Top Picks Post Q3FY17 Results

Ashiana Housing Ltd. (AHL)
Bharat Electronics Ltd (BEL)
Force Motors Ltd.

JB Chemicals & Pharmaceuticals
Jubilant Life Science
KEC International Ltd.
Kalpataru Power (KPTL)

Mahindra & Mahindra Ltd.
Orient Refractories Ltd .
SKF Ltd.

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Ashiana Housing Ltd. (AHL)

CMP Rs 183|EV/EBITDA (FY18E) 10.8x | EV/EBITDA (FY19E) 8.5x | Target Rs 220

Investment Rationale

- Ashiana Housing Limited (AHL) is engaged in development of residential real-estate projects for middle income (comfort homes) and senior living group in upcoming industrial areas and towns in India. Till now AHL has completed 19.4mn sq.ft. of construction and has 8,640 units under maintenance.
- Ashiana Housing is a unique asset light developer, with strong focus on pursuing Real Estate business in Tier II and III cities. AHL has unique business model, (1) where land cost as % of construction cost is lesser (vs. their listed peers), (2) does not build huge land banks, (3) does in-house construction as well as sales, & (4) consistently explore the alternative of deploying lower capital across projects. This asset light strategy, focus on cash flow generation has helped AHL to maintain lower debt compared to its debt heavy peers.
- AHL differs from its peers on execution based business model, instead of building huge land banks, wait for 5-7 years and then develop the project. At any given point of time, AHL's land bank does not exceed 5.0-7.0x its current Equivalent Area Constructed (EAC), thereby giving revenue visibility for next 3-4 years. This strategy to look upon its land bank as raw material ensures that their balance sheet is less leveraged and less working capital intensive.
- For FY17, AHL management expects to deliver about 1.1-1.2 mn sq.ft under sole ownership and another 0.6-0.7 mn sq.ft under partnership projects. AHL management is trying to maintain a run-rate of 80,000 sq.ft/quarter despite a tough demand environment. As a result, AHL is not looking to enter any new cities as of now, but trying to consolidate their position at the locations they are already present.
- Due to subdued demand and fallout of demonetization, AHL management expects its inventory of completed proejcts to go up to 1mn sq.ft in the next few quarters. In the quarter Q3FY17, they have already witnessed some cancellation in its Jaipur market due to demonetization.
- AHL is witnessing negative operating cash flows for the last four quarters including Q3FY17, due to slower collection. The management expects this to continue for the next quarter as well in the wake of demonetization.

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Ashiana Housing Ltd. (AHL) contd…

- AHL management expects volatility in its sales in near term due to factors like demonetization, RERA and GST. RERA will come into effect from May 2017 onwards, and AHL management believes that RERA will be beneficial for the organized and clean players like them in the longer term. However in short term it might cause some disruption along with negative effect of demonetization.
- As far as launching any affordable project of 60 sq.mt. carpet area (as outlined in this year's budget) is concerned, AHL management is still in the planning stage and is weighing out all the conditions/rules and stipulations made in the budget for the 60 sq.mt. carpet area. There might be a possibility of them launching/converting their Ashiana Town – Gamma project (situated at Bhiwadi in Rajasthan) into an affordable housing project. But it is early to speculate on the same, and the AHL management said they will take a call on this in next 3-4 weeks.

Valuation

We expect AHL to report 10% revenue CAGR over FY16-19E on the back of improving deliveries in its key projects, while PAT is likely to witness 10.9% CAGR during FY16-19E with PAT margins expanding by 360bps over the same period. At CMP Rs 183, AHL is trading at FY17E and FY18E, EV/EBIDTA multiples of 14.4x and 10.8x respectively. We had a BUY rating on the stock with a target price of Rs 183 which has already been achieved. We remain bullish on the company from longer term perspective and maintain our BUY rating on the stock with a revised target price of Rs 220 (arrived on the basis of NAV based SOTP valuation).

