Market Outlook: Key triggers ahead…

Indian market takes all news flows in its stride and climbs the wall of worry…

The Indian market stayed resilient amid news flows on Brexit and RBI Governor Rajan's exit. Domestic news flows such as the steady progress of monsoons, the government's decision to ease foreign direct investment (FDI) norms and Cabinet approval for recommendations of the Seventh Pay Commission fuelled investors' positive sentiment. During June, the government eased foreign direct investment (FDI) norms in nine sectors, including defence, food products, civil aviation, pharmaceuticals, broadcasting and retail trade. Furthermore, the Cabinet also approved the implementation of the Seventh Pay Commission wherein the commission has recommended a hike in salary of government employees and pensioners by 23.5% or a flow of ₹ 1.02 lakh crore in the economy, which will provide fillip to consumption based sectors like Auto, FMCG, Consumer durables, Retail

Q1FY17E revenue s & earnings growth (ex BFSI, metals, oil & gas) expected at 9%

Excluding BFSI, oil & gas and metals, both topline & earnings (of the I-direct coverage universe) are likely to grow 9% YoY. Going forward, we believe Corporate India is expected to witness moderation in gross margins as commodity prices seem to have bottomed out. However, strong monsoons, government spend to boost rural growth and increased disbursement on the back of Seventh Pay Commission would give a fillip to revenues of automobile & consumption related sectors.

Progress of Monsoons and forthcoming parliament session key for the markets

Post the delay in commencement of current monsoon season 2016, its progress has been Quite encouraging; with monsoon now widespread across the Indian subcontinent. As per IMD, for a country as a whole the southwest monsoon as of 7th July 2016 has been 1% above long period average (LPA) wherein all regions expect north east receiving surplus rainfall. Additionally, the upcoming monsoon session of Parliament which is scheduled to start from 18th July, would earmark slew of reforms, most importantly the GST bill. The optimism around passing GST would keep the monsoon session high.

Stock Recommendations

Company	I-direct code	Action	Recommended Price	CMP	Market Cap	P/E (x) FY18E	RoE (%)	
ITC*	ITC	Buy	228	244	295027	24.4	29.9	Read More
Symphony Ltd	SYMCOM	Buy	2425	2478	8675	34.1	36.3	Read More
Jet Airways	JETAIR	Buy	623	574	6543	4.2	NA	Read More
Concor	CONCOR	Buy	1653	1481	28853	21.5	9.7	Read More
Voltas	VOLTAS	Buy	331	322	10687	20.5	14.9	Read More
Timken India	TATTIM	Buy	602	558	3800	26.2	20.4	Read More
Hero Motocorp	HERHON	Buy	3120	3122	62263	16.2	34.2	Read More
Nestle India	NESIND	Buy	6420	6535	63079	39.7	44.7	Read More
Zee Entertainment	ZEETEL	Buy	447	447	42960	28.6	17.8	Read More

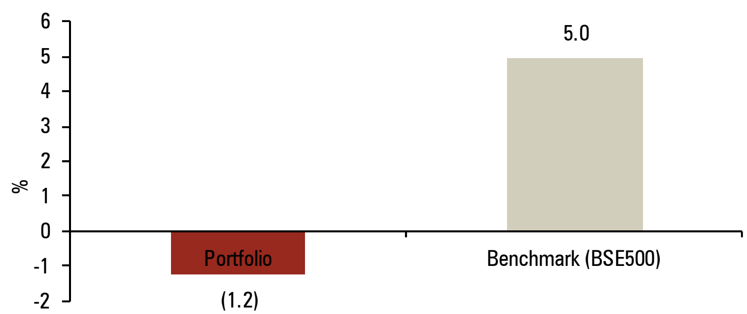
* price adjusted for bonus issue

What's in : Zee Entertainment **What's out** : None

* 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%

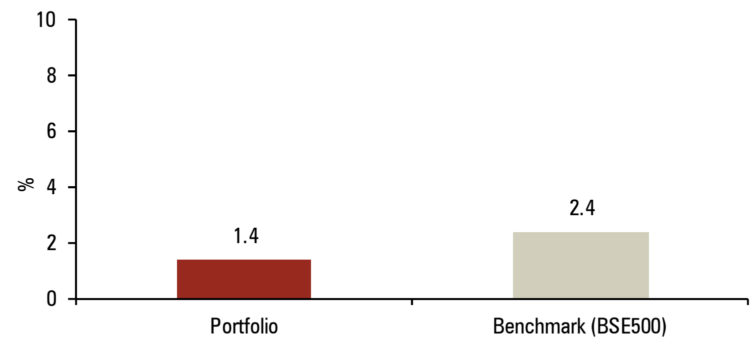
Performance* so far …

Portfolio performance since inception (June 2015)



