Edelweiss
Ideas create, values protect

5 Best Stocks for 2016

Introduction

- The superlative performance of our coverage stocks was the highlight of 2015. The Coverage stocks initiated in 2015 delivered an average return of 15% outperforming the frontline Nifty Index by 20%. An average annual gain of 129% since 2010. Beating the CNX Nifty by nearly two and a half times during that period.
- Now, in this report, you'll receive highlights on 5 stocks from the more than 40 companies that compose the coveted coverage universe of 'EdelInvest Research Buys'. Remember that these 5 stocks of all stocks covered have the potential to beat the market in the next one year.
- Inside this report, you'll discover the company financials overview, our rationale and analysis of these 5 promising companies.

Stock for 2016

S. No.	Stock Name	CMP	Mkt Cap	P/E		EV/EBITDA		ROE (%)	
		(INR)	(INR Crs.)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
1	Dalmia Bharat	747	6,331	21.1	15.7	8.7	7.5	8.2	10.6
2	Jamna Auto Industries Ltd.	128	1,018	22.0	12.0	8.2	5.4	22.0	32.0
3	Natco Pharma	576	9,836	63.4	19.7	38.5	14.0	14.5	32.2
4	Siyaram Silk Mills Ltd.	1,174	1,050	10.5	9.2	7.0	6.2	22.0	20.0
5	United Spirits Ltd.	3,033	43,973	82.9	46.9	39.5	27.1	44.3	42.5

Note: Market CAP (Mkt CAP) and Current Market Price (CMP) were last recorded on 23rd December, 2015

Dalmia Bharat Ltd (CMP: INR 783; Mkt Cap: INR 6,357 crs)

Business Overview

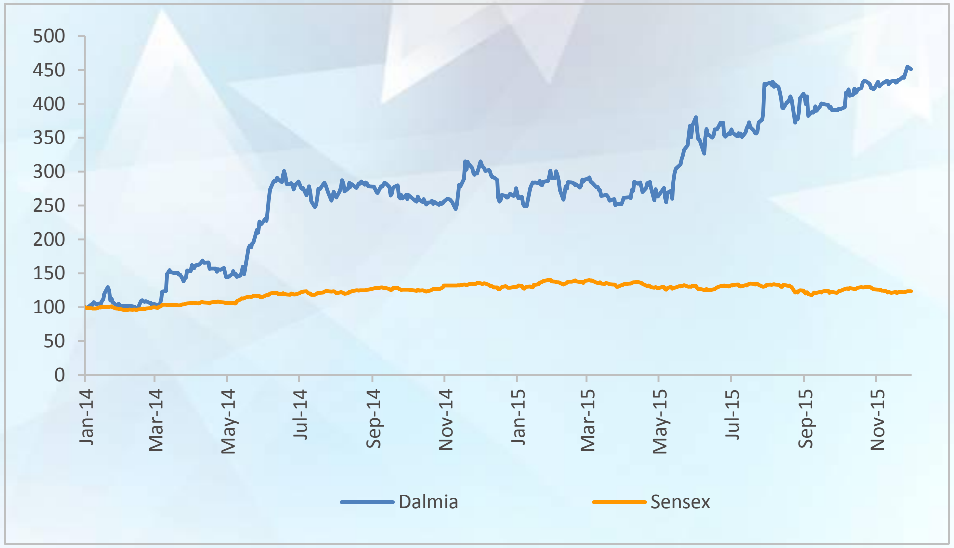
- Dalmia Bharat Ltd (DBL) is India's 3rd largest cement group, with a capacity of 24 MT spread across South, East and North East regions
- DBL is currently operating at ~60% utilization on effective capacity of ~20.4 MT, with enough headroom for operating leverage to kick in.
- With the incremental clinker capacity addition in the North East, the company is expected to witness substantial boost in profitability.

Opportunity Size: -

- 48% of the company's capacity is concentrated in the South, where cement demand is expected to revive gradually on the back of infrastructure development and incremental demand from the split of states.
- North East remains one of the most underpenetrated regions in terms of cement demand, with per capita consumption at 142 kgs v/s all India average of 210 kgs.

