

Week Gone by

- ⇒ IMF further cut its annual growth forecast for India. India's economy is set to grow at 7% in 2019, picking up to 7.2% in 2020.
- ⇒ Meanwhile, under the Smart Cities Mission, more than 5000 projects worth over Rs 2 lakh crore are at various stages of implementation as on 12 July 2019, according to a latest release from Ministry of Housing & Urban Affairs.
- ⇒ In economic data, U.S. new home sales rebounded in June, the first gain in three months, but U.S. manufacturers expanded in July at the slowest pace in almost 10 years.

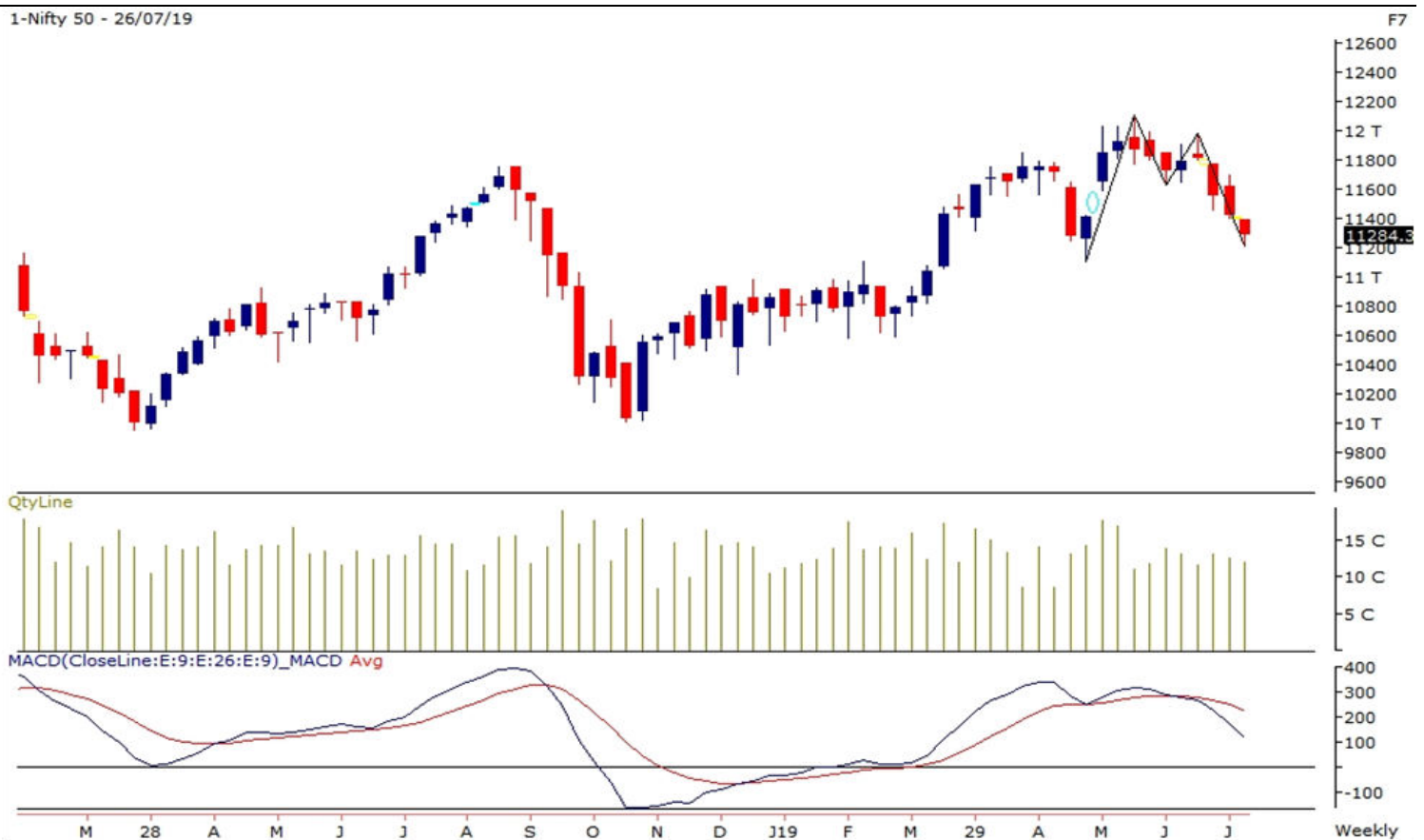
Week ahead

- ⇒ Next batch of June 2019 quarterly earnings, domestic and global macro economic data, developments in US-China trade talks and outcome of US Fed meeting are the key events to watch in the week ahead.
- ⇒ Auto stocks will be in focus as auto companies will start announcing monthly sales numbers for July 2019 starting from 1 August 2019.
- ⇒ In primary market, the initial public offer (IPO) of mobile marketing company Affle India will open for bidding on 29 July 2019. The price band is Rs 740 to Rs 745 per share. The issue will close on 31 July 2019.
- ⇒ On the macro front, Markit Manufacturing PMI for July 2019 will be unveiled on Thursday, 1 August 2019.
- ⇒ India's infrastructure output data for June will be unveiled after market hours on Wednesday, 31 July 2019.

Technical Overview

Index closed with loss of 1.18% at 11284. Index opened the week with gap down and remained under pressure throughout the week. The selling pressure witnessed in last couple of days has led index to complete bullish harmonic pattern which is bullish signal for short term trend. The pattern has completed around 11250-11220 levels thus till index sustains above this zone index can witness some relief rally towards 11360-11400-11460 while past 11200 next supports comes at 11130-11080.

