Market outlook

Domestic markets cracked by 6.5% in August owing to global uncertainty led by fears on China's slowdown, Yuan devaluation, an impending currency war risk along with a Fed rate hike. Domestic factors such as lower-than-expected Q1FY16 GDP growth and higher rainfall deficit for August also added to the woes. From a sectoral perspective, we are positive on auto, cement and capital goods (cyclical recovery in earnings aided by lower input costs and declining interest rates will provide strong operating and financial leverage). We also have a positive outlook on the IT and pharma space (given their quality of earnings) while we are negative on metals, infrastructure and real estate. Going ahead, we expect Sensex earnings to grow at 13.2% and 18.5% in FY16E and FY17E to ₹ 1539 and ₹ 1838, respectively. Hence, we assign a P/E multiple of 16.5x on FY17E EPS to arrive at a fair value of 30300 by September 2016 with the Nifty reaching 9200.

What's in : Mahindra & Mahindra (M&M) and Inox Leisure

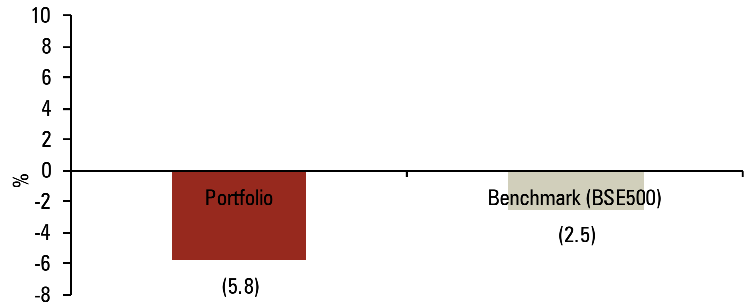
What's out : MRPL

Top Picks

Company	Recommended Price	CMP	Market Cap	P/E (x)		P/BV (x)		RoE (%)	
	(₹)	(₹)	(₹ crore)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
M&M	1,150	1150	71475	18.7	14.6	3.1	2.7	16.5	18.2
Pidilite Industries	587	563	28605	39.5	34.7	11.0	9.6	27.8	27.7
Indraprastha Gas	487	466	6524	14.1	12.5	2.8	2.4	18.9	18.2
Bharat Forge	1,179	1132	26495	24.5	21.0	6.6	5.4	27.0	25.6
Concor	1,653	1417	27570	26.0	19.5	3.4	3.0	13.0	15.5
Voltas	331	259	8533	19.6	17.6	3.5	3.2	17.7	18.1
Timken India	602	575	3917	33.9	27.4	7.7	6.4	22.3	23.1
Star Ferro Cement	158	135	2993	19.6	11.3	3.3	2.6	16.8	23.0
Inox Leisure	232	232	2130	38.3	24.9	2.9	2.6	7.5	10.4

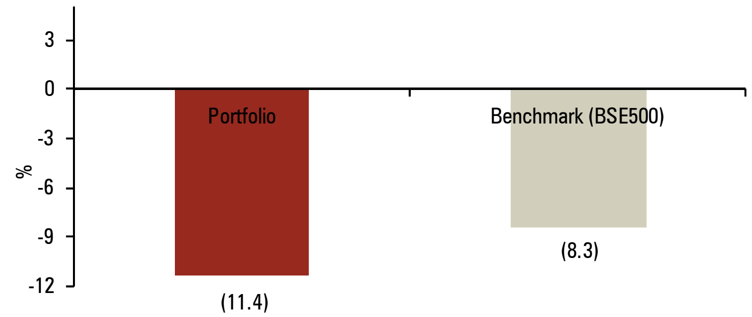
Performance* so far …

Portfolio performance since inception (June 2015)



- The portfolio performance during (June 2015 – July 2015) was driven by PVR (21%), Bata India (10.2%) and Torrent Pharma (9.1%). This was dragged down by underperformance in MRPL (-28%) and Voltas (-22%). Since inception, we have booked profit in PVR, Bata India, Torrent Pharma, L&T, Maruti Suzuki and Dr Reddy's
- The start date is June 5, 2015

Portfolio performance since last update (Aug 2015)



- The portfolio underperformance during August 2015 was majorly due to global weakness. Stocks like MRPL, Voltas and Concor have impacted the portfolio returns while Timken, Pidilite and Bharat Forge were resilient in this downturn. During the month, we exited MRPL and added Inox Leisure and Mahindra & Mahindra.