Year to March	FY13	FY14	FY15	FY16E	FY17E
Revenue	2,791	3,016	3,514	6,473	7,233
Revenue Growth (%)	N/A	8.1%	16.5%	84.2%	11.7%
EBITDA	635	476	591	1,472	1,625
Net Profit	140	(87)	(63)	314	432
Profit Growth (%)	N/A	-110.1%	-141.2%	3126.2%	41.0%
Shares Outstanding (crs.)	8.1	8.1	8.1	8.1	8.1
Diluted EPS (INR)	24.2	(2.5)	1.0	32.7	46.0
EPS Growth (%)	N/A	-110.1%	-141.2%	3126.2%	41.0%
Diluted P/E (x)	29.8	(293.6)	712.1	22.1	15.7
EV/EBITDA (x)	12.9	18.6	21.0	8.7	7.5
RoE (%)	6.6%	-0.6%	0.3%	8.2%	10.6%

Share Holding Pattern	(%)
Promoter	62.79
FII	7.86
DII	5.29
Others	24.06



Dalmia Bharat Ltd (CMP: INR 783; Mkt Cap: INR 6,357 crs)

Investment Hypothesis

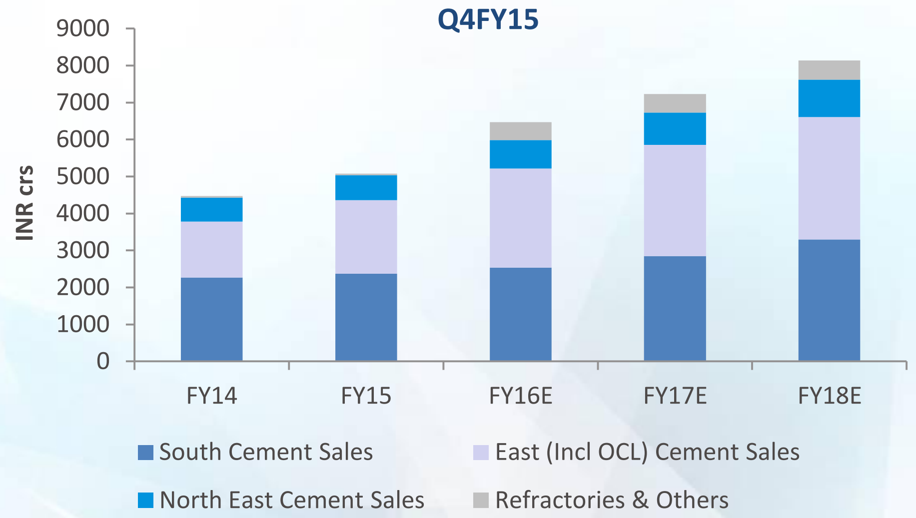
- Third generation management has undertaken various initiatives to bring about scale and efficiency in the business, including:
  - Unlocking value by restructuring the business
  - Focusing on geographical diversification through foray into lucrative regions like East and North East and
  - Introduction of cost efficiency measures, making it among the most cost efficient players in India
- Southern recovery expected to be the key catalyst to propel long growth as utilization improves from current bottom levels of 60% in line with demand improvement
- Turnaround in North East to drive near term growth and boost profitability, with higher EBITDA/tonne in the North East region

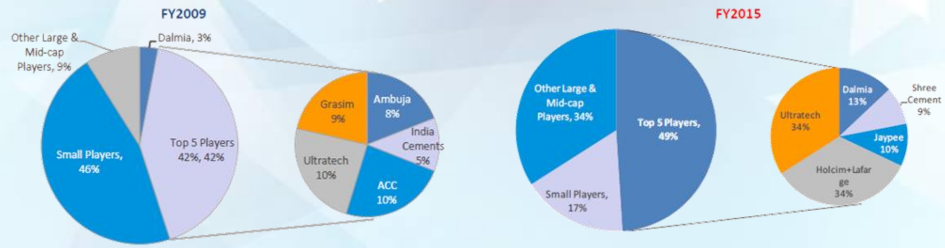
Risks

- Change in Investment plans
- Inability to pass on increase in cost
- Changes in macro environment

Peer Comparison

Company Name	Diluted P/E (x)		Diluted EV/EBITDA (x)		ROE (%)	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Dalmia Bharat Ltd	29.8	20.0	9.3	8.1	8.0	10.0
The Ramco Cement Ltd	19.6	15.6	10.9	9.0	16.0	17.0
Shree Cement Ltd	41.5	25.0	22.2	16.0	16.0	21.0
JK Lakshmi Cement Ltd	213.3	18.7	18.8	10.9	1.0	15.0





Source: Company, Edel Invest Research.

