



Monthly Report - July 2017

Monthly Overview

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Target Price: ₹ 250

Market Cap:	₹ 36084Crores	Stock P/E:	23.68
Current Price:	₹ 161.55	Book Value:	₹ 34.63
Target Price:	₹ 250	Dividend yield:	1.20%
Upside potential:	55%+ (18-21 months)	52 Week High/Low:	₹ 186.9 / ₹ 118.2

Bharat Electronics Ltd.
Key takeaways from the editor of India Defense review:

Bharat Electronics (BHE) is a public sector entity with horizontal capabilities across electronics, communication and software. BHE aims at servicing the navy, army and air force. It manufactures radar surveillance, secure communication, command and control, fire control and night vision systems. BHE has established itself as a large system integration vendor. BHE has the advantages of a strong knowledge base with more than 2200 employees in R&D, manufacturing and test facilities. Today, the R&D spend is close to 10% of the revenues. Also, BHE benefits from joint R&D with DRDO and other government labs. Once a technology is developed, BHE becomes the co-developer and gets serial production rights. We learn BHE is a preferred partner for global defense majors through joint ventures.

Order backlog of Rs.400bn gives some soother though: With Q4FY17 ending with strong order intake of Rs.101bn, BHE has pushed the order backlog to Rs400bn. This includes a large order of LRSAM. For FY17, thereby, the order intake stood at Rs163bn. With the management confident to bag yet another Rs130-140bn, led by Rs50bn of Akash and Rs70bn of LRSAM, we think days could be brighter ahead. The Defense Procurement Policy (DPP) provides for a higher emphasis on indigenization. DPP has introduced a new category—Indigenously Designed Developed and Manufactured (IDDM)—wherein companies are encouraged to focus on the development of design capabilities in the country. We think, thereby, BHE will be prime beneficiary of IDDM route. In terms of translation of pipeline order, however, there are challenges. And they are not restricted to long gestation periods, bureaucratic delays, and high R&D costs.

Big ticket projects, contingent on scenarios though, are on its way: Consensus believes BHE has a strong pipeline of order inflow for the next three years. Even we agree with it. Consensus puts this number to be in excess of Rs.130 bn per annum. However, we suspect the pipeline is contingent on two critical orders. They are: Tactical Communication Systems (TCS) and Battlefield Management Systems (BMS). Put together, they can be valued at Rs240bn and Rs400bn respectively. Take TCS for instance, Under the “make India” category, to build one TCS prototype cost \$150 million. And it will be completed over 18 months. Note, the government will provide 80% of the funding for the prototype developments. However, once the prototypes are handed over to the Indian Army, they will undergo technical evaluation. Further, based on army evaluation, the plans to induct additional TCS systems—which will be costing \$4bn over the next 10 years-- will be planned. Now take BMS. Through our channel check, we learn that the prototypes will be developed and tested in the next 30 months. Only then, the final order of 600 plus such systems would be placed. And eventually, these orders will culminate into US\$6bn behemoth. All in all, there could be a slip between a cup and a lip.

Valuation and view: We don't cover the company. In FY17, the revenue grew 17% YoY at Rs.88.2bn. Despite higher employee cost headwinds in 4Q, the EBIDTA margins improved by 110 bps YoY to 17.8%-- leading to an absolute EBIDTA growth of 28% YoY at Rs17.6 bn. With buy back lowering the cash kitty and higher capex spending towards new facilities, the other income declined by an eighth to Rs.4.7bn. Overall, the reported PAT grew 18% YoY to Rs.15.5bn. At the CMP, the stock is trading at a PE of 22.9x FY18E and 20x FY19E .

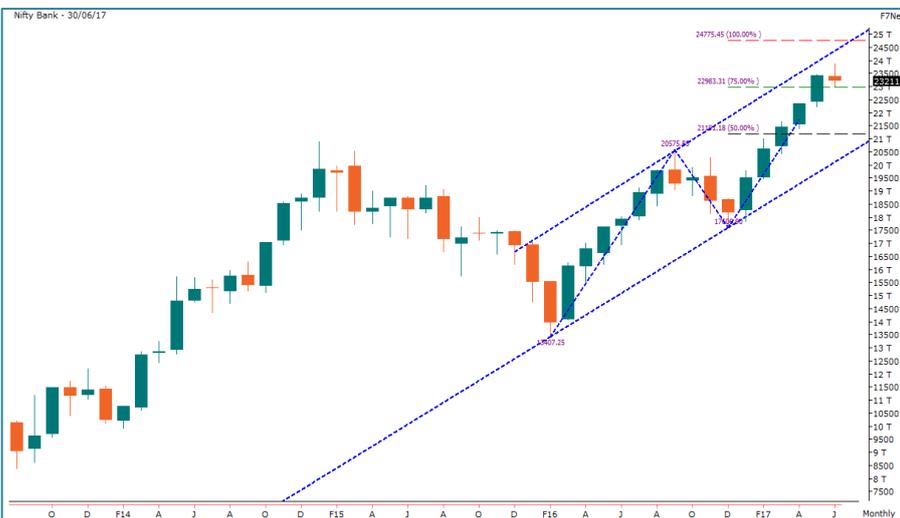
Technical Overview: Bharat Electronics Ltd.



