# Market Outlook: Key triggers ahead…

## Higher-than-expected Q4FY16 results, core industry growth - Green shoots of revival

The Q4FY16 results of some companies were higher than Street expectations, indicating a revival in the earnings cycle. Furthermore, India's eight core industries output expanded 6.4% YoY in March 2016, the fastest growth in the last 16 months. The outperformance was mainly led by cement, electricity and fertilisers output. Barring crude oil and natural gas, most other segments recorded satisfactory growth in March. Among all segments, fertilisers, cement and electricity clearly outperform other segments by recording output growth of ~23%, ~12% and ~11%, respectively. It gives enough reasons to the industry to believe that a stable recovery of industrial production is on the cards.

## Continued momentum in auto sales reflects high discretionary spending!

The countries' top automakers are off to a strong start in the new financial year with all segments- passenger vehicles (PV), two-wheelers, commercial vehicles (CV) & tractors reporting strong April sales. The 9% YoY growth in PV (mainly driven by recently launched models) signifies consumer's preference for better products. Two-wheeler volume growth of ~16% YoY was supported by new launches & marriage season. This momentum is expected to continue, going ahead, as disbursements from Seventh Pay Commission would lead to higher disposable incomes, resulting in higher consumer spending.

## Revival in cement demand denotes improved execution of infrastructure projects…

Cement industry volumes have increased 11.4% YoY to 78.2 MT in Q4FY16 mainly led by increase in infrastructure spending. Further in Q4FY16, UltraTech, ACC and Ambuja have registered strong volume growth of 14.7% YoY, 9.3% YoY and 9.5% YoY, respectively. As cement demand is considered a lead indicator for revival in infrastructure activities, improvement in the same suggests higher execution. Focused government infrastructure spending, mainly led by road and rail, would continue execution of the development agenda of the government.

# Stock Recommendations

| Company | I-direct code | Action | Recommended Price | CMP | Market Cap | P/E (x) FY17 | RoE (%) | |
|---|---|---|---|---|---|---|---|---|
| ITC | ITC | Buy | 343 | 314 | 252640 | 22.1 | 32.4 | Read More |
| Symphony Ltd | SYMCOM | Buy | 2425 | 2400 | 8400 | 37.9 | 29.3 | Read More |
| Jet Airways | JETAIR | Buy | 623 | 620 | 7058 | 4.2 | NA | Read More |
| Concor | CONCOR | Buy | 1653 | 1362 | 26560 | 17.0 | 13.1 | Read More |
| Voltas | VOLTAS | Buy | 331 | 290 | 9570 | 19.7 | 15.4 | Read More |
| Timken India | TATTIM | Buy | 602 | 520 | 3540 | 30.7 | 19.0 | Read More |
| Accelya Kale | KALCON | Buy | 995 | 995 | 1485 | 12.6 | 14.1 | Read More |
| Sun Pharma | SUNPHA | Buy | 820 | 820 | 196800 | 28.3 | 19.1 | Read More |

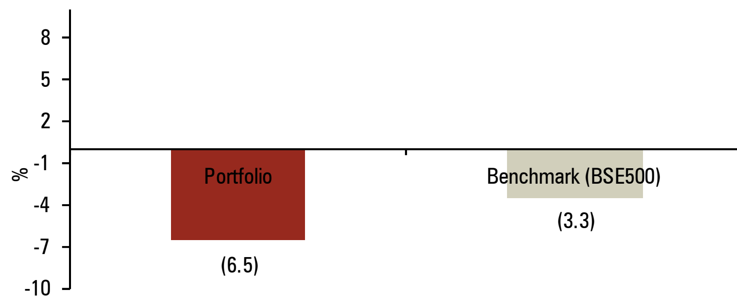
**What's in** : Sun Pharmaceuticals, Accelya Kale

**What's out** : Star Ferro, Mahindra & Mahindra (booked profit)

* For large cap stocks we suggest profit booking in the range of 7-10% while for midcaps we suggest profit booking in the range of 12%-15%