Jamna Auto Industries Ltd. (CMP: INR 128; Mkt Cap: INR 1,018 crs)

Business Overview

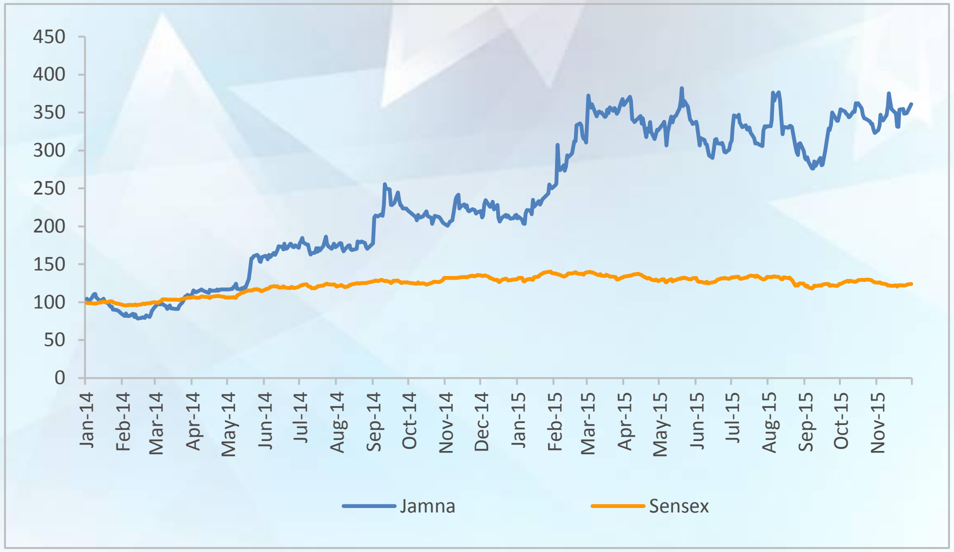
- Jamna Auto Industries Ltd. (JAI) is a market leader in the CV suspension leaf spring segment (90% of sales), including products like the conventional leaf spring and parabolic leaf spring.
- JAI currently has a 64% market share in the conventional leaf springs segment and a market leader in the parabolic leaf spring segment. Being the industry leader makes JAI a key beneficiary of the ongoing domestic MHCV cycle recovery.
- The company is focused on capturing the rising content-per-vehicle trend and hence it has forayed into the Air Suspension and Lift Axle segments (10% of consolidated sales) where its main client is Ashok Leyland for the heavy tonnage trucks.

Opportunity Size: -

- Domestically, considering the 2.3 lakh MHCV run-rate in FY15 the overall leaf spring OEM opportunity stands between INR 1500 cr to INR 1800 cr .
- Post GST implementation, aftermarket will offer an opportunity that is 4x of the OEM market opportunity.

Year to March	FY13	FY14	FY15	FY16E	FY17E
Net revenue	980	834	1,095	1,280	1,528
EBITDA	86	44	94	118	177
Adjusted PAT	28	2	29	46	81
Diluted EPS (Rs)	6	0.4	7	5.8	10.8
Diluted P/E (x)	35.6	624.2	19.0	22.0	12.0
EV/EBITDA (x)	16.1	79.7	10.2	8.2	5.4
ROAE(%)	17%	1%	16%	22%	32%
ROCE(%)	23%	7%	25%	32%	45%

Share Holding Pattern	(%)
Promoter	43.81
FII	0.00
DII	0.37
Others	55.82



Jamna Auto Industries Ltd. (CMP: INR 128; Mkt Cap: INR 1,018 crs)

Investment Hypothesis

- Post a 2-year downturn, the MHCV industry in India is registering a recovery. JAI is the largest player in the domestic leaf spring industry with 64% market share whilst several other small companies contribute to the remaining 36% share. JAI is expected to be a significant beneficiary of the CV cycle recovery in India.
- JAI's multiple plant location strategy in proximity to CV OEM customers has helped the company maintain its dominance in the leaf spring industry. At present, the company has six facilities located close to major CV manufacturing hubs in India and this has helped JAI gain a significant share of business (SOB) with leading CV OEMs. Apart from scale, the strategic location of its plants has helped it to manage cost efficiently by reducing freight expenses.
- Additionally, the company has forayed into the air suspension and lift axle segment via a technology tie-up with Ridewell, USA. Implementation of GST (Goods and Services Tax), will open up a significant aftermarket opportunity (i.e. ~4x OEM industry) for organized suspension leaf spring manufacturers such as JAI.