- The stock is showing long bull run. As per the monthly Chart, the ADX reading of 54 with dominating DI+ over DI- is supporting the strong positive trend.
- As per the daily timeframe chart, the stock rallied from the low of 119.5 to the high of 186.9 and after that depicted weakness. However, from around 40% retracement level it is showing positive inclination. During the fall the volumes were diminishing.
- The RSI is supporting short-term trend reversal with a bullish diversion on the daily chart.
- On the weekly time frame chart, the stock is showing long horizontal channel breakout.
- The stock is trading above 200DMA (150.38) and 200Week SMA (99.74).

Considering the technical & fundamental evidences discussed above, we can build a long position in the stock with 18-21 months perspective and target can be placed at around 250. We can accumulate the stock in the range of 163-150. We believe the stock is having high-performance prospects with long-term perspective so one can hold the stock for a longer time for better returns.

Nifty Bank- Overview



Montly Closing	23211	
Monthly High: 23897	Monthly Low : 22996	
Sector Bias:	Neutral to Positive	
Support Level:	22240	21380
Resistance Level:	24300	24775

Sector Outperformers

HDFC Bank
Axis Bank

Sector Underperformers

Punjab National Bank
Bank of Baroda

Nifty Bank recorded losses of around 0.91% during the month of June after five consecutive positive months. It moved gradually upward during the early part of a month and after that depicted sideways consolidation during mid-month. Nifty Bank hit a fresh all-time high level of 23897 during the month of June but fail to sustain at a higher level. Nifty Bank violated the lower band support of the short-term rising channel. Now till Nifty Bank holds the 22460 mark on a closing basis the bias will remain positive. On the monthly timeframe chart, it formed Spinning top kind of pattern but to build any negative view further confirmation is very much required. During the month PSU banks experienced some selling pressure due to change in RBI norms related to bankruptcy courts. The long-term bias on Nifty Bank is bullish and one can accumulate quality stocks on dips. Amongst private players ICICIBANK and HDFCBANK are showing more conviction.



Nifty Outlook

Nifty had a month of negative returns as it closed down by 1.04%. Nifty started the month of June on a positive note and hit a fresh life high of 9709 during the first week of trading but from the high Nifty started to depict weakness. Nifty created negative candle after five consecutive positive candles on the Monthly chart.

During June Nifty formed negative candle and continue to hover above 75% level of price extension pattern but the uptrend sequence of high-top higher-bottom is still in place. The pattern resembles with spinning top candlestick pattern. A spinning top is indicative of a situation where neither the buyers nor the sellers have won for that time period, as the market has closed relatively unchanged from where it opened; the market is indecisive regarding its trend. Sometimes it also represents that existing trend is losing momentum. On the last trading day of the month, on the daily chart, Nifty formed a positive candle. It violated the crucial support of 50DEMA i.e. 9461 during intraday movement but managed to close well above that. In near-term, above the crucial resistance of 9580 Nifty will resume uptrend while it is likely to hold the level of 9400 in the case of any dip even the option data is indicating strong support. Nifty is showing the phase of the bull market. The correction of 400-500 points in the bull market is very much possible. However, any such correction in the market should be considered as buying opportunity to create long in quality stocks with positional perspective.

GST rollout may create some short-term disturbance but the long-term picture is very optimistic. Post transition into this landmark regime the market is likely to rally till 10500 levels to 12000 levels by this financial year while our long-term target is 22000-24000 by 2024. If GST gets implemented smoothly then it will have a fairly good impact on growth in the fast moving consumer goods (FMCG) industry as a whole. There are expectations that the tax reform will boost the Indian economy and huge shift will be seen from unorganised to organised sector. For the market to move higher from current levels would require some positive triggers such as earnings recovery, stable global environment as well commodity prices and a good monsoon.

Nifty Outlook:

Short-term	Neutral to Positive
Medium-term	Positive
Long-term	Bullish

Monthly Closing	9520	
Monthly High: 9709	Monthly Low : 9448	
Monthly Bias:	Positive	
Support Level:	9280	9170
Resistance Level:	9790	9960

Moving Average

Days	SMA
50 Days	9482
200 Days	8827
200 Weeks	7918

Date	Event	Period	Survey	Actual	Prior
3-Jul-17	Nikkei India PMI Mfg	Jun	--	--	51.6
5-Jul-17	Nikkei India PMI Services	Jun	--	--	52.2
5-Jul-17	Nikkei India PMI Composite	Jun	--	--	52.5
9-Jul-17	Local Car Sales	Jun	--	--	166630
10-Jul-17	Trade Balance	Jun	--	--	-\$13841.7m
10-Jul-17	Exports YoY	Jun	--	--	8.30%
10-Jul-17	Imports YoY	Jun	--	--	33.10%
12-Jul-17	CPI YoY	Jun	--	--	2.18%
12-Jul-17	Industrial Production YoY	May	--	--	3.10%
13-Jul-17	SEA Total Edible Oil Imports	Jun	--	--	1323.8k
13-Jul-17	SEA Crude Palm Oil Imports	Jun	--	--	492.4k
13-Jul-17	SEA Palm Olein Imports	Jun	--	--	294.4k
13-Jul-17	SEA Edible Crude Palm Kernel Oil Imports	Jun	--	--	12.5k
13-Jul-17	SEA Sunflower Oil Imports	Jun	--	--	154.9k
13-Jul-17	SEA Soybean Oil Degummed Imports	Jun	--	--	340.4k
14-Jul-17	Wholesale Prices YoY	Jun	--	--	2.17%
25-Jul-17	Eight Infrastructure Industries	Jun	--	--	3.60%
31-Jul-17	Fiscal Deficit INR Crore	Jun	--	--	167739

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