1-Nifty 50 - 26/07/19



Source: Falcon, BP Equities Research



Weekly Wealth

DOMESTIC INDICES

Index	26-Jul-19	19-Jul-19	Weekly % Chg
Nifty	11,284	11,419	-1.2
Nifty Next 50	26,554	26,656	-0.4
Nifty 100	11,395	11,519	-1.1
Nifty 500	9,193	9,305	-1.2
Nifty Midcap 100	16,165	16,430	-1.6
Sensex	37,883	38,337	-1.2
BSE 100 Index	11,382	11,525	-1.2
BSE 200 Index	4,704	4,758	-1.1
BSE 500 Index	14,554	14,736	-1.2
BSE Mid-Cap	13,856	14,078	-1.6
BSE Small Cap	13,060	13,310	-1.9

WORLD INDICES

Index	26-Jul-19	19-Jul-19	Weekly % Chg
Nikkei Index	21,658	21,467	0.9
Hang Sang Index	28,398	28,765	-1.3
Kospi Index	2,066	2,094	-1.3
Shanghai SE Composite	2,945	2,924	0.7
Strait Times Index	3,364	3,378	-0.4
Dow Jones	27,141	27,223	-0.3
NASDAQ	8,239	8,207	0.4
FTSE	7,534	7,506	0.4

FOREX

Currency	26-Jul-19	19-Jul-19	Weekly % Chg
US\$ (Rs.)	68.9	68.8	0.1
GBP (Rs.)	85.6	86.1	-0.6
Euro (Rs.)	76.7	77.2	-0.6
Yen (Rs.) 100 Units	63.4	63.9	-0.7

NIFTY TOP GAINERS (WEEKLY)

Scrip	26-Jul-19	19-Jul-19	Weekly % Chg
YES Bank Ltd.	96.1	83.3	15.4
Zee Entertainment En	403.9	353.0	14.4
Asian Paints Ltd.	1526.5	1369.1	11.5
Sun Pharma.	440.0	421.4	4.4
Bharti Infratel Ltd.	270.2	259.5	4.1

FII - ACTIVITY

(Rs. Cr.)

Date	Purchases	Sales	Net
26-Jul-19	3,275.8	4,779.0	-1,503.3
25-Jul-19	6,135.5	6,262.1	-126.7
24-Jul-19	4,130.6	5,524.3	-1,393.7
23-Jul-19	4,226.1	6,834.1	-2,608.0
22-Jul-19	3,415.7	5,332.6	-1,916.9
MTD	75,072.9	87,593.7	-12,520.8

NIFTY TOP LOSERS (WEEKLY)

Scrip	26-Jul-19	19-Jul-19	Weekly % Chg
UPL	601.6	643.5	-6.5
HDFC	2165.8	2303.6	-6.0
Adani Ports & Speci	381.7	405.5	-5.9
Hind. Petrol	275.4	292.3	-5.8
Coal India	210.7	221.9	-5.1