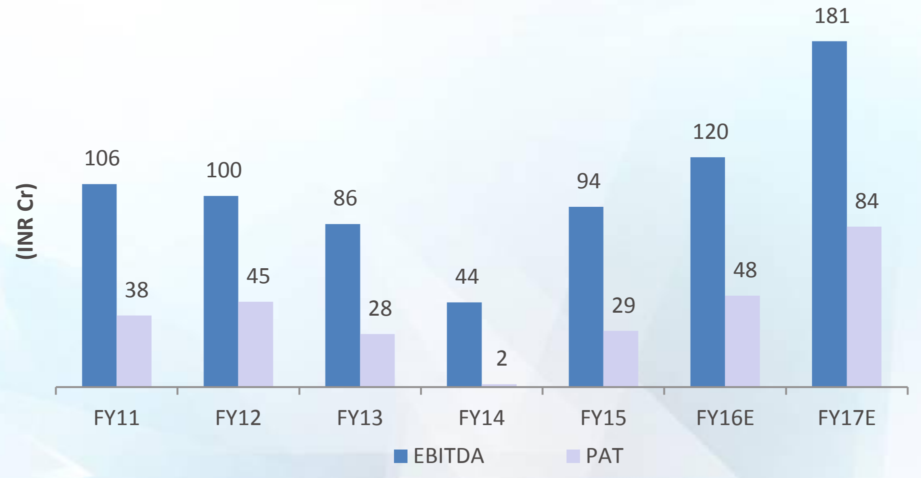
Risks

- End-segment concentration risk
- Steel price pass-through may affect revenue growth

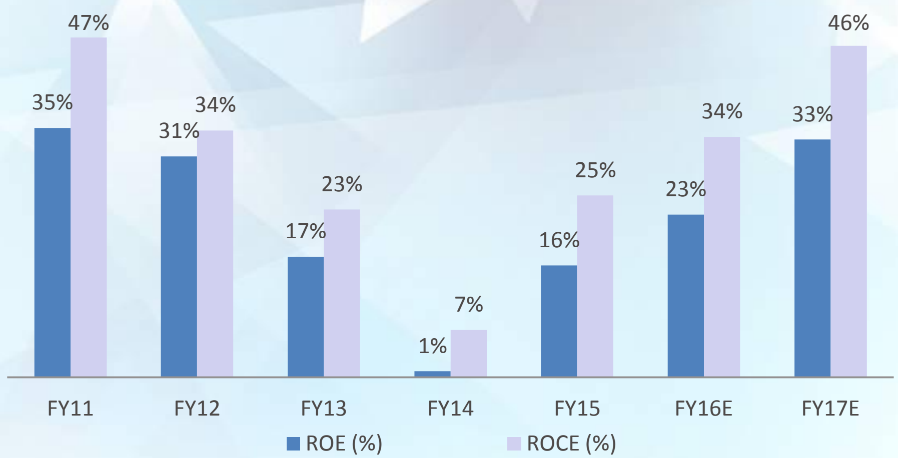
Peer Comparison

	Diluted P/E (x)			Diluted EPS			ROCE (%)		
	FY15E	FY16E	FY17E	FY15	FY16E	FY17E	FY15E	FY16E	FY17E
Jamna Auto	31.9	20.1	11.4	7.4	5.8	10.3	25	32	45
Suprajit Engineering	34.4	27.7	19.1	4.2	5.2	7.5	23.7	24.2	26.4

Operating Leverage to be a primary driver of profitability



ROCE will improve significantly



Natco Pharma Ltd (CMP: INR 576; Mkt Cap: INR 9,836 crs)

Business Overview

- Focused R&D play in Oncology, CNS and other niche therapies
- Identifies difficult to replicate molecules.
- Has track record of winning complex patent challenges
  - Nexavar (CL)/ Copaxone/Sovaldi/Tamiflu
- De-risks itself from litigation expenses
- 30% market share in Indian generic Oncology market.

Opportunity Size: -

- Current opportunity of USD 15 bn of the drugs known filed ANDA's in the US Market
- Post generization the opportunity size is around ~ USD 5 bn (assuming 70% price erosion))
- If we assume 20% market share for Natco, revenue accrual could be ~USD 1 bn.

Year to March	FY13	FY14	FY15	FY16E	FY17E
Net revenues	661	739	825	1,025	1,806
Rev growth (%)	27.0%	11.9%	11.7%	24.2%	76.1%
EBITDA	150	179	213	259	711
Adjusted PAT	84	103	150	158	509
Adj. EPS (INR)	4.8	5.9	8.6	9.1	10.9
EPS growth (%)	38.5%	23.0%	45.8%	5.5%	222.2%
P/E (x)	119.9	97.4	74.4	63.4	19.7
EV/EBITDA (x)	68.9	57.1	48.3	38.5	14.0
RoACE (%)	17.5%	17.9%	16.9%	17.2%	40.0%
RoAE (%)	14.1%	16.1%	18.9%	14.5%	32.2%

Share Holding Pattern	(%)
Promoter	51.29
FII	10.85
DII	5.89
Others	31.97

Natco Pharma Ltd (CMP: INR 576; Mkt Cap: INR 9,836 crs)

Investment Hypothesis

- Strong revenue visibility due to
  - Copaxone launch on the anvil (3 Bn USD)
  - Other US filings equally lucrative: (Revlimid USD 4 Bn, Tracleer USD 1.5 Bn, Tamiflu USD 600 Mn , Vidaza USD 300 Mn)
  - Sovaldi (Hepatitis C) to be a game changer (100 mn patients in 91 EM)
- Strong R&D focus as seen in its filings
- Limited competition products would be margin accretive