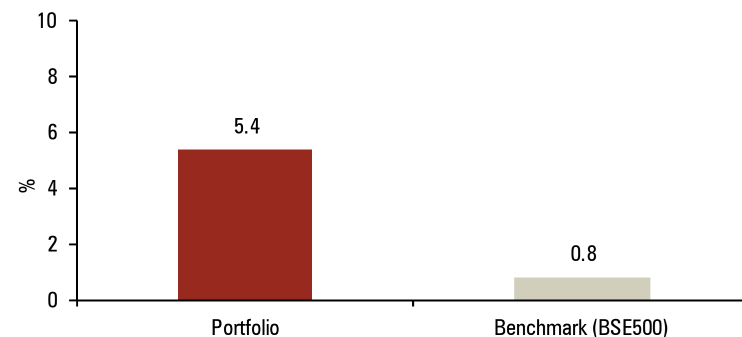
# Performance* so far …

Portfolio performance since inception (June 2015)




- The portfolio performance (during July 2015 – April 2016) was driven by PVR (21%), Indraprastha Gas (15%) and Supreme (14%). Over the period, the portfolio was mainly impacted by the underperformance in Star Ferro (-22.5%) and Bharat Forge (-34%).
- Since inception, we have booked profit in PVR, Bata India, Torrent Pharma, L&T, Maruti Suzuki, Dr Reddy's, Supreme and Mahindra & Mahindra
- The date of commencement was June 5, 2015

Portfolio performance since last update (April 2016)




- Better than expected results, coupled with recovery in global commodities led to improvement in domestic sentiments. During April 2016, the portfolio outperformed the broader markets. Outperformance was led by recovery in Timken (19%) and positive performance in Jet Airways (+10%). However, ITC continue to weigh negative on the portfolio
- During the month, we booked profit in Mahindra and Mahindra with a return of 9%. Further for the we have included Sun Pharma and Accelya Kale in the portfolio and excluded Star Ferro

*Source: Reuters, ICICIdirect.com Research*

# ITC (ITC)

## Investment Rationale

- ITC is the largest cigarette manufacturer (~75% volume share) & among the largest paperboard manufacturing companies in India. It also has the second largest hotel chain in the country. ITC's emerging strength is the FMCG (others) business led by robust growth of 20.1% CAGR (FY09-15) & strong portfolio of brands like Aashirvaad, Sunfeast, Classmate & Bingo
- ITC has been aggressive in recent times to shape itself into India's leading FMCG company. The company has set before itself an ambitious vision of achieving a topline of ₹ 100000 crore from non-cigarette FMCG business by 2030. This translates into a CAGR of 17.4% in this segment in FY15-30E. After starting the FMCG business from scratch in 2003, it had a topline of ₹ 9038 crore from this segment in FY15. Further, ITC's foods portfolio, on the back of strong brands like Sunfeast, Aashirvaad, Yippee, alone accounted for over ₹ 6000 crore of sales in FY15. It has been aggressively diversifying in newer categories as reflected in the recent acquisition of two brands *Savlon* & *Shower to Shower* and foray into the dairy industry with Aashirvaad Svasti cow ghee
- We estimate revenue & net profit CAGR of 8.7% & 9.7%, respectively, in FY15-17E. We maintain a positive stance on ITC as we believe ITC's focus on growing its FMCG business would be a catalyst to topline growth in the long run

## Likely short-term triggers

- A lower magnitude of excise hike in Budget 2016 has been passed on by the company in the form of price hikes up to ~13% on certain brands. Decline in cigarette volumes for the past couple of years has resulted in creation of low base. This low base effect may help in arresting the sharp cigarette volume de-growth going forward
- Government focus on agri growth coupled with expected normal monsoons bodes well for its agri-business and rural growth for its FMCG segment

## Key Financials

| Key Financials | | FY15 | FY16E | FY17E |
|---|---|---|---|---|
| Net sales | ₹ crore | 36,083.2 | 36,905.9 | 42,633.3 |
| Growth | % | 9.7 | 2.3 | 15.5 |
| EBITDA margins | % | 36.9 | 38.8 | 37.4 |
| PAT | ₹ crore | 9,607.7 | 10,127.7 | 11,571.1 |
| PAT growth | % | 9.4 | 5.4 | 14.3 |
| P/E | x | 26.8 | 25.5 | 22.3 |
| P/BV | x | 8.4 | 8.2 | 8.0 |
| RoE | % | 31.3 | 32.4 | 35.8 |
| RoCE | % | 43.2 | 45.9 | 48.6 |