Source: Reuters, ICICIdirect.com Research

Pidilite Industries (PIDIND)

- Pidilite is a dominant play in India's growing adhesive and industrial chemical market with a market share of ~70% in its leading brand categories in the organised segment. Its two major segments, consumer & bazaar (C&B) and speciality industrial chemical have grown at a CAGR of ~20% and ~15% (standalone), respectively, in FY10-14. The C&B segment contributes ~79% to Pidilite's standalone revenue. This segment has grown mainly driven by the adhesive and sealants segments that contributed ~50% to the company's C&B segment revenue (FY14)
- The specialty industrial segment contributes ~21% to standalone revenue. This segment grew at 20% CAGR (FY10-14) mainly driven by demand growth from packaging, cigarettes, stickers, labelling, footwear, etc. The specialty industrial segment has three major sub-segments: industrial adhesive, industrial resins and organic pigments & preparations. We have modelled industrial segment revenues growth at ~13% CAGR (FY15-17E) led by a pick-up in demand of industrial adhesives & resins
- We estimate lower revenue CAGR of ~11% while a sharp margin expansion of ~500 bps for FY15- 17E may be supported by benign raw material prices. Also, a recovery in margin coupled with strong return ratios would justify the company's current valuation. At the CMP, the stock is trading at 40x FY16E & 35x FY17E earnings. We believe the stock is a potential candidate for re-rating considering its ability to maintain its market share and enjoy the benefit of lower raw material prices

Key Financials		FY15	FY16E	FY17E
Net Sales	₹ crore	4844.1	5350.7	5993.9
Growth	%	13.1	10.5	12.0
EBITDA margin	%	16.1	20.9	21.1
PAT	₹ crore	512.6	723.9	824.4
PAT growth	%	18.9	41.2	13.9
P/E	x	56.0	39.7	34.8
P/BV	x	12.8	11.0	9.6
RoNW	%	23.1	27.8	27.7
RoCE	%	29.7	38.0	38.0

Mahindra & Mahindra (MAHMAH)

- M&M has clearly highlighted that FY16E would be an aggressive launch year, which has already begun with the launch of new XUV500 & the small commercial vehicle Jeeto. Within the utility vehicle (UV) space, the company is expected to launch two new platforms in the compact UV segment-TUV 300 (true blue UV) & S101 (crossover UV). The UV segment has outpaced the car segment since FY12 with its share in the passenger vehicle growing from ~14% in FY12 to ~20% in FY15 (worldwide average-~30%). We expect M&M to regain market share as volumes improve with these two launches
- Owing to a well-diversified product mix, strong pan-India presence & cost-efficient operations, M&M has retained its leadership in domestic tractor industry and maintained its market share over 40% since acquisition of Swaraj Tractors in FY09. Although tractor industry (including M&M) is seeing YoY de-growth since H2FY15, the management has guided for ~25-30% volume growth in H2FY16 and ~5% growth for FY16E due to base effect and expected improvement in farm incomes
- M&M has been one of the worst hit incumbent OEMs in FY15E with problems ranging from loss of market share on the automotive side in H1 to the sudden decline in FES business in H2. However, the ability to sustain profitability at a respectable level amid all the aforesaid pressures demonstrates business and management strength. Hence, we are positive on the stock