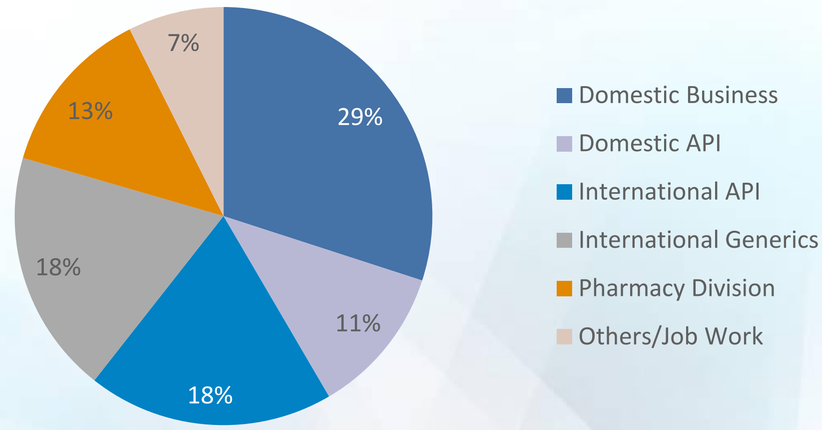
Risks

- Delay in approvals from USFDA
- Adverse court ruling
- Currency risk

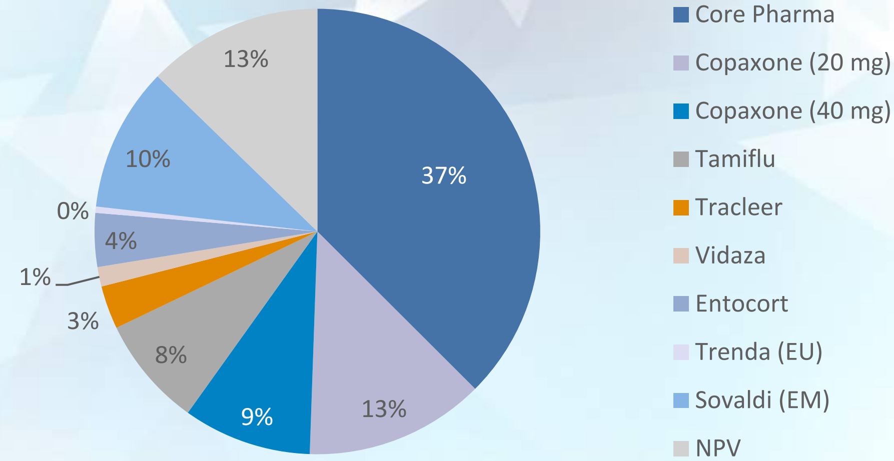
Peer Comparison

Company Name	Diluted P/E (x)		Diluted EV/EBITDA (x)		ROE (%)	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Natco Pharma	61.6	40.8	35.6	25.6	17.0	19.1
Torrent Pharma	23.0	17.1	14.2	11.1	32.6	34.1
Alembic Pharma	35.8	30.3	25.2	21.1	36.8	33.2
Glenmark	22.4	17.8	14.4	12.2	24.5	24.7

Segmental Revenues



Target Price Break-up (Incl. of Launches in US & Sovaldi)



Siyaram Silk Mills Ltd. (CMP: INR 1,174; Mkt Cap: INR 1,050 crs)