YE March (Rs Mn)	Net Sales	EBITDA	Adj. PAT	Adj.EPS (Rs)	EBITDA Margin (%)	RoE (%)	Adj. P/E (x)	EV/EBITDA (x)
FY15	1,427	373	465	4.5	26.1	8.9	41.0	43.5
FY16	5,212	1,358	1,294	12.7	26.0	20.0	14.6	12.8
FY17E	4,108	1,109	1,063	10.4	27.0	14.3	17.9	14.4
FY18E	5,332	1,466	1,527	13.5	27.5	17.1	13.8	10.8
FY19E	6,937	1,894	1,764	17.2	27.3	16.5	10.8	8.5

Source: Company Filings; IndiaNivesh Research Note: CMP as of 17/02/2017

Bharat Electronics Ltd. (BEL)

CMP Rs. 1,526 |P/E (FY18E) 21.7x | P/E (FY19E) 18.3x | Target Rs. 1,916

Investment Rationale

- **BEL beneficiary of favourable Defense capex outlook:** (1) Strengthening of India's position vis-à-vis China-Pakistan, (2) upgradation of existing fleet with modern technology and addition of new ones, would drive Indian Defense capex cycle. During FY2011-16 an average 36% of Defense indigenous spend has been towards Electronics. Of the total Indian Defense Electronics production BEL maintained over a third of market share. Since May-14 to-date, DAC has cleared Defense projects worth $54.3bn. In the back-drop of huge awarding pipeline, coupled with BEL's track-record of 80+% of order wins on nomination basis, strong R&D spends and partnership with DRDO, comforts us that BEL would be the biggest beneficiary of this capex uptrend.
- **4-pronged growth strategy to drive profitability:** Focus on (1) partnership with government's R&D divisions, higher in-house R&D spends, (2) tie-up with MNC's to capture new Defense areas and build capabilities, (3) capex, and (4) exports, should help BEL take maximum benefit of the emerging uptrend's in Indian Defense capex cycle. Accordingly, we expect BEL to report 13.8% revenue CAGR during FY2017-19E. BEL over the years has gradually transformed in to 'Systems Integrator'. Lower import dependency, outsourcing of non-core works (tied-up with ~2,000 indigenous vendors) should help BEL report EBITDA margins in north of 18%, going forward.
- **Strong BS, RoE's to expand to 19% by FY2019**: With successful completion of Rs 21.7bn share buyback, BEL is expected to end FY2017 with approx. cash of ~Rs 51.9bn. BEL is expected to generate Rs 36bn of cash flow from operations during FY2017-19E, against management's yearly capex guidance of Rs 4-5bn (vs. our expectation of Rs 3-5bn), during the same period. This indicates BEL would not depend on debt to fund its capex. Considering that capex funding would be done by internal accruals, we expect BEL's strong BS to support RoE expansion from 15.5% in FY2016 to 19.0% in FY2019E.

Valuation

At CMP of Rs 1,526, BEL stock is trading at FY2018/19E, P/E of 21.7x/18.3x, respectively. Considering the huge awarding pipeline (inc. ~$2 bn Akash Missiles project), where BEL stands good chance to win, current OB/LTM sales ratio of 4.3x, recent Elbit offset win, we expect BEL to top-line/ bottom-line CAGR of 13.8%/14.2% during FY2017-19E. This coupled with strong BS, RoE expansion (from 15.5% in FY2016 to 19.0% in FY2019), we assign 1-year forward P/E multiple of 23.0x to our FY2019E EPS estimate of Rs 83.3/share. **Accordingly, we arrive at price target of Rs 1,916. Given the upside we recommend BUY on the stock.**

YE March (Rs Mn)	Sales	EBITDA	EBITDA %	PAT	EPS	ROE %	P/E	EV/EBITDA	P/BV
FY15	68,953	11,747	16.6	11,965	53.6	14.7	28.5	23.9	4.2
FY16	73,827	15,378	20.4	13,949	62.5	15.5	24.4	17.3	3.8
FY17E	81,246	15,605	18.9	14,277	63.9	18.6	23.9	18.5	4.4
FY18E	91,761	17,421	18.7	15,709	70.3	18.2	21.7	16.1	3.9
FY19E	1,05,229	20,968	19.6	18,606	83.3	19.0	18.3	12.8	3.5

