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Year 2015 may not be a blockbuster year for Sensex; top ten stocks which could give up to 40% return

NEW DELHI: The S&P BSE Sensex, which rallied 30 percent in the calendar year 2014, may not give a similar sort of return in 2015, but the uptrend still remains intact, say experts.

Analysts across top brokerage firms see the index hitting fresh record highs in the calendar year 2015, but uncertainty in global markets and the US Fed rate hike may cap further gains, they say.

After a blockbuster 2014, the Indian markets may just rally about 15-20 percent after rallying 30 percent in the previous calendar year.

The analysis is based on initial estimates of target level given for the end of the year by various analysts. However, if the government manages to roll out crucial reforms, which support economic growth, and the global environments remains stable, there is a possibility that the markets may deliver returns in excess of 25 per cent, they say.

"From our perspective, we cannot see a repeat of 2014 performance in terms of dollar returns for equity investors, but this will be a year when the earnings momentum should come back and we have already seen signs of that," says says Gautam Chhaochharia, Head of India Research, UBS.

India is not lightly positioned amongst foreign investors' portfolio also. In the last twelve months, most of the global brokerage firms have gone overweight on India, and hence global events will be important in determining the course for the Indian markets.

Overseas investors have pulled out nearly Rs 1,700 crore from the Indian stock markets in January so far, following a steep fall in crude oil prices amid a slowing global growth.

"Most of the foreign investors are already reasonably overweight India. It will play a role in terms of how the Indian markets react to the global macro events. You cannot wish that away, but we have not still seen anything to make us worry," adds Chhaochharia.

"There is obviously some disappointment on the growth front, but will gradually get priced in and factored in. Otherwise the trajectory is definitely on the right track and therefore we are still maintaining our 9600 target for the Nifty," he adds. The target prices translate into an upside of 15 percent from the current levels.

Market index is also an indicator of economic growth. If the economy grows, it is likely to give positive returns and therefore the stock constituting the index. Stable political environment and further economic reforms in the upcoming Budget 2015 can result in a better economic environment for companies to grow.

"We believe the broader indices are poised to give in excess of 15% returns this year, while mid and small cap indices may give returns in excess of its broader peer, provided various global factors remain more or less the same," says Vijay Singhania, Founder-Director, Trade Smart Online.

Markets giving 15-20 percent returns is normal since that is the kind of return on capital that the average listed company is likely to generate year on year even under not-that-good economic circumstances.

"Currently the market is at the price to book ratio of 3. Assuming that the return on capital is 15-20%, the book value will grow by about 15% even assuming some dividend payout. Hence, even without any PBV re-rating we should see a 15-20% return," says Dr. Vikas V Gupta, Executive Vice President, Traded Markets and Investment Research, ArthVeda Fund Management Pvt.

We have collated a list of ten stocks which have the potential to outperform the index in the next 12 months:

Company Name	Brokerage Name	Target Price (Rs)	LTP (Rs)	Upside (%)
Lakshmi Machine Works	Religare Research	4500	3864.95	16%
Subros	Angel Broking	80	70.75	13%
Indoco Remedies Ltd	IndiaNivesh Securities	392	318.5	23%
Magalam Cement	IndiaNivesh Securities	426	326	31%
Lumax Auto Technologies	IndiaNivesh Securities	417	356.1	17%
Voltas	HSBC	307	246.3	25%
Fortis Healthcare	HSBC	152	107.1	42%
Jubilant FoodWorks	HSBC	1650	1413.55	17%
Kaveri Seeds Ltd	HSBC	1075	798.35	35%
Hathway Cable	HSBC	86.4	65	33%
LTP as on 12 Jan| Hathway TP adjusted for stock split				

Lakshmi Machine Works: Target price set at Rs 4500
Religare Institutional Research has initiated coverage on LMW, a leading manufacturer of textile machinery in India holding 60% market share, with a BUY rating and a Mar'16 TP of Rs 4,500. Demand for spinning machinery is set to strengthen by FY17, led by: (1) higher capacity utilisation for yarn manufacturers due to rising domestic demand, (2) decline in cost of capital as interest rates soften, and (3) a stabilising export market.