Business Overview

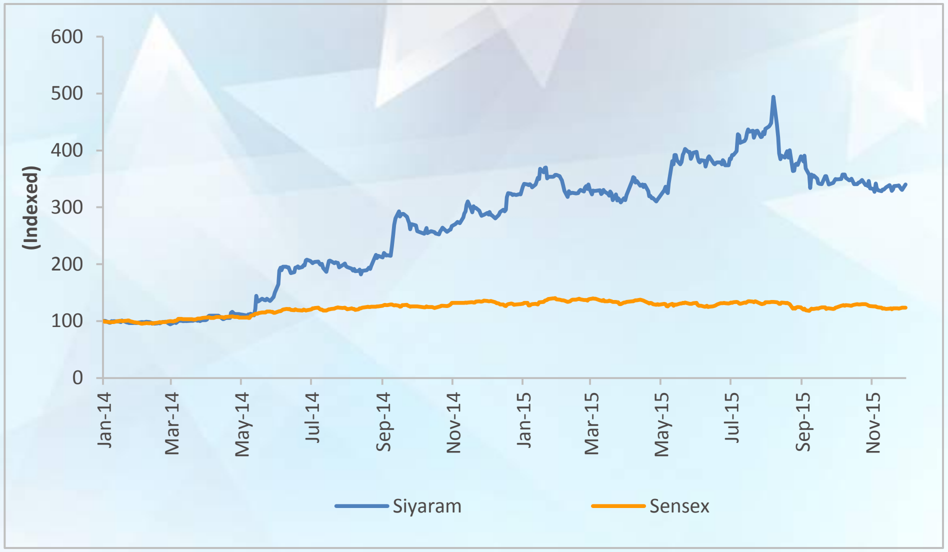
- Siyaram Silk Mills Ltd. (Siyaram) is an integrated textile manufacturer with a domestic focus which has strategically transformed itself from a textile manufacturer to a major garmenting and brand house
- Revenues breakup is Fabrics - 76%, Readymade Garments - 16%, Others - 5% and Yarn - 3%
- Siyaram's biggest brands include Siyaram, J. Hampstead, Mistair and Oxemberg
- It has a pan India distribution network comprising 500 agents, 1,500 dealers and 365,000 retailers and over 200 franchise stores

Opportunity Size: -

- The textile market will grow to USD221bn by 2021 from USD108bn. The growth will be driven by readymade garments (RMG).
- Sales of branded apparel (part of RMG) have increased at 15% CAGR over 2009-14. Going ahead, branded apparel is expected to clock 10-12% CAGR over 2014-19. Therefore, the share of branded garments is expected to catapult to 46-48% in 2019 compared to around 35% in 2014.

Year to March	FY13	FY14	FY15	FY16E	FY17E
Net Revenues	1,032	1,291	1,496	1,661	1,849
Rev Growth (%)	14%	25%	16%	11%	11%
EBITDA Margin	11	11	12	12	12
Adjusted PAT	55	69	79	104	119
Adj. EPS (INR)	58	78	84	111	127
EPS Growth (%)	-3%	25%	15%	32%	14%
P/E (x)	20.0	15.1	14.0	10.5	9.2
P/B (x)	3.5	3.0	2.5	2.1	1.7
RoACE (%)	15	17	18	20	20
RoAE (%)	19	21	19	22	20
EV/EBITDA (x)	13	10	8.0	7.0	6.2

Share Holding Pattern	(%)
Promoter	67.07
FII	0.75
DII	6.28
Others	25.90



Siyaram Silk Mills Ltd. (CMP: INR 1,174; Mkt Cap: INR 1,050 crs)

Investment Hypothesis

- The changing product mix to premium products and increasing share of the high-margin RMG segment has helped improve EBITDA margin and ROCEs from 8% and 6% in FY09 to 11.7% and 18%, respectively in FY15.
- The RMG segment's share in revenues and EBIT will increase from 16% and 18% currently to 20% and 31% of revenues in next 3 years
- Margin to stabilize at 12.2% by FY17E from the 11.7% margins currently which will help reducing earnings volatility. Any spurt in consumption will lead to volume growth, which will in turn trigger operating leverage.
- The stock trades at very attractive valuations of 9x FY16E and 8x FY17E EPS of INR 105 and INR 121, respectively – much cheaper than its peers.

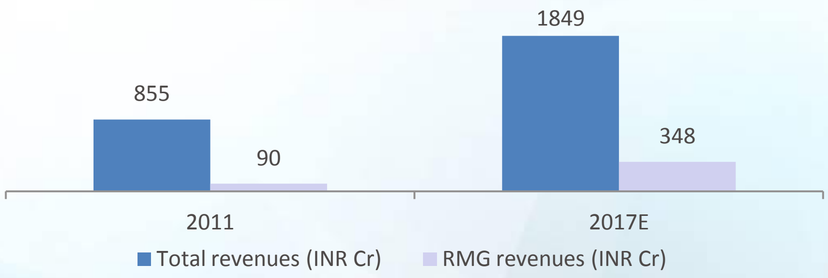
Risks

- Fluctuation in raw material prices
- Competition from the unorganized sector
- Semi-Urban slowdown and limited Pricing Flexibility