Source: Company, IndiaNivesh Research ; Note: CMP as of 17/02/2017

Force Motors Ltd

CMP Rs. 4101
(FY19E) 19.6x | Target Rs. 4698

Investment Rationale

- **Diversified business Model:** Force Motors Ltd (FML) is an integrated automobile company, with expertise in design, development and manufacture of the full spectrum of automotive components and vehicles. In Automotive segment the company manufactures small and light commercial vehicles, multi-utility vehicles (MUVs), and tractors. The company's primary brands in LCVs and MCVs include Traveller, Trax, and Trump, while its brands in tractors are Balwan and Orchard. FML is among the largest ambulance maker in the country. The company is also gearing up for foray into defense and fire & rescue segment.
- **Increasing demand in LCV passenger segment to boost revenue:** FML focuses on the niche passenger segment of the overall LCV market (where FML has a market share of around 40%), and more specifically in the market for LCVs with a maximum mass of five tonnes (where FML has a market share of around 70%). The company's healthy market position, which has strengthened significantly over the last five years, is supported by its strong brand, 'Traveller'. Their brand “Traveller” has gained good traction over the years and is predominantly used by several travel agencies who rent out vehicles to organizations/ colleges in order to facilitate staff/student commutation. We believe that FML will continue to benefit from its niche positioning in the auto market, supported by steady introduction of new variants and favorable demand outlook for the LCV segment.
- **Tie-up with BMW and Mercedes ensures long term revenue visibility:** FML is also engaged in the contract manufacturing business for leading automobile companies wherein the company assembles engines, axles, and gearboxes for Mercedes-Benz India Pvt Ltd and BMW India Pvt Ltd. With the ramp up of the auto component business, FML's revenue dependence on OEM’s segments is expected to reduce to 52% by FY17E.

Valuation

Considering the growth in the luxury car segment, we see strong revenue growth from auto component business that will help in overall margin expansion. Strong demand for Force Traveller from multiple industries augur well for the company in the coming months. The company is a net debt free company, sitting on cash and cash equivalents of around Rs. 3.5 bn (Rs. 265/share) as on 30th Sep 2016. We have introduced FY19 estimates. At CMP of Rs. 4101, Force Motors is trading at 19.6x FY19e earnings; we maintain BUY with a target price of Rs. 4698 (based on 22x FY19e earnings).

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
FY15	23,636	1,469	1,013	76.8	6.2	8.0	54.5	35.6
FY16	30,598	2,741	1,794	136.2	9.0	12.8	30.8	19.0
FY17E	31,680	2,812	1,756	133.3	8.9	11.2	31.4	18.3
FY18E	38,258	3,284	1,947	147.8	8.6	11.3	28.4	16.4
FY19E	49,259	4,850	2,814	213.6	9.8	14.6	19.6	12.0

Source: Company, IndiaNivesh Research ; Note: CMP as of 17/02/2017

JB Chemicals and Pharmaceuticals (JBCP)

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CMP Rs. 333 |P/E (FY18E) 13.1x | P/E (FY19E) 11.3x | Target Rs. 440

Investment Rationale

- JBCP has been working diligently on certain products for US markets for quite some time. In last 2 quarters the company has received 2 approvals & is likely to launch these products in Q4F17E. We believe earlier made efforts are now nearing to bear fruits. We expect better growth in US over next couple of quarters. We believe as & when more clarity & visibility emerges on US front, the stock shall re-rate sharply.
- Benefits of capex of around Rs 1.4 bn likely to yield results from FY18E onwards: JBCP has incurred Rs 1.4bn capex on expanding capacities to cater to growth opportunities both in DF & Exports. The company has already started increasing employee strength. After high expenses in Q3FY17 even Q4FY17E may also witness similarly elevated expenses (temporarily impacting quarterly numbers) due to this expansion. However once the initial investment phase is over & productivity of newly acquired staff is attained, margins are likely to improve significantly. Entry into new therapies in DF & high margin US business attaining some meaningful size shall be key drivers of growth in revenue as well as margins.
- Visibility on US business shall be next trigger for stock's re-rating.
- JBCP's Q3FY17 performance was lower than expectation on topline as well as profitability front however gross margin were maintained.
- Despite challenging domestic market environment after demonetization the company maintained double digit growth in domestic formulations (DF).
- Due to contained material costs, gross margin was maintained at 62% however EBITDA margins suffered due to expansion in DF.