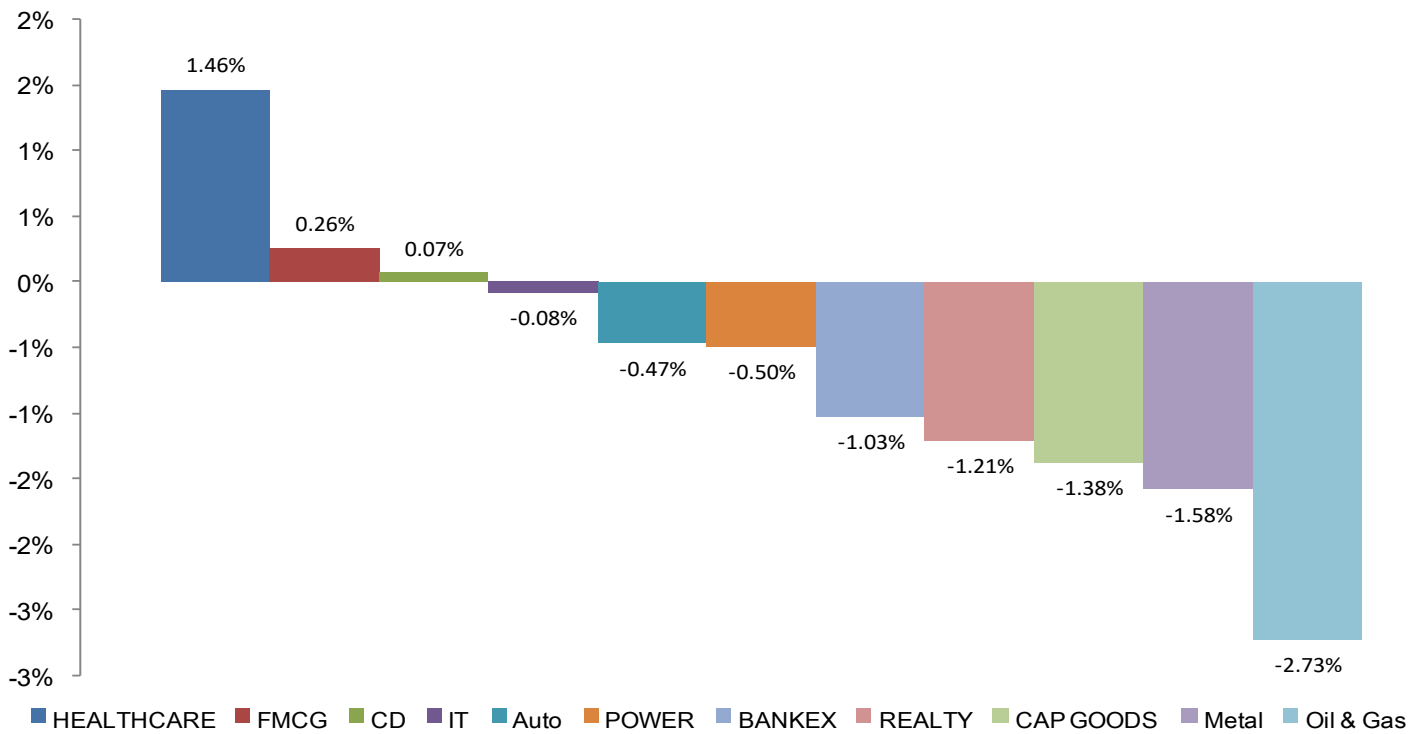
DII - ACTIVITY

(Rs. Cr.)

Date	Purchases	Sales	Net
26-Jul-19	3,845.3	1,927.8	1,917.5
25-Jul-19	5,579.1	5,180.6	398.5
24-Jul-19	5,419.0	3,278.7	2,140.3
23-Jul-19	5,611.4	2,986.3	2,625.1
22-Jul-19	4,665.5	2,835.6	1,829.9
MTD	72,251.0	58,684.7	13,566.3

Weekly Wealth

BSE WEEKLY SECTORAL PERFORMANCE



Source: BSE, BP Equities Research

TOP OPEN INTEREST GAINERS (WEEKLY)

SCRIP NAME	26-Jul-19	19-Jul-19	Weekly Change (%)	26-Jul-19	19-Jul-19	Weekly Change (%)
	Share Price (Rs.)			Open Interest		
TCS	2117.55	2080.95	36.6	15494500	10648500	45.5
LUPIN	774.3	745.8	28.5	8501500	5854800	45.2
IOC	140.7	146.85	-6.15	64449000	44646000	44.4
COALINDIA	211.8	222.25	-10.45	35158200	24699400	42.3
BAJFINANCE	3275.05	3322.45	-47.4	7561750	5367000	40.9

TOP OPEN INTEREST LOSERS (WEEKLY)

