.8**
Consumer Discretionary	16.1
Symphony	1.8
Supreme Ind	1.8
Kansai Nerolac	1.8
Pidilite	1.8
Asian Paints	3.5
Arvind	1.8
Tata Chemicals	**1.8**
Bata	**1.8**
BFSI	31.9
HDFC Bank	**7.0**
Axis Bank	**4.2**
SBI	4.2
HDFC	**6.3**
Bajaj Finance	4.2
Bajaj Finserve	**2.4**
J&K Bank	1.8
Indian Bank	1.8
Power, Infrastructure & Cement	13.4
L & T	2.8
UltraTech Cement	2.8
Ramco Cement	1.8
NBCC	2.4
Bharat Electronics	1.8
Container Corporation of India	1.8

Now

Name of the company	Weightage(%)
Auto	13.7
Tata Motor DVR	**2.1**
Maruti	**4.2**
Eicher Motors	**2.8**
Bharat Forge	1.8
Mahindra & Mahindra (M&M)	2.8
Consumer Discretionary	15.0
Symphony	1.8
Kansai Nerolac	1.8
Pidilite	1.8
ITC	**4.2**
Arvind	1.8
Container Corporation of India	1.8
Textile	1.8
BFSI	31.9
HDFC Bank	7.0
Axis Bank	4.2
SBI	4.2
HDFC	6.3
Bajaj Finance	4.2
Bajaj Finserve	2.4
J&K Bank	1.8
Indian Bank	1.8
Power, Infrastructure & Cement	16.6
L & T	**4.2**
Kalpataru Power transmission	**1.8**
UltraTech Cement	2.8
Ramco Cement	1.8
NBCC	2.4
Bharat Electronics	1.8
Container Corporation of India	1.8

Source: Bloomberg, ICICIdirect.com Research

Diversified portfolio (2/2)

Earlier

Name of the company	Weightage(%)
FMCG	9.1
Nestle	2.8
Marico	2.8
Dabur	3.5
Metals	6.0
Hindustan Zinc	**4.2**
Graphite India	**1.8**
IT	4.2
TCS	4.2
Media	2.8
Zee Entertainment	2.8
Oil and Gas	3.5
GAIL Ltd.	**3.5**
Total	100.0

Now

Name of the company	Weightage(%)
FMCG	9.1
Nestle	2.8
Marico	2.8
Dabur	3.5
Metals	6.0
Hindustan Zinc	4.2
Graphite India	1.8
IT	4.2
TCS	4.2
Oil and Gas	3.5
GAIL Ltd.	3.5
Total	100.0

Source: Bloomberg, ICICIdirect.com Research

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ICICI Securities has received an investment banking mandate from Government of India for disinvestment in Bharat Electronics. This report is prepared based on publicly available information.