Valuation

At CMP of Rs 333, JBCP is trading at 15.4x/13.1x & 11.3x of FY17E/FY18E/FY19E EPS respectively. We maintain BUY rating with target price of Rs 440 (15xFY19e EPS).

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
FY15	11,207	2,055	1,004	11.9	18.0	9.9	28.0	12.4
FY16	12,266	2,055	1,619	19.1	16.4	15.5	17.4	13.6
FY17E	12,340	2,397	1,824	21.5	19.0	15.8	15.4	11.3
FY18E	13,976	2,900	2,150	25.4	20.3	16.6	13.1	9.0
FY19E	15,839	3,339	2,488	29.4	20.7	17.1	11.3	7.5

Source: Company, IndiaNivesh Research ; Note: CMP as of 17/02/2017

Jubilant Life Science

CMP Rs. 705 |P/E (FY18E) 14.7x | P/E (FY19E) 11.6x | Target Rs. 922

Investment Rationale

- **Pharmaceutical segment – key growth driver for JOL**
  - The pharma segment (it forms ~50% of total sales) has started showing good traction in terms of sales as well as EBITDA margin since past couple of quarters. The performance is driven by healthy growth in Specialty segment on back of traction in CMO & Radiopharma.
  - Radiopharma is the focus area for the company. JOL has 7 approved registrations in this segment & is awaiting approval for 2 more. Combined market size of these products is around ~$2bn in US & additional $1bn Ex US.
  - JOL is likely to launch Rubyfil a Radiopharma product in US in Q4FY17E. Current market size of this product is ~$75mn & the management expects to expand the market to ~$200-250mn over next 3 years through its marketing efforts.
  - We expect API segment to maintain good growth on back new product launches and expansion of sales in new markets for sales growth and cost competitiveness as well as operational efficiency for better operating margin.
  - With 24 ANDAs pending for approval, we expect growth in solid dosage formulation to be sustained, subject to USFDA approval.
  - In addition JOL has been guiding for 8-10 filings per annum in the areas of CNS, CVS etc.
  - The CMO business is ramping up gradually with orders in hand worth ~$500 mn to be completed over next 3 years.

- **Life science ingredient segment (50% of total sales) – better margins in this segment to drive profitability of this segment**
  - JOL is witnessing trend reversal in this business from de-growth & falling realization in last few years to increase in demand as well as prices. JOL has taken price hike of around 15% from January 2017 in some of the products in this segment. This price hike is outcome of better market conditions & not the increase in input prices. We expect JOL to sustain sales and profitability in this segment
- JOL has net debt of Rs37.4bn at the end of Q3FY17. This is Rs 550 mn lower than net debt at end of Q2FY17. JOL has taken many measures to reduce the cost of debt by refinancing means. Blended cost of debt has come down by 120 bps from Q3FY17 onwards to 6.3%. The management has been focusing on reduction of debt through internal accruals. We believe consistent debt reduction may become a re=rating trigger for the stock.

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Jubilant Life Science (contd..)

Concerns & Risks

- Delay in ANDA approvals, delay in ramp up at Spokane facility, adverse macro condition for pyridine based products are other key risk to business of JOL

Valuation

- At CMP of Rs 705, the stock is available at 10.5x FY17E, 9.2x FY18E & 7.7x FY19E EV/EBITDA respectively. We have BUY rating with target price of Rs 922 valuing the company at 10xFY19E EV/EBITDA.