SCRIP NAME	26-Jul-19	19-Jul-19	Weekly Change (%)	26-Jul-19	19-Jul-19	Weekly Change (%)
	Share Price (Rs.)			Open Interest		
INDIGO	1588.3	1467.15	8.3	2626800	4197000	-37.4
CONCOR	515.2	537.25	-4.1	1824021	2624277	-30.5
TVSMOTOR	376.7	395.55	-4.8	5976300	7531700	-20.7
RECLTD	141.3	148.2	-4.7	30552000	38148000	-19.9
VOLTAS	585.2	576.15	1.6	3132000	3724000	-15.9

Alternative investments can be complicated, risky; stick to simple products

Most ultra-high net worth individuals' (UHNI) portfolios usually contain alternative investment products like market-linked debentures, real estate funds, private equity (PE) funds, and so on. Wealth management firms sell these products to investors, marketing them as exotic instruments that are available only to a select few. They also tell investors that these alternative products have the potential to give higher returns and will help in portfolio diversification.

High net worth individuals (HNIs) get swayed, especially when they see other wealthy investors putting their money in such instruments. The exclusiveness of the products gives them a high, making them believe they are smarter and more evolved investors.

Understand the risks

Most investors, however, enter these products without understanding the risks in them fully. Take market-linked debentures or equity-linked debentures (MLD/ELD) as an example. These are structured investments, where a non-convertible debenture is issued, and returns are linked to equity markets. These products use terms like participation rate, knockout level, payout ratio, etc which most people do not understand. Investors also think ELDs are instruments that protect capital and can offer returns between 12 and 17 per cent a year. To them, structured products look better than mutual funds, which don't guarantee capital protection or returns. But they fail to consider the risks involved.

When investing, one needs to understand the end use of the money. Non-banking financial companies (NBFCs) issue ELDs. The funds are used to give loan against shares, margin financing, and structured lending. Essentially, the investor lends money to an NBFC to use it for its lending activities. Such investments have many risks. First, there is concentration risk because the investor is exposing a large amount of his capital to one NBFC.

Individual investors have no way of assessing the credit worthiness of an NBFC. Recent instances of fixed maturity plans (FMPs) defaulting on repayment show that at an institutional level, too, risk management is a challenge. At the individual investor's level, it is nearly impossible. There is no liquidity in these products, and in a few cases, the cost of unwinding them is as high as 2 per cent.

Alternative investments have higher costs

ELDs have a participation rate, which is the ratio of appreciation. So, if the index appreciates by 10 per cent and the participation rate is 60 per cent, then the investor will get 6 per cent. But if one believes that the markets would gain over the next few years, then why restrict participation? One can easily invest in a combination of large-cap funds with short-term plans and achieve capital protection (principle remaining the same), as well as earn market-linked returns. And one can do so without paying high costs. ELDs' fees can range from 3-5 per cent. Since it is inbuilt, investors believe they are no-cost products. Most alternative investment products like PE funds or real estate funds have fixed and performance-linked fees. While investors understand fixed management fees, they don't take into account performance fees, which can have an impact of 4-6 per cent on overall return.

(Source: Business Standard)

Construction and Engineering

Company Overview

Welspun Enterprises Limited (WEL) is the infrastructure arm of Welspun Group promoted by Mr. B.K. Goenka and Mr. R R Mandawewala. WEL is primarily engaged in executing Engineering Procurement and Construction contracts of roads, highways etc. Besides having presence in road infrastructure through various SPVs, WEL is also engaged in oil and gas exploration activities through Welspun Natural Resources Private Limited (WNRPL) which has a joint venture with Adani Group in Adani Welspun Exploration Limited. WNRPL has 5 Oil & Gas blocks of which 2 blocks are in Kutch, 2 blocks in Mumbai (under AWEL) and 1 block is in Palej (under WNRPL).

Investment Rationale

Healthy order book position supports medium term revenue visibility

WEL has a healthy order book position in the EPC projects which stood at Rs.6700 crore as on November 30, 2018, which translates into order book to sales ratio of 5x based on FY18 sales and provides strong revenue visibility for the medium term of almost doubling the revenue each year for FY19 and FY20. The company is mainly focused on executing HAM project Delhi – Meerut expressway package 1. It has completed the project well ahead of scheduled completion date.

Huge future potential Infrastructure projects to add in order book

Government of India has shown tremendous interest in infrastructure building, by increasing budget allocation for infrastructure spending from 1.8 lakh crore in FY14 to 5.9 lakh crore in FY18. Going forward, it is expected government will award road projects of around Rs.5.35 trillion in next 5 years. Along with that, there is huge revenue potential in Government's marquee Bharamala project as till now only 7700 km of construction out of 38000 km to be completed by 2022.

