Market outlook

The market has rebounded by ~8% from the recent lows of 7540 to ~8150 currently. This was led by the positive surprise from RBI, which announced a repo rate reduction of 50 bps to 6.75%, continuing the front loading of rate cuts. Furthermore, it also derived confidence from better fiscal deficit numbers for first five month of FY16. Going ahead, we believe earnings would be the key driver for market movement. 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) with a negative bias on metals, infrastructure and real estate. We expect Sensex earnings to grow at 13.2% and 18.5% in FY16E and FY17E to ₹ 1539 and ₹ 1838, respectively. We assign a P/E of 16.5x on FY17E EPS to arrive at a fair value of 30300 by September 2016 with the Nifty reaching 9100.

What's in : ITC

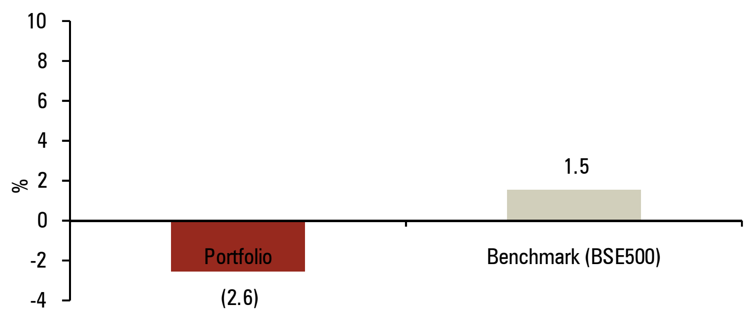
What's out : Mahindra & Mahindra (M&M)

Top Picks

Company	Recommended Price	CMP	Market Cap	P/E (x)		P/BV (x)		RoE (%)	
	(₹)	(₹)	(₹ crore)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
ITC	343	343	274811	26.1	24.0	8.3	8.1	31.8	33.9
Pidilite Industries	587	580	29477	40.7	35.8	11.3	9.9	27.8	27.7
Indraprastha Gas	487	476	6664	15.2	14.3	12.8	20.9	18.9	18.2
Bharat Forge	1,179	932	21674	20.0	17.2	5.4	4.4	27.0	25.6
Concor	1,653	1507	27570	26.0	19.5	3.4	3.0	13.0	15.5
Voltas	331	282	9294	21.6	19.4	3.9	3.5	17.5	17.9
Timken India	602	616	4155	38.9	29.7	8.2	6.9	22.3	23.1
Star Ferro Cement	158	135	2988	14.9	8.8	3.1	2.3	21.0	26.6
Inox Leisure	232	247	2483	39.7	23.7	3.0	2.7	7.5	11.2

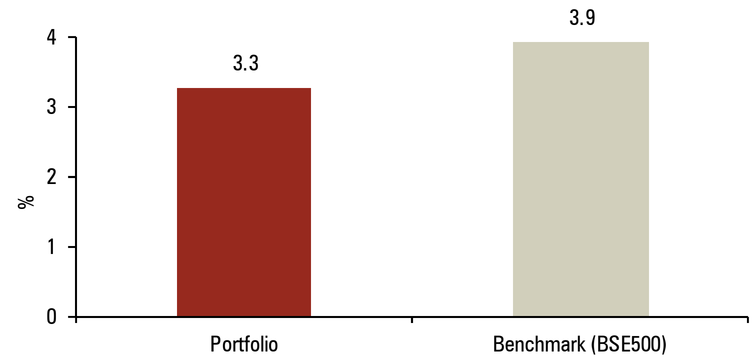
Performance* so far …

Portfolio performance since inception (June 2015)



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

Portfolio performance since last update (Sept 2015)



- The portfolio underperformance during September 2015 was mainly due to global weakness. Stocks like Bharat Forge have impacted the portfolio returns while Timken, Pidilite and Inox were resilient in this downturn. During the month, we booked profits in Mahindra & Mahindra and added ITC in the portfolio.