- The portfolio performance (during June 2015 – July 2016) was driven by PVR (21%), Indraprastha Gas (15%) and Supreme Industries (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 Accelya Kale, PVR, Bata India, Torrent Pharma, L&T, Maruti Suzuki, Dr Reddy's, Supreme Industries and Mahindra & Mahindra
- The date of commencement was June 5, 2015

Portfolio performance since last update (June 2016)



- Green shoots in earnings and a recovery in global commodities led to an improvement in domestic sentiments. We continue to remain underweight on the banking, metal and oil & gas sector. Consecutively, higher spending due to good monsoon and 7th Pay recommendations, affirms our overweight on Consumer Discretionary space
- Portfolio return in June 2016 remained supportive on a revival in Concor (+9% MoM). Symphony and Jet grew 3% and 4%, respectively
- During the month, we added Zee Entertainment to our existing holdings; however we have not excluded anything

Source: Reuters, ICICIdirect.com Research

ITC (ITC)

BACK

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 recently 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 ₹ 9731.2 crore from this segment in FY16. Further, ITC's foods portfolio, on the back of strong brands like Sunfeast, Aashirvaad, Yippee, alone accounted for over ₹ 7000 crore of sales in FY16. It is aggressively diversifying in newer categories as reflected by 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 11.8% & 10.9%, respectively, in FY16-18E. We maintain a positive stance on ITC as we believe ITC's focus on growing its FMCG business would be a catalyst for topline growth in the long run

Likely short-term triggers

- 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 the creation of a low base. This low base effect may help arrest the sharp cigarette volume de-growth, going forward
- Government focus on agri growth coupled with good progress of monsoons bode well for its agri-business & rural growth for its FMCG segment

Key Financials

Key Financials		FY16	FY17E	FY18E
Net sales	₹ crore	36,475.3	41,795.6	45,594.9
Growth	%	1.1	14.6	9.1
EBITDA margins	%	38.7	37.1	36.7
PAT	₹ crore	9,844.7	11,345.2	12,109.9
PAT growth	%	2.5	15.2	6.7
P/E	x	30.0	26.0	24.4
P/BV	x	9.0	8.8	8.4
RoE	%	29.9	33.7	34.4
RoCE	%	43.0	47.8	48.1

Symphony Ltd (SYMCOM)

BACK

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 and ~4,500 towns (1430 in 2007) across India. It has maintained strong return ratios i.e. RoCE and RoE at 39% and 35%, respectively, in FY15 mainly due to an asset light model and almost debt-free status. To get access to the Chinese market, 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 sources 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 the unbranded to the branded category and strong brand would drive Symphony's sales, PAT CAGR at 26%, 31%, respectively, for FY15-18E

Likely short-term triggers

- Expectation of strong volume growth of ~20% 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		FY16*	FY17E	FY18E
Net Sales	₹ crore	493.4	907.9	1,157.0
Growth	%	NM	NM	27.4
EBITDA margin	%	28.6	27.7	27.7
PAT	₹ crore	124.7	198.7	252.1
PAT growth	%	NM	NM	26.9
P/E	x	68.8	43.2	34.1
P/BV	x	27.0	20.3	15.6
RoE	%	36.3	47.0	45.8
RoCE	%	49.5	64.2	62.7

*For nine months only

Jet Airways (JETAIR)

BACK

Investment Rationale

- The Indian air travel market has witnessed rapid growth post 2003 following liberalising actions taken 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 21.2% 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 result 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 maintenance & fuel costs significantly
- A sharp reduction in fuel prices remains a key trigger for margin expansion, going forward

Likely short-term triggers

- Industry passenger growth stayed healthy (up 21.6% YoY in April-June 2016)
- Despite a recent hike in ATF prices, it is still down 16.8% YoY (at ₹ 48,332/kl). This will enable it to maintain healthy margins, going forward
- The new 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		FY16	FY17E	FY18E
Net sales	₹ crore	22,206.9	22,984.1	24,041.4
Growth	%	5.9	3.5	4.6
EBITDA margins	%	10.1	11.6	11.8
PAT	₹ crore	1,211.8	1,289.3	1,523.3
PAT growth	%	LP	6.4	18.1
P/E	x	5.3	5.0	4.2
P/BV	x	NA	NA	NA
RoE	%	NA	NA	NA
RoCE	%	45.4	51.0	49.3