Changing the order mix to HAM lead to improving working cycle of company

Company was able to win huge orders on back of great project execution capabilities and increased the order book from just mere Rs.5.4 bn as on March 2017 to Rs. 67 bn as on Nov 2018. And, currently out of Rs.67 bn order book, HAM EPC is Rs.66.6 bn and others is just Rs.0.4bn. Moreover company has taken shift from BOT to HAM EPC has given tremendous benefit as NHA provides 40% funding, all clearances before project allocation, better credit rating than BOT on account of lower risk. This has helped to strengthen the balance sheet and become net cash company with negative working cycle which can be leveraged for future opportunities.

Valuation and outlook

WEL is a leading player in engineering and construction of roads and highways with experience of operating 500km plus toll projects. Management visions to be among the top 3 HAM players in the country. It has robust order book of Rs.67 bn which is approx. book to bill of 5 times. Culminating correct project balance, it has developed asset light business and able to translate into higher RoCE and Positive FCF. Taking all the above into consideration we estimate revenue and PAT to grow at a CAGR of 18% and 22%, respectively, over FY19-21E, with EBITDA margin of 11.3% in FY21E. We have valued the stock by using SOTP valuation method, investments in roads, oil & gas and power subsidiaries is taken at 20% discount to book value for Rs. 32.4/share and EPC business by assigning 10x PE multiple to FY21E EPS. We recommend to **BUY** this stock for target of Rs.131 (upside of 18% from CMP) for 12-15 months.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	111
Target Price (INR)	131
BSE code	532553
NSE Symbol	WELENT
Bloomberg	WEL IN
Reuters	WELS.BO

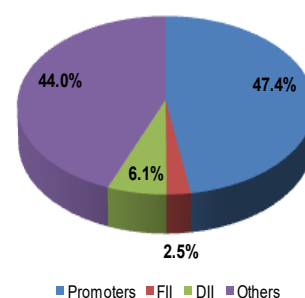
Key Data

Nifty	11,284
52WeekH/L(INR)	179/88
O/s Shares (Mn)	148
Market Cap (INR bn)	16
Face Value (INR)	10

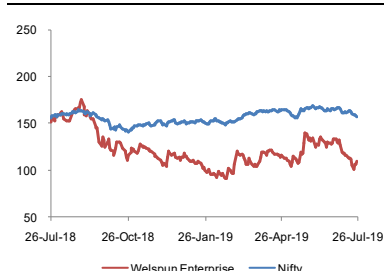
Average volume

3 months	2,38,120
6 months	3,42,815
1 year	4,19,625

Share Holding Pattern (%)



Relative Price Chart





Weekly Wealth

Key Financials

YE March (Rs. millions)	FY17	FY18	FY19	FY20E	FY21E
Revenue	3,054	10,671	17,866	21,189	24,728
<i>Revenue Growth (Y-o-Y)</i>	62.4%	249.4%	67.4%	18.6%	16.7%
EBIDTA	(298)	801	1,929	2,352	2,794
<i>EBIDTA Growth (Y-o-Y)</i>	NA	NA	140.7%	21.9%	18.8%
Net Profit	50	694	1,267	1,547	1,879
<i>Net Profit Growth (Y-o-Y)</i>	NA	NA	82.5%	22.1%	21.5%
Diluted EPS	0.3	4.7	8.6	10.4	12.7
<i>Diluted EPS Growth (Y-o-Y)</i>	NA	NA	82.5%	22.1%	21.5%

Key Ratios

EBIDTA (%)	-9.7%	7.5%	10.8%	11.1%	11.3%
NPM (%)	1.6%	6.5%	7.1%	7.3%	7.6%
RoE (%)	0.4%	5.2%	8.7%	9.6%	10.5%
RoCE (%)	-2%	5%	10%	11%	12%

Valuation Ratios

P/E (x)	331.4x	23.7x	13.0x	10.6x	8.7x
EV/EBITDA	-49.8x	24.9x	10.7x	8.4x	6.9x
P/BV (x)	1.3x	1.2x	1.1x	1.0x	0.9x
Market Cap. / Sales (x)	5.4x	1.5x	0.9x	0.8x	0.7x

Source: Company, BP Equities Research



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Analyst (s) holding in the Stock : Nil**Analyst (s) Certification:**

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