Source: Reuters, ICICIdirect.com Research

I-direct Top Picks

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	55.5	39.3	34.5
P/BV	x	12.6	10.9	9.5
RoNW	%	23.1	27.8	27.7
RoCE	%	29.7	38.0	38.0

ITC (ITC)

- ITC is the largest cigarette manufacturer & among the largest paperboard manufacturing companies in India. The company also has the second largest hotel chain in the country and is aggressively acquiring a strong position in the FMCG space. 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, Bingo, Vivel, Fiama Di Wills, Superia, Classmate, Paperkraft, Wills Lifestyle & John Players
- ITC has been trying to pass on the excise hikes in cigarettes by way of gradual price hikes. The revenue growth of 12.4% (CAGR FY09-15) from cigarettes (~46.6% of revenues) has been led by 12.9% price led CAGR. ITC plans to stimulate the distribution strategy for FMCG business by increasing direct reach to one lakh villages in India. This initiative depicts ITC's aggressive approach towards growing its FMCG business (25% of FY15 revenues vis-à-vis 18% in FY08). Further, the company is aggressively diversifying in newer categories as reflected by the recent acquisition of two brands "Savlon" & "Shower to Shower" & foray into the dairy industry with Aashirvaad ghee
- We estimate revenue & net profit CAGR of 8.8% & 6.6%, respectively, in FY15-17E. We maintain a positive stance on ITC as we believe ITC's focus to grow its FMCG business would be a catalyst to topline growth in the long run. Simultaneously, structural decline in commodity prices has increased visibility of earnings growth in segment

Key Financials		FY15	FY16E	FY17E
Net sales	₹ crore	36,083.2	39,339.3	42,747.8
Growth	%	9.7	9.0	8.7
EBITDA margins	%	36.9	35.7	35.1
PAT	₹ crore	9,607.7	10,009.5	10,915.2
PAT growth	%	9.4	4.2	9.0
P/E	x	27.4	26.1	24.0
P/BV	x	8.6	8.3	8.1
RoE	%	31.3	31.8	33.9
RoCE	%	43.2	44.3	46.1

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	52.0	38.9	29.7
P/BV	x	9.6	8.2	6.9
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	%	21.5	22.3	22.3
PAT	₹ crore	437.7	465.3	521.1
PAT growth	%	21.4	6.3	12.0
P/E	x	15.2	14.3	12.8
P/BV	x	3.2	2.7	2.3
RoE	%	20.9	18.9	18.2
RoCE	%	28.7	27.9	26.0

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
- 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	28.4	20.0	17.2
P/BV	x	6.3	5.4	4.4
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	6,552.0	8,098.1
Growth	%	11.8	17.6	23.6
EBITDA margins	%	23.3	21.8	23.9
PAT	₹ crore	1,047.7	1,098.8	1,462.8
PAT growth	%	6.4	4.9	33.1
P/E	x	32.4	26.7	20.1
P/BV	x	4.4	3.5	3.1
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	5,512.6	6,590.0
Growth	%	-1.6	6.4	19.5
EBITDA margins	%	7.9	8.9	8.9
PAT	₹ crore	349.6	421.8	478.5
PAT growth	%	42.5	20.6	13.4
P/E	x	24.2	21.6	19.4
P/BV	x	4.4	3.9	3.5
RoE	%	16.6	17.5	17.9
RoCE	%	17.0	17.9	19.4

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		FY15E	FY16E	FY17E
Net sales	₹ crore	1,479.2	1,829.2	2,445.1
Growth	%	26.3	23.7	33.7
EBITDA margins	%	29.9	34.0	35.8
PAT	₹ crore	90.1	200.2	337.6
PAT growth	%	1,376.6	122.3	68.6
P/E	x	33.2	14.9	8.8
P/BV	x	4.4	3.1	2.3
RoE	%	13.3	21.0	26.6
RoA	%	5.0	9.7	14.8

I-direct Top Picks

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 ₹ 55 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 advertisement 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 the revenue stream to post 23.0% CAGR in FY15-17E to ₹ 123.2 crore.
- 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	1,117.1	1,310.5
Growth	%	17.4	24.8	17.3
EBITDA margins	%	13.7	17.0	19.6
PAT	₹ crore	20.0	55.0	92.1
PAT growth	%	-45.7	174.5	67.5
P/E	x	108.9	39.7	23.7
P/BV	x	3.2	3.0	2.7
RoE	%	3.1	7.5	11.2
RoCE	%	6.0	10.7	14.7

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