Container Corporation of India (CONCOR)

BACK

Investment Rationale

- Concor with ~73% market share of container train operators (CTO) in India would be the biggest beneficiary of the expected recovery in the trade scenario. With the increased capacity in terms of rakes to 257, we believe Concor is well geared to manage higher volumes with an expected recovery in trade activities
- Concor's revenues for FY16 were impacted by a hike in haulage charges and freight rates. Consecutive hikes coupled with a decline in crude prices resulted in road being more lucrative than rail transport. As IR initiates rationalisation of rates, Concor would be the biggest beneficiary of the same
- 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 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 ~10% and 13%, respectively in FY16-18E thereby leading to revenue, PAT CAGR of 15%, 26%, respectively

Likely short-term triggers

- Rationalisation of freight rates would lead to revival in margins
- Steady revival of volumes at major ports coupled with ₹ 750/TEU discount given by JNPT for rail movement of goods would result in higher utilisation/margins

Key Financials

Key Financials		FY16	FY17E	FY18E
Net sales	₹ crore	5,742.6	6,548.0	7,646.2
Growth	%	3.0	14.0	16.8
EBITDA margins	%	18.8	21.0	22.5
PAT	₹ crore	786.9	995.8	1,247.6
PAT growth	%	-24.9	26.5	25.3
P/E	x	34.1	26.9	21.5
P/BV	x	3.3	3.0	2.7
RoE	%	9.7	11.2	12.8
RoCE	%	8.8	10.5	12.7

Voltas Ltd (Voltas)

BACK

Investment Rationale

- Voltas is primarily an assembler of ACs and following an asset light model strategy for its unitary cooling product (UCP) division. The segment contributes ~48% to consolidated topline and saw ~13% sales CAGR in the last five years. A strong brand coupled with over 6500 dealers has 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, UCP segment provided strong support to profitability with lower working capital requirement. The company commands strong RoCE in UCP segment in the range of ~40-43% over the last four years
- We believe Voltas will record total sales CAGR of 13.8% in FY15-18E led by 17.5% sales CAGR of UCP division. AC volume sales are likely to record 12% CAGR for FY15-18E 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 strong presence in AC segment, partly mitigates business risk of project division. As the Indian economy is in a revival mode, Voltas, being a strong brand in AC segment, is well positioned to capitalise on growth momentum. Also, Voltas has a strong balance sheet (net cash, RoCE, RoE of 17%, 18%) & average dividend payout of 20%

Likely short-term triggers

- With the rising heat, we believe the first half of FY17E should be a strong quarter for AC players
- Implementation of the Seventh Pay Commission would push dealers for pre stocking of cooling products
- IMD's forecast of hotter than normal summer (prolonged summer) is likely to boost sales of cooling products

Key Financials

Key Financials		FY16	FY17E	FY18E
Net sales	₹ crore	5,857.4	6,563.3	7,695.2
Growth	%	13.0	12.1	17.2
EBITDA margins	%	7.5	8.5	8.5
PAT	₹ crore	385.6	446.6	517.5
PAT growth	%	0.3	15.8	15.9
P/E	x	27.5	23.8	20.5
P/BV	x	4.4	4.1	3.6
RoE	%	14.9	17.1	17.7
RoCE	%	19.4	22.4	23.4

Timken India (TATTIM)

BACK

Investment Rationale

- Timken India – a 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 Timken's FY15 revenues vs. 12% in CY09. It logged ~34% CAGR in FY09-15 from ₹ 78.9 crore to ₹ 341.6 crore. Going ahead, Timken India is expected key hub for export to various customers of Timken entities. Hence, we expect export revenues to grow at 17% CAGR in FY16-18E to ₹ 639.6 crore.
- We expect the services and railways segment to provide a 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 and services revenues to zoom to ₹ 133.7 crore in FY18E (~9% of the net sales) vs. ₹ 25.9 crore in FY15
- We expect overall topline to grow at 18% CAGR in FY16-18E on the back of export, industrial and CV segment demand. EBITDA margins may remain stable at 15.3% in FY18E. We expect PAT to grow at 17.4% CAGR in FY16-18E