# Symphony Ltd (SYMCOM)

## Investment Rationale

- Symphony is India's leading evaporative air cooler manufacturer with a market share of ~55% (value terms) in the organised product category. To push air coolers in the aesthetic product category, the company has launched more than one new model annually for six years. It operates through an asset light model wherein it outsources manufacturing of air coolers to Indian vendors and uses the cash and carry model for sales
- The company has a strong distribution network comprising ~750 dealers, ~16,500 retail dealers & ~4,500 towns (1430 in 2007) across India. It maintained strong return ratios i.e. RoCE, RoE at 39%, 35%, respectively, in FY15 mainly due to asset light model and almost debt-free status. To get access to Chinese markets, Symphony recently acquired Chinese air cooler brand MKE for a meagre ₹ 1.55 crore. Symphony would also benefit from sourcing advantage for its OEMs (that largely source from China)
- We believe the air cooler industry will grow at ~19% CAGR in FY15-25E, due to demand remaining intact in tier-II and tier-III cities. Currently, the air cooler industry is dominated by unorganised players with ~80% volume market share. We believe a shift from unbranded to branded category and strong brand would drive Symphony's sales, PAT CAGR at 27%, 31% in FY15-18E, respectively

## Likely short-term triggers

- Expectation of strong volume growth of ~21% YoY supported by uptick in seasonal demand
- IMD forecast of hotter than normal summer (prolonged summer) is likely to boost sales of cooling products

## Key Financials

| Key Financials | | FY16E* | FY17E | FY18E |
|---|---|---|---|---|
| Net Sales | ₹ crore | 547.3 | 956.9 | 1,179.3 |
| Growth | % | NM | NM | 23.2 |
| EBITDA margin | % | 27.3 | 27.7 | 27.7 |
| PAT | ₹ crore | 117.0 | 205.1 | 260.7 |
| PAT growth | % | NM | NM | 27.1 |
| P/E | x | 72.6 | 41.4 | 32.6 |
| P/BV | x | 21.5 | 16.4 | 12.5 |
| RoNW | % | 29.6 | 39.5 | 38.4 |
| RoCE | % | 36.7 | 50.0 | 47.3 |

*For nine months only

# Jet Airways (JETAIR)

## Investment Rationale

- The Indian air travel market witnessed rapid growth post 2003 following liberalisation by the Government of India, which is reflected in domestic passenger growth at 19.4% CAGR in FY04-10. Following the global financial crisis, domestic passenger volumes moderated at 9.1% CAGR in FY10-15. However, in FY16 the domestic passenger volume regained its growth trajectory to 19.7% YoY. Despite this tremendous growth, the Indian air travel market is still under penetrated at 0.08/per capita compared to other developing countries, where penetration rates are between 0.35 and 0.65/per capita. Hence, we expect strong growth in air travel over the next decade
- The partnership with Etihad (through 24% stake) has yielded positive results for Jet Airways in terms of gaining international presence. We expect the share of the international segment revenue to get enhanced to over 60% in the next two or three years from current 55%
- Jet has given a bulk order of 75 Boeing 737 Max 8 planes. This order will not only enable the company to gain market share but also reduce the maintenance & fuel costs significantly
- A sharp reduction in fuel prices (down over 50% YoY from peak of FY14) remains a key trigger for margin expansion, going forward

## Likely short-term triggers

- The industry passenger growth has remained healthy (up 22.9% YoY during January-March 2016)
- ATF prices continue to remain lower (down 24.8% YoY, 13.4% QoQ) boding well for further margin expansion in coming quarters.
- The new draft aviation policy aims to boost MRO services in India by providing various tax incentives. This will help the players to save the cost on MRO service