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EBITDA Margin	ROE	P/E	EV/EBITDA
FY15	57,761	6,392	(76)	11.1%	1.6%		24.6
FY16	57,005	11,759	4,315	20.6%	16.0%	26.8	13.2
FY17E	59,399	14,424	6,262	24.3%	22.3%	17.9	10.5
FY18E	63,527	15,925	7,642	25.1%	23.5%	14.7	9.2
FY19E	70,294	18,427	9,642	26.2%	25.5%	11.6	7.7

Source: Company, IndiaNivesh Research ; Note: CMP as of 17/02/2017

KEC International Ltd. (KEC)

CMP Rs 165|EV/EBITDA (FY18E) 7.9x | EV/EBITDA (FY19E) 7.1x | Target Rs 216

Investment Rationale

- KEC International is a global infrastructure EPC major and operates in five business verticals, which include power T&D, cables, railways, water and solar. Power T&D is largest business vertical of the company which provides end-to-end solutions related to power transmission towers and manufactures a wide range of power cables (HT and EHV cables kV) and telecom cables.

- KEC's domestic order book has been improving and has picked up pace in last 18 months led by Power Grid (PGCIL) and selected SEBs such as Karnataka, Tamil Nadu, Andhra Pradesh, West Bengal and Rajasthan. At the end of Q3FY17, order backlog of KEC stood at Rs 112bn. Apart from these, KEC has L1 position in orders of around Rs 38bn, out of which around Rs 20bn are international orders. The current order book of KEC is 1.3x its FY16 revenues, thus providing enough revenue visibility for next 15 months. Revenue will also get boosted by improved SAE Towers performance going forward (28.2% YoY revenue growth in Q3FY17), as well as improving visibility in its railways business (29.6% YoY revenue growth in Q3FY17). We expect KEC to report top-line CAGR growth of 8.1% over FY16-19E period.

- KEC used to have double digit EBITDA margin in FY10 and FY11. Later due to increased competition and low margins in infra businesses, company's EBITDA margin declined to lowest level of 5.5% in FY13. Since then the company has improved its margin in to 8% in FY16 and further to 9% in 9MFY17 period. We expect KEC to report margins of 8.2%, 8.4% and 8.6% in FY17E, FY18E and FY19E respectively, led by better margins order book, completion of legacy projects and containment of losses in water and railway business. Improved performance of SAE Towers will also help the company to expand its consolidated operating margin.

- With improvement in its revenue and EBITDA margins, KEC has improved its PAT and ROE's from the lows of FY13. Since KEC does not plan any major capex in near future, we expect depreciation expenses to increase at lower rate than earlier years. Also in a lower interest rate environment, we expect KEC's interest cost to fall further thereby helping the company to boost its profitability going forward. We expect KEC's PAT to grow at CAGR of 22.7% over FY16-19E period.

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KEC International (KEC) contd…

Valuation

At CMP of Rs 165, KEC is trading at FY17E and FY18E, EV/EBITDA multiple of 8.9x and 7.9x. We had a Buy rating on KEC International with a target price of Rs 183 (based on 8.5x FY18E EV/EBITDA). After Q3FY17 results, we have introduced FY19E estimates and we roll over our EV/EBITDA target multiple to FY19E, which gives us a revised target of Rs 216. We maintain our BUY rating on the stock with a revised target price of Rs 216 (based on 8.5x FY19E EV/EBITDA), which gives an upside potential of 30.9%.

YE March (Rs Mn)	Net Sales	EBITDA	Adj. PAT	Adj.EPS (Rs)	EBITDA Margin (%)	RoE (%)	Adj. P/E (x)	EV/EBITDA (x)
FY15	84,678	5,118	910	3.5	6.0	7.2	46.6	11.9
FY16	85,163	6,793	1,915	7.5	8.0	13.5	22.1	9.5
FY17E	88,821	7,283	2,463	9.6	8.2	15.2	17.2	8.9
FY18E	97,703	8,207	3,000	11.7	8.4	16.1	14.1	7.9
FY19E	1,07,473	9,243	3,541	13.8	8.6	16.4	12.0	7.1