Key Financials		FY15E	FY16E	FY17E
Net sales	₹ crore	38,945.4	41,540.5	51,097.7
Growth	%	-4.0	7.0	23.0
EBITDA margins	%	10.7	12.6	13.0
PAT	₹ crore	3,321.5	3,638.0	4,652.7
PAT growth	%	-11.6	9.5	27.9
P/E	x	20.4	18.7	14.6
P/BV	x	3.5	3.1	2.7
RoE	%	17.1	16.5	18.2
RoCE	%	14.5	17.0	19.9

I-direct Top Picks

Timken India (TATTIM)

- Timken India has forayed into gear repair services with the Raipur facility. The management pegs the opportunity in the segment, currently served by unorganised players, at ~₹ 2500 crore in India wherein it is looking to garner up to 15% market share in the medium to long term. Furthermore, DFC implementation would also provide an incremental bearing market opportunity of ~₹ 500 crore led by incremental ordering of new wagons. Timken with 50% market share in the segment would be a key beneficiary
- Timken has shown the best revenues and earnings growth among its peers led by strong exports (~34% CAGR in FY09-15) and revival of M&H CV segment. In FY15, when its peers revenues grew in single digits, Timken clocked a staggering topline and bottomline growth of 29% and 80%, respectively. Going ahead, the M&H CV segment is expected to continue its robust performance along with the railway freight segment, which has stable demand. Hence, we expect overall revenue growth of 18.3% in FY15-17E with margins expanding 250 bps in the next two years
- Given the leadership in the tapered bearings led by strong parentage, robust balance sheet and strong earning CAGR (~32.3% over FY15-17E), Timken is one of our top picks in the bearings segment with a proxy play on both Railways investment uptick and repairs business potential.

Key Financials		FY15	FY16E	FY17E
Net sales	₹ crore	929.0	1,094.8	1,301.1
Growth	%	29.0	17.9	18.8
EBITDA margins	%	14.4	16.1	16.9
PAT	₹ crore	80.7	107.9	141.3
PAT growth	%	80.0	33.7	31.0
P/E	x	49.3	33.9	27.4
P/BV	x	8.9	7.7	6.4
RoE	%	18.4	22.3	23.1
RoCE	%	26.5	32.4	30.2

Indraprastha Gas (IGL)

- IGL's sales volumes have grown at 7% CAGR over the last five years and are at 3.8 mmscmd in FY15. The company's core operations in NCR offer good demand potential due to lower CNG and PNG penetration and on the back of the Supreme Court's directive to run all public transport vehicles necessarily on CNG. Also, cost competitiveness of CNG over other fuels (petrol & diesel) offers good growth potential
- The Supreme Court in its verdict said PNGRB cannot set tariff and retail prices of compressed natural gas (CNG) and piped natural gas (PNG). The decision removes the uncertainty regarding for IGL as it would be allowed to fix the final retail prices to customers. This is expected to lead to further investments and expansion of network for IGL. The company is now expected to continue to maintain high pricing power in future as well, which would pave the way for profitable growth
- We believe IGL's investment in Maharashtra Natural Gas (MNGL) of ₹ 180.5 crore is positive, giving it access to industrial gas demand in Pune, without much impact on its balance sheet. Also, investment of ₹ 69 crore in Central UP Gas (CUGL), which is engaged in CGD in cities of Uttar Pradesh present a growth opportunity. We expect IGL's volumes to increase at 6.5% CAGR in the next two years to 1476.5 mmscm and 1589 mmscm in FY16E and FY17E, respectively. Revenue, PAT are expected to increase at CAGR of 8.3%, 7.2%, respectively, over FY15-17E

Key Financials		FY15	FY16E	FY17E
Net sales	₹ crore	3,681.0	3,797.4	4,103.6
Growth	%	-6.1	3.2	8.1
EBITDA margins	%	1.4	6.6	8.1
PAT	₹ crore	437.7	463.7	521.1
PAT growth	%	21.4	5.9	12.4
P/E	x	15.6	14.1	12.5
P/BV	x	3.3	2.8	2.4
RoE	%	20.9	18.9	18.2
RoCE	%	28.7	27.8	26.1

I-direct Top Picks

Bharat Forge (BFL)