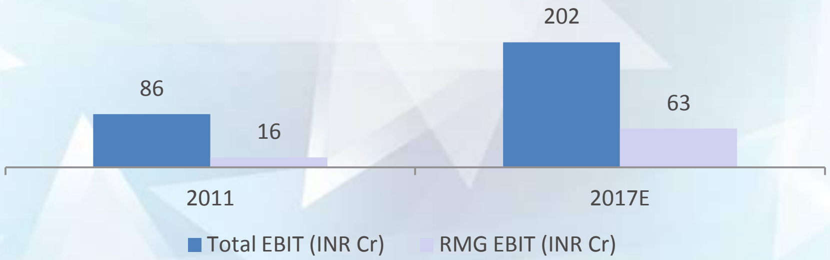
Peer Comparison

	Diluted P/E (x)			Diluted EPS			ROCE (%)		
	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Siyaram	12.4	9.6	7.8	76.0	98.0	121.0	18%	18%	19%
Raymond	19.9	23.0	15.0	21.0	18.0	28.0	9%	9%	12%
Arvind	20.1	19.4	15.1	15.0	16.0	20.0	12%	12%	13%
KKCL	37.4	31.2	23.6	53.0	63.0	83.0	31%	30%	28%

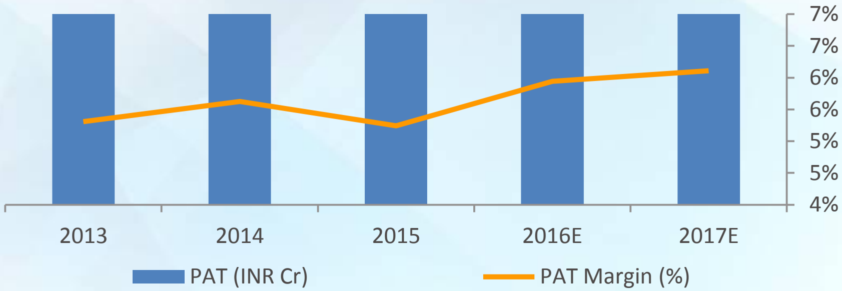
Readymade garment revenues to improve to ~20% of total revenues



Readymade garments EBIT to improve to 31% of total EBIT



PAT growth expected to outpace topline growth



United Spirits Ltd. (CMP: INR 3,033; Mkt Cap: INR 43,973 crs)

Business Overview

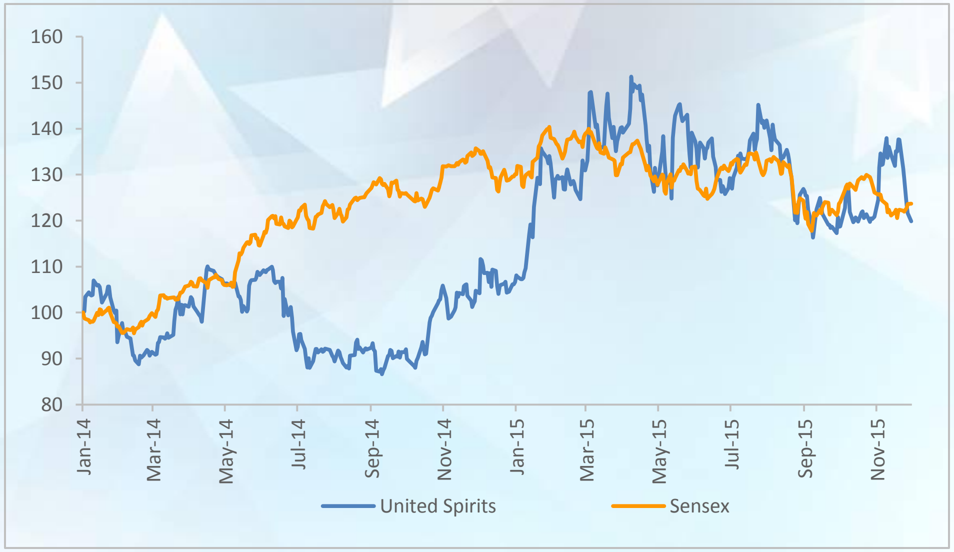
- USL has achieved unparalleled dominance in the IMFL industry, holding 40% market share in terms of volume with 19millionaire brands and has presence across all five segments, viz. whisky, rum, gin, brandy and vodka and has also entered the fast growing wine segment.
- The new deal with Diageo has led to creation of strong and enviable products portfolio for USL with USL gaining access to license for manufacturing, distribution/selling of (bulk) products for many key Diageo brands such as VAT 69, Haig Gold Label and Black, Johnnie Walker and related variants, J&B, Ciroc, Baileys, Lagavulin and Talisker as well as Smirnoff & related variants and Captain Morgan rum.
- Strong Pan-India manufacturing presence and robust distribution network (75,000 outlets) has resulted in high bargaining power with vendors, suppliers and distributors.

Opportunity Size: -

- Although India is the world's third largest liquor market; majority share is still held by Indian Made Indian Liquor (IMIL) (country liquor) estimated at ~280mn cases in FY14. This portends huge scope for Indian Made Foreign Liquor (IMFL) to grow in India coming from conversion of inexpensive country liquor users to the entry level variants of IMFL. This shift will be led by GDP growth, rise in incomes (particularly in rural areas), increasing aspirations, increase in disposable incomes and health concerns on country liquor consumption.