Subros: Target price set at Rs 80
Angel Broking expects Subros to clock a revenue CAGR of 13% over FY2014-FY2017, aided by a recovery in the passenger vehicle industry and market share regain by its key clients. They also expect the company's interest costs to recede, given the reduction in the debt levels. At the current market price, the stock trades at 15.3x and 9.2x its FY2016 and FY2017 earnings, respectively.

Indoco Remedies: Target price set at Rs 392
IndiaNivesh Securities believes that INDR would be able to reap benefits in the medium term from the filing it has been doing for ACT US as well as for its own as the INDR starts receiving approval for those products. The stock has re-rated strongly in the past one year from Fwd PE of 12x to 18x till date. The strong re-rating has been on the back of improved business outlook and higher return on equity.

Mangalam Cement Ltd: Target price set at Rs 426
MCL has shown a strong growth of 60% in top-line and ~200% in EBITDA in Q2FY15, led by recent capacity addition and operational efficiency. Owing to its smaller size, valuing Mangalam Cement at discount to large cement players, the brokerage firm gives it EV/EBITDA multiple of 6.5x (FY16E) and arrive at a price target of Rs 426.

Lumax Auto Technologies Ltd: Target price set at Rs 417
Lumax Auto Technologies (LATL) has a wide product portfolio to cater to a large number of customers in the automotive industry. LATL's product portfolio includes head lamp, tail lamp, frame chassis, adjustor motor, handle bar, mufflers, gear shift lever, parking breaks and other small parts.

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Recommendations from HSBC:
Voltas Ltd: Target price set at Rs 307
Voltas is our preferred mid-cap pick to play an industrials sector recovery. HSBC anticipates that the infrastructure segment will drive an early cyclical recovery during the current business cycle.

An improving competitive scenario and business outlook in the Middle East should further aid a turnaround in the EMP business. The UCP business stands to benefit from improved consumer discretionary spending on home air conditioners as macro growth picks up.

Fortis Healthcare Ltd: Target price set at Rs 152
After a slew of divestments of international assets, Fortis is channelling all its resources into tapping India's evergreen healthcare services market. A new world-class quaternary care hospital, Fortis Memorial Research Institute (FMRI) in Gurgaon is a landmark facility that stands to enhance the profitability of Fortis' hospital business significantly.

Fortis aims to continue leveraging its strong brand by raising investments in specialty facilities. It plans to expand its La Femme franchise, which provides a spectrum of medical services exclusively to mothers and children. Fortis also plans to add to the network's oncology capabilities, including advanced technologies such as image guided radiation therapy (IGRT).

Jubilant FoodWorks Ltd: Target price set at Rs 1650
Jubilant Food Works is a play on India's changing consumer landscape shaped by rapid urbanization, a growing middle class and rising income levels. The master franchisee of Domino's Pizza in India, Jubilant has a track record of rapid growth, with a dominant over 70 percent market share among India's pizza chains.

While its sales have slowed in recent quarters, HSBC believes that this is a cyclical blip and its long-term growth prospects remain attractive, underpinned by the growth potential of the quick service restaurant (QSR) sector in India, the company's market leadership and its growing nationwide footprint (in 158 Indian cities).

Kaveri Seeds Ltd: Target price set at Rs 1075
Kaveri is one of the leading and fastest-growing seed companies in India. Kaveri's top line has grown at a CAGR of 47 percent between FY07 and FY14, while the company has delivered a net profit CAGR of 53 percent during the same period.

Kaveri has 17 percent market share in India's cotton seed sector, which is India's largest seed category in value terms. A large part of Kaveri's success has been driven by two key cotton seed brands 'Jadoo' and 'Jackpot' that it launched in FY08.

HSBC expects Kaveri to continue acquiring market share based on the above advantages. Kaveri's product suite in Andhra Pradesh continues to be strong even as it builds up shares in newer geographies of Maharashtra and Gujarat.

Hathway Cable & Datacom Ltd: Target price set at Rs 86.40
The move by Star TV to pursue RIO rates builds a case for cable TV tariffs/ARPUs to increase. This move is likely to drive digital cable towards prepaid. In addition, HSBC believes that broadband ARPUs are likely to improve for the company given the transition of subscribers to a more robust DOCIS 3 platform.