## Key Financials

| Key Financials | | FY15 | FY16E | FY17E |
|---|---|---|---|---|
| Net sales | ₹ crore | 20,965.6 | 22,908.9 | 24,856.2 |
| Growth | % | 9.9 | 9.3 | 8.5 |
| EBITDA margins | % | 1.0 | 8.9 | 12.3 |
| PAT | ₹ crore | (2,097.4) | 911.2 | 1,704.1 |
| PAT growth | % | NA | NA | 87.0 |
| P/E | x | (3.4) | 7.8 | 4.2 |
| P/BV | x | NA | NA | NA |
| RoE | % | NA | NA | NA |
| RoA | % | 4.1 | 36.3 | 46.2 |

# Container Corporation of India (CONCOR)

## Investment Rationale

- Concor with its ~80% market share of container train operator (CTO) in India would be the biggest beneficiary of the expected recovery in trade scenario. With the increased capacity in terms of rakes to 256, we believe Concor is well geared to manage higher volumes with expected recovery in trade activities
- Concor's revenues grew at a CAGR of 8.5% in FY11-15 as container volumes remained sluggish, except 2014. However, going ahead, with an improved market share in private ports such as Mundra and Gujarat Pipavav we expect volumes to improve. Further, we believe the government's "Make in India" campaign will perk up trade volumes for exports. In turn, this will drive higher volumes for Concor
- Concor plans to set up private freight terminals (PFTs) and MMLP across 16 locations in India with plans to add another five over the next couple of years. PFTs at Khatuwas and Nagulpally are expected to get scaled up in the near term. Further, Concor plans to acquire land in the central and eastern regions of the country, in close proximity to the dedicated freight corridor, to scale up its PFT business, thereby making the revenue stream more diversified.
- We expect Exim and domestic volumes to post a CAGR of 5% each over FY15-17E thereby leading to revenue, and PAT CAGR of 12% and 3% respectively, during same period.

## Likely short-term triggers

- With the removal of port congestion charge, rail volumes are expected to increase. Additionally, rationalisation of freight rates would lead to a revival in margins
- Growth in port volumes for January and February were highest over the year, which could lead to higher volumes/revenues for the company

## Key Financials

| Key Financials | | FY15 | FY16E | FY17E |
|---|---|---|---|---|
| Net sales | ₹ crore | 5,573.7 | 5,815.6 | 6,939.4 |
| Growth | % | 11.8 | 4.3 | 19.3 |
| EBITDA margins | % | 23.3 | 21.0 | 21.8 |
| PAT | ₹ crore | 1,047.7 | 904.8 | 1,107.8 |
| PAT growth | % | 6.4 | -13.6 | 22.4 |
| P/E | x | 23.5 | 27.3 | 22.3 |
| P/BV | x | 3.2 | 3.0 | 2.7 |
| RoE | % | 13.7 | 10.9 | 12.2 |
| RoCE | % | 12.0 | 10.1 | 12.2 |

# Voltas Ltd (VOLTAS)

## Investment Rationale

- Voltas is primarily an assembler of ACs following an asset light model strategy for its unitary cooling product (UCP) division. The segment contributes ~48% to the consolidated topline and recorded ~13% sales CAGR in the last five years. A strong brand coupled with over 6500 dealers helped Voltas improve its market share from 14% in FY10 to 20.8% in FY15. Given the relatively stable margin and high operating cash flow, the UCP segment provided strong support to Voltas' profitability with lower working capital requirement. The company commands strong RoCE of the UCP segment in the range of ~40-43% over the last four years
- We believe Voltas will see total sales CAGR of 10.5% in FY15-18E led by 16% sales CAGR of UCP division. AC volume sales may see 12% CAGR for FY15-18 in tandem with increasing affordability with stable prices, higher economic growth, assumption of stable inflation, lower interest rates and implementation of the Seventh Pay Commission recommendations
- We believe the company's strong presence in the AC segment, partially mitigate the business risk of project division. As the Indian economy is in a revival mode, Voltas, being a strong brand in the AC segment, is well positioned to capitalise on growth momentum. Additionally, Voltas has strong balance sheet (Net cash and RoCE and RoE of 17% and 18) and average dividend payout of 20%