Source: Company Filings; IndiaNivesh Research   Note: CMP as of 17/02/2017

Kalpataru Power (KPTL)

CMP Rs 282|EV/EBITDA (FY18E) 7.2x | EV/EBITDA (FY19E) 6.5x | Target Rs 360

Investment Rationale

- KPTL has a diversified business portfolio spread across various segments through its standalone business (transmission EPC, oil & gas pipelines, railways, biomass energy) and its subsidiaries such as JMC Projects (factories, buildings, infrastructure, roads, industrial structures, power, railways) and Shubham Logistics (agri-logistics). This diversification across different business segments enables KPTL to enhance its business value as revenues start flowing in from different segments, thereby protecting it from slowdown in any particular segment.

- The company has also increased its presence in the overseas markets over the years and has now footprints in more than 38 countries across Middle East, Asia, Africa, Australia and Americas. The share of overseas orders in KPTL standalone order backlog has continuously increased over the last four years and contributed 55% to its order backlog at the end of Q3FY17.

- KPTL's standalone order backlog remains healthy at Rs 83bn at the end of Q3FY17. Additionally, KPTL is favourably placed (L1) in orders of over Rs 30bn. With a healthy order backlog and focus on execution the company management is confident of achieving 15-20% revenue growth over FY17-19. While with better working capital management and softer commodity prices, EBITDA margin is expected to be maintained around 11% level.

- KPTL's subsidiary JMC Projects is showing improved performance after dismal past few years. JMC management had earlier guided for 8-10% top line growth in FY17, however after the demonetisation exercise, the company expects its topline to remain flat for FY17 to factor in hit due to demonetisation, while EBITDA margin is expected to be around 9.5% for FY17.

- With all the four Road BOOT projects of JMC (Rohtak – Bawal, Agra-Aligarh, Nagpur-Wainganga and Rewa – MP) now being operational on full length and full toll basis, we expect the cash flow bleeding to stop gradually and the negative cash flow situation is likely to improve going forward which augurs well for KPTL as a consolidated entity.

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Kalpataru Power (KPTL) contd…

- To improve Shubham Logistics' (SSL) performance, the company is focusing on cost reduction by working to maximize yield from warehouse segment. Due to demonetisation, SSL capacity utilisation has come down to 40-45% level. As a result SSL management is expecting the loss for the full year FY17 to be around Rs 650mn against its earlier expectation of Rs200mn. The company expects in FY18 SSL will breakeven and start performing better from FY19.
- From a high of 17.3% in FY10, KPTL's standalone ROE has seen a continuous downfall and more than halved to a low of 7.5% in FY14 and 8% in FY15. This was mainly due to significant capital contribution to its subsidiaries and BOT projects, which have long gestation periods and where most of the returns are back ended. Overall weakness in the macro-economy leading to delays in project execution, rising debt and high interest burden also contributed in depressing KPTL's return ratios. However from FY15 the KPTL management decided on no further participation into long gestation projects like road BOTs, as a result of which KPTL's standalone ROEs have bottomed out at the FY14-15 levels of 7.5-8% and after that we have seen steady recovery in its return ratios over the last few years, which we believe will continue going forward.

Valuation

At the CMP of Rs 282, KPTL is trading at 8.4x and 7.2x respectively of FY17E and FY18E EV/EBITDA. We had a BUY rating on the stock with a SOTP based target price of Rs 350. After Q3FY17 results, we have introduced FY19E estimates, and rolled over our multiple for valuation to FY19E numbers. As a result our new SOTP based target price becomes Rs 360. We maintain our BUY rating on the stock with revised SOTP based target price of Rs 360, which gives an upside potential of 27.6%.