- Bharat Forge (BFL) is a leading global automotive forgings supplier, boasting top-5 global OEMs as customers. CV business is ~55-60% of the consolidated business and remains a key driver for overall growth. BFL expects the truck segment in the US market to remain strong till FY17. On the domestic side, BFL is a clean play on a recovery of the domestic CV cycle, as it commands > 60% market share in M&HCV components. Thus, BFL remains a strong play on economic recovery
- BFL has remained extremely cautious on capital expenditure and working capital leading to a decline in D/E to 0.7x (1.5x FY10). BFL looks set to increase capacity & utilisation in coming years as the management aims at ~₹ 7,000 crore standalone revenue by FY18E. These factors will keep both margins as well as revenue growth above industry trend. The management is confident of achieving more orders from defence, energy, mining and railways under the 'Make in India' theme
- For Q1FY16 , revenues grew 14.2% YoY to ₹ 1129 crore driven by 21% YoY growth in export revenues (₹ 667 crore) and 5.8% YoY growth in domestic revenues (₹ 437 crore). EBITDA margins improved 200 bps YoY to 30.7% Consequently, PAT increased 34.7% YoY to ₹ 195 crore
- We believe BFL's business franchise is unique and provides investors a great opportunity to own one of the few India listed global ancillary suppliers

Key Financials		FY15	FY16E	FY17E
Net sales	₹ crore	7,625.0	9,306.0	10,816.0
Growth	%	13.5	22.0	16.2
EBITDA margins	%	19.3	20.7	20.6
PAT	₹ crore	764.0	1,083.0	1,262.0
PAT growth	%	53.2	41.8	16.6
P/E	x	34.8	24.5	21.0
P/BV	x	7.7	6.6	5.4
RoE	%	22.2	27.0	25.6
RoCE	%	18.6	26.4	29.3

Container Corporation of India Limited (CONCOR)

- Concor with ~80% market share of container train operators (CTO) in India would be the biggest beneficiary of the expected recovery in trade. With the increased capacity in terms of rakes to 256, we believe Concor is well prepared to manage higher volumes with an expected recovery in trade activities
- Concor's revenues grew at a CAGR of 8.5% in FY11-15 as container volumes remained sluggish, except in 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 15 locations in India with plans to add another five over the next couple of years. PFTs at Khatuwas and Nagulpally are expected to scale 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 ~12% and 5%, respectively, in FY15-17E thereby leading to revenue, PAT CAGR of 18% each during the same period

Key Financials		FY15	FY16E	FY17E
Net sales	₹ crore	5,573.7	6,556.0	8,090.9
Growth	%	11.8	17.6	23.4
EBITDA margins	%	23.3	21.7	23.9
PAT	₹ crore	1,047.7	1,097.0	1,462.5
PAT growth	%	6.4	4.7	33.3
P/E	x	32.4	29.0	21.7
P/BV	x	0.0	0.0	0.0
RoE	%	13.7	13.0	15.5
RoCE	%	12.0	12.7	16.2

I-direct Top Picks

Voltas (VOLTAS)

- Voltas is primarily an assembler of ACs with outsourcing component and assembles in its Pantnagar plant (Uttarakhand). The segment contributes ~39% to the consolidated topline and recorded sales CAGR of ~16% during FY010-15. A strong brand coupled with over 6500 dealers has helped Voltas to improve its market share from 14% in FY10 to 20.3% in FY15. Given the relatively stable margin and high operating cash flow, the UCP segment has 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.
- Due to adverse macroeconomic conditions, Voltas faced a severe working capital crunch on account of the slow pace of execution in the EMPS business. To reduce working capital requirements and improve profitability, it has adopted a strategy to remain selective in bidding for new project with a ticket size in the range of ₹ 300-400 crore with a minimum operating margin of 5%
- Considering the two different portfolios of consumer and industrial facing business of Voltas, we are valuing consumer and industrial businesses separately using the SOTP method