## Likely short-term triggers

- With the rising heat, we believe Q4 should be a strong quarter for AC players,
- Implementation of Seventh Pay Commission would push dealers towards pre-stocking of cooling products
- IMD forecast of hotter than normal summer (prolonged summer) is likely to boost sales of cooling products

## Key Financials

| Key Financials | | FY16E | FY17E | FY18E |
|---|---|---|---|---|
| Net sales | ₹ crore | 5,767.6 | 6,132.9 | 6,989.1 |
| Growth | % | 11.3 | 6.3 | 14.0 |
| EBITDA margins | % | 7.6 | 8.4 | 8.4 |
| PAT | ₹ crore | 380.4 | 413.4 | 459.1 |
| PAT growth | % | -1.0 | 8.7 | 11.0 |
| P/E | x | 24.3 | 21.8 | 19.7 |
| P/BV | x | 3.8 | 3.5 | 3.2 |
| RoE | % | 15.7 | 16.1 | 16.3 |
| RoCE | % | 16.2 | 17.5 | 18.3 |

# Timken India (TATTIM)

## Investment Rationale

- Timken India - subsidiary of the US based Timken Group, is a global leader in tapered roller bearings. It is the fourth largest company in the Indian bearing market with ~8% revenue market share. It commands ~40% share in the tapered roller bearings (~62% of its topline) in India. It is well diversified across segments catering mainly to mobile (40-45% of revenues excluding exports) and process industries (25% of revenues).
- Exports comprised 37% of FY15 revenues (vs. 12% in CY09). It logged ~34% CAGR in FY09-15 to ₹ 341.6 crore in FY15. Going ahead, Timken is expected to the key hub for export to various customers of Timken entities. Therefore, we expect export revenues to grow at 18.3% CAGR in FY15-18E to ₹ 565.6 crore
- We expect services, railways segment to provide major fillip going forward. The management pegs this opportunity at ~₹ 2500 crore wherein it is looking to garner up to 15% market share. We expect repairs, services revenues to zoom to ₹ 87.1 crore in FY18E (~5.6% of the net sales) vs. ₹ 25.9 crore in FY15
- We expect overall topline to grow at 18% CAGR in FY15-18E on the back of export, industrial and CV segment demand. EBITDA margins are likely to improve to 15.3% in FY18E vs. 14.4% in FY15. We expect PAT to grow at 22.9% CAGR in FY15-18E

## Likely short-term triggers

- Strong medium & heavy commercial vehicle sales growth of ~25% in Q4FY16 is likely to provide traction to volumes/revenues of the company
- Due to a pick-up in exports, railways and automobile segment, we expect the company to post better Q4FY16 results than most of its peer group

## Key Financials

| Key Financials | | FY16E | FY17E | FY18E |
|---|---|---|---|---|
| Net sales | ₹ crore | 1,069.1 | 1,268.5 | 1,527.7 |
| Growth | % | 15.1 | 18.7 | 20.4 |
| EBITDA margins | % | 14.2 | 14.5 | 15.3 |
| PAT | ₹ crore | 85.8 | 112.4 | 145.9 |
| PAT growth | % | 6.4 | 31.0 | 29.8 |
| P/E | x | 35.6 | 30.7 | 23.5 |
| P/BV | x | 6.3 | 5.5 | 4.7 |
| RoE | % | 18.4 | 20.1 | 22.5 |
| RoCE | % | 27.7 | 28.5 | 29.8 |

# Accelya Kale (KALCON)

## Investment Rationale

- Accelya Kale is a leading solutions provider to the airline and travel industry. As part of the Accelya group it helps over 200 airline customers streamline their financial processes as well as helps them gain insights on business performance using decision support tools and data analytics. The group's expertise spans across revenue accounting, audit & revenue recovery, credit card management, miscellaneous billing, F&A processes and decision support & analytics. As a strategic partner to IATA, they have delivered robust industry solutions including BSP, BSP Link, Neutral Fare Proration (NFP) and Simplified Interline Settlement (SIS) and has dedicated associates working across nine countries.