YE March (Rs Mn)	Net Sales	EBITDA	Adj. PAT	Adj.EPS (Rs)	EBITDA Margin (%)	RoE (%)	Adj. P/E (x)	EV/EBITDA (x)
FY15	44,223	4,267	1,656	10.8	9.6	8.0	26.1	12.1
FY16	43,646	4,669	1,995	13.0	10.7	8.8	21.7	10.2
FY17E	51,013	5,560	2,598	16.9	10.9	10.2	17.0	8.4
FY18E	61,136	6,852	3,052	19.9	11.2	11.1	14.2	7.2
FY19E	67,746	7,452	3,461	22.6	11.0	11.2	12.5	6.5

Source: Company Filings; IndiaNivesh Research   Note: CMP as of 17/02/2017

Mahindra & Mahindra Ltd

CMP Rs. 1317
(FY19E) 17.4x | Target Rs.1721

Investment Rationale

- Outlook on Mahindra's tractor segment is looking up as the domestic agri economy enters the three year upcycle period of a five year overall cycle. Good monsoon in 2016, followed by good Kharif harvest, 4% improvement in paddy MSP in 2016 is inline with historical indicators which cultivate ground for a tractor upcycle. Non-farm uses of tractors should also pick up as governments' emphasis on rural capex was visible in present union budget. Farm segment's criticality in M&M profitability can be seen from its 30% contribution to topline and 50% contribution to PBT. A good run in the tractors segment can easily compensate for the competitive pressure it is facing in the UV segment which it use to rule before the entry of Creta, Brezza and S-Cross. The tractor volumes grew by 23% in 10MFY17.
- **Mixed UV growth**: Volume growth in the UV segment (for M&M) in 10MFY17 at 3% has been sluggish as Maruti and Hyundai captured much of the growth in this segment. M&M segment comprising Bolero, ST, Quanto, Thar, TUV300, KUV100 recorded 18.5% growth during the Apr-Jan period which was negated by segment comprising Scorpio, Xylo, HT, Bolero Plus, XUV500 segment recording ~12.5% drop in volumes. M&M has planned to launch petrol versions of their champion products like Scorpio and XUV in H1FY18. This would de-risk their concentration on diesel vehicles.
- **Lost market share in LCV segment**: M&M is the market leader with 48% share in LCV (goods carrier 2-3.5 Tonne range). During the Apr-Jan period M&M (Genio SC/DC, Bolero Maxi Truck, Bolero Single Cab, Bolero Camper) recorded 5.8% growth as against segment growth of ~13%. Ashok Leyland (Dost) and Tata Motors clocked 15% and 47% growth respectively in this category.
- We did a sensitivity on M&M's EPS if the automotive segment continues to remain under stress. Even for a 5% de-growth in the next two fiscals in the automotive segment the stock is fairly protected from further downside

Valuation

We believe there could be upside based on further re-rating as well as earnings growth over 2-3 years. We have BUY rating with price SOTP target of Rs. 1721 (16xFY19e earnings and Rs. 543 for other subsidiaries & investments).

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
FY15	389,454	41,734	33,211	53.5	10.7	18.4	23.9	19.5
FY16	408,850	45,702	31,675	51.0	11.2	15.4	25.1	17.7
FY17E	455,151	52,342	38,155	61.4	11.5	16.5	20.8	15.1
FY18E	531,669	58,484	41,840	67.4	11.0	16.0	19.0	13.5
FY19E	601,077	66,118	45,720	73.6	11.0	15.6	17.4	11.8

Source: Company, IndiaNivesh Research ; Note: CMP as of 17/02/2017

Orient Refractories Ltd.

CMP Rs. 136| Target Rs.183 (15.5x FY19E EV/EBITDA)
EV/EBITDA (FY18E) 13.6x | (FY19E) 11.4x

Investment Rationale

- The company's strong portfolio of mini/small [600 Customers] steel plants led to sustained utilization of ORL's assets with capacity utilization at 90% (~45,00 MT). Also, conversion of leads generated by parent (RHI AG) for the APAC region, the company's export Incentives are expected to remain strong.
- Continuous push from government on infrastructure will lead to higher demand for steel, there by helping in revival of medium and small steel companies. This uptick in domestic steel production helped Orient Refractories Limited with higher refractory orders.
- ORL is the market leader for customized flow-control products in domestic market with a 600+ client base would help its strong sales growth.
- Additionally, customized refractory products are expected to be added in sales volume to meet unique demand arising from new clients (especially from integrated steel plants) and will become a significant revenue growth driver in future.
- RHI is setting the transfer pricing terms for the sales arrangement with ORL to leverage its low cost base as RHI focus on increasing their presence in Asia-Pacific market
- Management is quite confident of sustainable sales growth for current financial year because of demands coming from new clients due to revival in domestic steel production.