Key Financials		FY15E	FY16E	FY17E
Net sales	₹ crore	5,183.1	6,150.1	7,383.2
Growth	%	-1.6	18.7	20.0
EBITDA margins	%	7.9	8.9	8.9
PAT	₹ crore	384.3	458.7	516.0
PAT growth	%	56.6	19.3	12.5
P/E	x	30.7	23.4	20.8
P/BV	x	5.1	4.4	3.9
RoE	%	18.3	18.8	18.8
RoCE	%	17.1	19.9	21.4

Star Ferro Cement (SFCL)

- Star Ferro Cement (SFCL) is the largest cement player in the North-East region (NER) with over 23% market share. Demand growth in this region has consistently remained higher than the growth at the pan-India level. SFCL has expanded its capacity from 1.5 MT in FY13 to 3.6 MT in FY15. This, in turn, has helped SFCL to gain market share in NER. With the government's thrust on infrastructure development, demand growth in NER is expected to remain healthy over the next three or four years. Given this backdrop, SFCL is expected to clock revenue CAGR of 23.9% in FY15-17E
- SFCL enjoys various fiscal benefits under NE industrial policy (NEIIPP 2007). SFCL also has cost advantage due to its own captive limestone mines, proximity to large reserves of coal and self sufficiency in terms of power requirement. As a result, it generates healthy EBITDA/tonne, which is over ~2.2x of cement players at pan-India level
- Given SFCL's ability to generate over 2.2x EBITDA/tonne of its peer set and capability to expand through internal accruals, we believe SFCL will trade at premium valuations despite being a midcap cement player

Key Financials		FY15	FY16E	FY17E
Net sales	₹ crore	1,479.2	1,729.5	2,272.3
Growth	%	26.3	16.9	31.4
EBITDA margins	%	29.9	32.6	32.9
PAT	₹ crore	90.1	152.6	264.6
PAT growth	%	1,376.6	69.5	73.4
P/E	x	38.9	23.0	13.3
P/BV	x	5.2	3.9	3.1
RoE	%	13.3	16.8	23.0
RoA	%	5.0	7.7	12.5

Inox Leisure (INOX)

- Inox has an impressive market share of ~23% (inclusive of Satyam) of the total multiplex screens in India and ranks second after PVR, which has about 474 screens as on Q1FY16. Inox has 67, 139, 89 screens in East, West, South regions, respectively. Inox' market share in the northern region got a fillip post the Satyam acquisition resulting in 82 screens in the region. Inox has a track record of adding ~three screens every month in the past decade. We believe Inox will reach a screen count of 417, 473 screens by FY16E, FY17E respectively.
- Consolidation in the industry has led to concentration of power in the hands of three or four larger players. Inox being the second largest player would be well placed to increase prices. We believe Inox' ATPs would grow at a 3.8% CAGR in FY15-17E to ₹ 176.8 by FY17E while spends per head (SPH) are expected to expand to ₹ 60 by FY17E from ₹ 59 in FY15
- In addition, advertising revenues and other operating revenues are the key focus area for the management owing to its high EBITDA accretive nature. The stream of income has already grown at 40.8% CAGR in FY12-15 from ₹ 29.2 crore to ₹ 81.5 crore. Going ahead, with in-cinema advertising gaining traction, we expect Inox to register a CAGR of 27.3% in FY15-17E to ₹ 132.0 crore by FY17E
- Inox is striving towards reducing the fundamental divide between itself and market leader PVR. We feel a re-rating of the stock is imminent

		FY15E	FY16E	FY17E
Net sales	₹ crore	895.4	1,093.2	1,278.1
Growth	%	17.4	22.1	16.9
EBITDA margins	%	13.7	17.3	19.1
PAT	₹ crore	20.0	55.6	85.6
PAT growth	%	-45.7	177.5	53.9
P/E	x	106.3	38.3	24.9
P/BV	x	3.1	2.9	2.6
RoE	%	3.1	7.5	10.4
RoCE	%	6.0	10.6	13.8

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