Year to March	FY13	FY14	FY15	FY16E	FY17E
Net revenues (INR Cr)	10,411	10,500	9,159	10,375	11,986
Rev growth (%)	14.2	1.1	-12.0	12.8	15.4
EBITDA (INR Cr)	1,316	511	604	1,211	1,738
Adjusted PAT (INR Cr)	-101	-4489	-1687	1075	938
Adj. EPS (INR)	10.7	-80.0	-19.0	36.5	64.5
EPS growth (%)	-15.0	0.0	0.0	0.0	76.5
P/E (x)	281.4	-38	-159	82.9	46.9
P/B (x)	7.9	14.5	66.8	25.4	16.4
RoACE (%)	10.0	3.5	5.4	20.6	28.4
RoAE (%)	2.7	-30.0	-15.0	44.3	42.5

Share Holding Pattern	(%)
Promoter	58.87
FII	24.04
DII	4.55
Others	12.54



United Spirits Ltd. (CMP: INR 3,033; Mkt Cap: INR 43,973 crs)

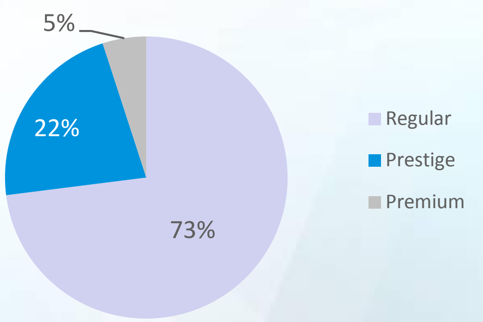
Investment Hypothesis

* USL will benefit as it will become the sole and exclusive manufacturer and distributor of Diageo's brands in India resulting in USL products being available across the price range, right from low to premium, providing it a wider reach to divergent consumers. We expect USL's market share in premium IMFL to jump from 36% currently to 40% on back of tieup with Diageo.
* USL is slated to increase its presence in premium segment aggressively. We expect saliency of P&A segment to increase meaningfully from 30% in FY15 to 39% in FY18E. This will help improve realisation per case and boost EBITDA margin.
* USL has adopted a strategy to exit direct operations in highly government controlled low margin earning markets and would will continue to play in this market via third party tie ups; positively impacting margins.

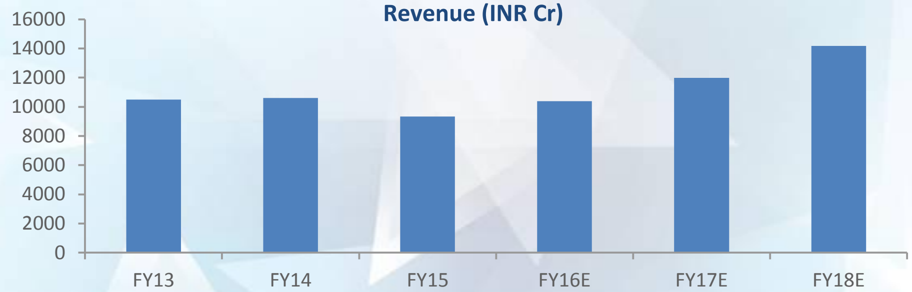
Risks

* Increase in prices of molasses, ENA and glass prices
* Changes in pricing, taxes and prohibition laws by state governments

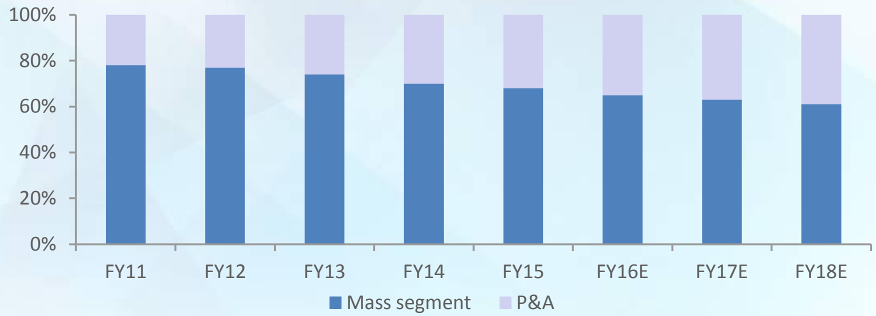
Revenue Breakup



Revenue (INR Cr)



Increasing contribution of P&A Brands



Peer Comparison

Global Peers	Diluted P/E (x)			Diluted EPS			ROE (%)		
	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Heineken	24	21	19	3.7	4.2	4.6	15%	14%	14%

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