Valuation

Given the protectionist stance of the government to shield the domestic steel producers from cheaper imports, we believe the present realization will remain sticky in the medium term. We see healthy demand pickup for steel as the economic cycle picks up led by infrastructure demand. . The realization level is expected to improve going forward with the higher volume of refractories, monolithic and ceramic papers. At CMP of Rs.136, ORL is trading at an EV/EBITDA multiple of 13.6x and 11.4x for FY18e and FY19e respectively. We recommend BUY with revised TP of Rs.183(15.5x EV/EBITDA for FY19E).

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
FY15	4,514	795	525	4.4	17.6	34.2	31.2	20.3
FY16	4,589	852	558	4.6	18.6	29.8	29.3	18.3
FY17E	5,164	977	657	5.5	18.9	28.5	24.9	16.0
FY18E	5,810	1,152	779	6.5	19.8	27.0	21.0	13.6
FY19E	6,555	1,366	937	7.8	20.8	26.1	17.5	11.4

Source: Company Filings; IndiaNivesh Research; Bloomberg. Note: CMP as of 17/02/2017

SKF Ltd.

CMP Rs. 1460
(FY19E) 19.4x | Target Rs.1472

Investment Rationale

- **Pick up in industrial segment**: In the industrial segment, energy and off-highway segment recorded more than 30% YoY growth. Industrial distribution business also recorded 8% YoY growth.
- **Affiliation with leading products:** The company's recent growth is the automotive segment is largely attributed to the likes of Vitara Brezza from MSIL's stable doing well. As per M&M's management tractors segment seem to be on their 3 year uptrend of their 5 year cycle, SKF clocked 30% growth in Q3FY17 in tractors segment. Incrementally the management's focus will be on concentrating on winning platforms of vehicle manufacturers.
- **Railways is yet to float tender:** The much awaited demand from railways is yet to materialize as the management expects the tenders on the freight side to be floated in near future. This should provide further fillip to SKF going forward.
- **Increase in distribution and service capability:** The management is working on improving the service capability delivery of its outlets and also increase distribution strength.
- **Expansion into new avenues**: The company has made a technological breakthrough in LCV segment and the company has been awarded an order for making bearings for Axles for LCV. Company's twin initiative to expand into bearing for 4W and third generate bearing on industrial segment should drive sales and margins in upcoming fiscals. Revenue from 3rd generation bearing plant will start from Q4FY17.

Valuation

A healthy balance sheet, robust cash flow generation, strong parentage & product profile and strong distribution reach are other key positives. Capacity utilization at SKF's plant still remains low implying no major capex requirement in near future, performance will start picking up as revenue from the generation 3 hub bearing plant starts reflecting from Q4FY17. Company's twin initiative to expand into bearing for 4W and third generate bearing on industrial segment should drive sales and margins in upcoming fiscals. At CMP of Rs. 1460 stock is trading at 19.4x FY19E EPS. We revise rating to HOLD with a target price of Rs. 1,472 (20xFY19E EPS).

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
CY14	24,156	2,832	2,031	38.5	11.7	15.1	37.0	24.6
FY16	29,979	3,641	2,574	48.8	12.1	17.2	29.2	18.7
FY17E	27,101	3,039	2,295	43.5	11.2	14.0	32.8	21.9
FY18E	31,166	3,877	2,922	55.4	12.4	16.1	25.7	16.9
FY19E	37,400	5,106	3,882	73.6	13.7	18.8	19.4	12.5

Source: Company, IndiaNivesh Research ; Note: CMP as of 17/02/2017. *FY16 had 15 months

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