- Accelya Kale's revenue model consists of 1) license revenues (lumpy), 2) hosted - which primarily is license plus hardware and 3) outsourced - which consists of hosted plus business process management. AKL is among the few, which provides outsourced model where pricing is transaction-based. Accelya has transitioned a majority of its customers to pay-per-use (annuity) model – which we estimate, now contributes >90% of its revenues – as it improves revenue visibility while non-annuity revenues contribution is in low single digits.

## Likely short-term triggers

- Accelya delivered healthy earnings growth in Q3FY16. Revenues grew 15.8% YoY to ₹ 88 crore while PAT grew 25.4% YoY to ₹ 23 crore. EBITDA margins improved ~280 bps YoY to 41.8% vs. 39% in Q3FY15. The management expects to maintain current revenue growth and earnings momentum

## Key Financials

| Key Financials | | FY14 | FY15 | FY16E |
|---|---|---|---|---|
| Net sales | ₹ crore | 316.7 | 303.1 | 325.8 |
| Growth | % | 4.2 | -4.3 | 7.5 |
| EBITDA margins | % | 42.2 | 37.3 | 38.5 |
| PAT | ₹ crore | 86.2 | 67.4 | 79.3 |
| PAT growth | % | 2.2 | (21.8) | 17.7 |
| P/E | x | 17.3 | 22.1 | 18.8 |
| P/BV | x | 13.6 | 12.1 | 15.2 |
| RoE | % | 81.5 | 57.9 | 71.7 |
| RoCE | % | 104.8 | 81.2 | 95.4 |

# Sun Pharmaceuticals (SUNPHA)

## Investment Rationale

- The US business (~50% of the turnover) has grown at 28.4% CAGR in FY11-15. The US product basket remains robust- 591 ANDAs filed, 435 approvals received; some niche launches besides complex/limited competition products and plain vanilla generics. US growth is also being backed by extensive infrastructure (more than 20 USFDA approved plant). Only blot in an otherwise smooth journey is the warning letter to Halol plant.
- The Ranbaxy acquisition will also drag margins initially though it is expected to bring in benefits of scalability in the long run. Ranbaxy’s stronghold in the fast growing emerging markets (50% of Ranbaxy's sales) will complement Sun’s presence in this space. Regarding US, it is determined to address Ranbaxy’s cGMP issues as four out of five US centric facilities remain under USFDA embargo. Sun will gain leadership position in the niche generic derma space and will also get entry in to branded and OTC segments. In the domestic space the acquisition is likely to provide more therapeutic diversification to Sun’s portfolio and is likely to improve its market share in key segments. Its domestic market share has substantially improved from 5.5% to 9.1%. The management expects ~US$300 million synergy benefits by FY18.
- We expect US, domestic sales to grow at a CAGR of 10.1% and 15.2% to ₹ 18288 crore and ₹ 10270 crore in FY15-18E, respectively

## Likely Short Term triggers

- We expect strong Q4 results mainly on account of gGleevec exclusivity in the US.
- Revenues are likely to grow 23.5% YoY in Q4FY16E. EBITDA margins are expected at ~33% against 12.9% in Q4FY15 and 30.6% in Q3FY16. Net profit is expected to grow 104.9% YoY due to strong operational leverage

## Key Financials

| Key Financials | | FY15 | FY16E | FY17E |
|---|---|---|---|---|
| Net sales | ₹ crore | 27,433.4 | 28,468.5 | 32,036.8 |
| Growth | % | 2.1 | 3.8 | 12.5 |
| EBITDA margins | % | 28.7 | 30.5 | 31.6 |
| PAT | ₹ crore | 4,777.1 | 5,691.1 | 6,845.0 |
| PAT growth | % | NM | 19.1 | 20.3 |
| P/E | x | 43.1 | 39.1 | 28.6 |
| P/BV | x | 7.6 | 6.5 | 5.5 |
| RoE | % | 18.6 | 18.8 | 19.1 |
| RoA | % | 18.8 | 20.0 | 21.1 |

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