

High Conviction Stock Idea

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Scrip	CMP	Target	Potential Upside (%)	Recommendation
Heritage Foods	1062	1168	10%	BUY
India Bulls Housing Finance	828	912	10%	BUY

Buy

CMP **1,062**

Target **1,168**

Stock Data

52 week low/high (Rs) : 446/1100

Face value/share (Rs.) : 10.0

Outstanding share (Cr.) : 2.3

Market cap (Rs Cr) : 2469

Av. Daily volume(in 000's) : 16

- Robust Milk Procurement Supply Chain:** Raw Milk procurement is the most critical element for success in dairy business. At 90% direct milk procurement from around 3 lakh farmers across 8 states, HFL scores high on this metric compared to most of its listed peers. (procurement of ~1.1 mnlpd and a processing capacity of ~1.5 mnlpd)
- Focus to be a pure play dairy company is a positive:** The company has divested its retail division (sold to Future Retail) and made strategic acquisitions in dairy segment (bought dairy business of Reliance Retail) targeting synergy and expanding its geographical reach. Retaining Focus on high growth-high margin dairy products augurs well for the company.
- Value Added products will aid growth and margin expansion:** The value added product contribution to dairy segment is increasing from 13% in FY13 to 22% in FY16. These products are growing at a much faster rate than the traditional dairy products and have nearly double the EBITDA margins v/s the consolidated margins.
- Premium valuations due to Superior return ratios:** Given the strong brand connect, high return ratios & FCF generation, we assign a 22.6x FY19E P/E multiple to arrive at a TP of Rs.1230.

Valuation Table

Particulars	Mar '17E	Mar '18E	Mar '19E
EPS (Rs.)	30.4	42.1	54.4
EPS Gr (%)	-	38.5%	29.2%
P/E (x)	35.0	25.3	19.6
Pr/BV (x)	8.2	3.6	3.0
RoE (%)	26.3%	19.8%	17.0%

Note: CMP as on 7th Feb, 2017 and average daily volume is on bi-weekly basis.

Buy

CMP **828**

Target **912**

Stock Data

52 week low/high (Rs) : 551 / 895

Face value/share (Rs.) : 2.0

Outstanding share (Cr.) : 42.37

Market cap (Rs Cr) : 33777

Av. Daily volume(in 000's) : 452

- Poised for faster growth v/s the industry:** IHFL is the 3rd largest HFC in India in terms of overall loan book. We expect it to deliver higher growth and profitability than industry, registering a growth of 24% CAGR in loan book and 20% CAGR in profitability over next two years. This given our expectations of improvement in the core real estate markets, relatively small size of the IHFL's book v/s its larger peers and significant opportunity available across mortgages/LAP, developer lending space.
- Scope to bring down cost of funds:** We believe that there still exists a scope for IHFL over the course of next 2-3 years for an improvement in liability profile both in terms of costs as it catches up to AAA peers and also diversification away from a bank-led borrowing program.
- Key concerns about LAP portfolio mitigated with external validation:** To mitigate risks and validate its LAP portfolio's health, IHFL has rolled out a first-of-its-kind initiative in India by signing an agreement with Crisil Ratings to grade its incremental LAP loans from FY16. Increasingly, 90%+ incremental loans originated are in top three grades.

Valuation Table

Particulars	Mar '17E	Mar '18E	Mar '19E
EPS (Rs.)	69.0	85.8	108.5
EPS Gr (%)	-	24.3%	26.5%
P/E (x)	11.6	9.3	7.3
Pr/BV (%)	2.8	2.5	2.2
RoE (%)	26.0%	28.8%	31.0%

Note: CMP as on 7th Feb, 2017 and average daily volume is on bi-weekly basis.

No of Stocks Matrix

No of Stocks	< 9m	>9m
Met Target	13	-
Not Met Target	2	1

Performance Matrix

% Return	< 9m	>9m
Met Target	12.38%	-
Not Met Target	2.62%	(18.78%)

Benchmark Performance Matrix

% Return	< 9m	>9m
Met Target	4.15%	-
Not Met Target	3.20%	20.42%

Note : Performance from Feb-16 To oct-16

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HOLD	Between 10% and -10%
SELL	Less than -10%

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