Likely short-term triggers

- Strong medium & heavy commercial vehicle sales growth, opportunity from dedicated freight corridor (DFC) and railways to provide traction to volumes/revenues of the company.
- The management commentary is corroborated by the pick-up in activity in segments like industrial and railways , which remain the forte of Timken India and is likely to deliver the best growth profile in the entire bearings space

Key Financials

Key Financials		FY16	FY17E	FY18E
Net sales	₹ crore	1,061.9	1,252.7	1,478.5
Growth	%	14.3	18.0	18.0
EBITDA margins	%	15.3	15.3	15.3
PAT	₹ crore	91.9	111.9	131.4
PAT growth	%	13.9	21.7	17.4
P/E	x	41.1	33.7	28.7
P/BV	x	7.2	6.2	5.4
RoE	%	18.1	18.3	18.7
RoCE	%	27.6	28.1	28.7

Hero MotoCorp (HERHON)

BACK

Investment Rationale

- Hero MotoCorp (HMCL) is the largest 2-W player in India with a domestic market share of 39%. Its stronghold in the executive segment (through Passion, Splendor series) has helped HMCL maintain its leadership over the years. After subdued growth in the past three years, good monsoons in 2016 are expected to result in higher consumer spending in the rural space thereby driving 2-W volumes. We believe HMCL will be the biggest beneficiary of this demand revival as >45% of HMCL's overall volumes is derived from the rural market. Further the launch of Maestro Edge & Duet in its scooter segment has received a strong response enabling the company to expand its domestic scooter market share by 116 bps YoY to 16.3% in May 2016
- HMCL reported a strong set of results in FY16 on the operational front, mainly due to lower raw material cost expanded the margins boosting its profitability. Benefits from higher operating leverage (as volumes pick up) & LEAP cost reduction programme (management expects benefits of 90 bps for FY17E) are likely to cushion margins, going forward. HMCL's business profile remains attractive from a financial standpoint as it remains debt-free; free cash flow generating and with high return ratios (>34%). Thus, we remain positive on its long term growth prospects

Likely short-term triggers

- IMD expects good monsoons in 2016. This is likely to result in higher consumer spending in rural areas thereby resulting in higher 2-W demand thus benefiting market leader HMCL

Key Financials

Key Financials		FY16	FY17E	FY18E
Net sales	₹ crore	28,599	31,558	35,366
Growth	%	3.7	10.3	12.1
EBITDA margins	%	15.8	14.6	14.6
PAT	₹ crore	3,132	3,364	3,838
PAT growth	%	31.3	7.4	14.1
P/E	x	19.9	18.5	16.2
P/BV	x	7.9	6.7	5.6
RoE	%	39.4	35.9	34.2
RoCE	%	50.4	43.8	40.8

Nestlé India (NESIND)

BACK

Investment Rationale

- Nestlé India (NIL) is the market leader in instant noodles and baby food products in India and No. 2 player in the instant coffee and chocolates segment. The company's high brand equity in its leading segments has aided it to take significant price hikes without denting its market share. We believe that since NIL has taken a hit due to the noodles fiasco, going ahead, it would shift its focus to reviving volume growth by aggressive A&P spend in the process of getting back the consumer confidence it enjoyed in the past.
- NIL's margins remained healthy at 20-22% until CY14 with strong volume growth. However, the Maggi noodles recall has led to lower net sales for the company, which impacted its margins adversely. Going ahead, with a steady uptick in volumes, we believe margins would revive closer to previous levels of 20.4% by CY17E as we expect recovery for the company on the revenue front from CY16E onwards
- Within just five months of its relaunch, Maggi noodles already enjoys market leadership with over 50% share The entire noodles issue created a low base for NIL in CY15. On this low base, we expect robust growth across all parameters for NIL, going forward. Based on this, we have a positive stance on the company. We have modelled net sales CAGR of 22.8% in CY15-17E and earnings CAGR of 67.8% for NIL in the same period.

Likely short-term triggers

- With the re-launch of Maggi, the company is likely to regain market share in the noodles segment by way of aggressive A&P spend. The full impact of re-launch of Maggi would be visible in June quarter results
- Recent launches of additional Maggi noodles variants (atta noodles, oats noodles, Maggi Hot Heads) and innovative product launches across other categories (a+ Grekyo yoghurt, Nescafe Sunrise Insta-Filter coffee) would help sustain robust growth

Key Financials

Key Financials		CY15	CY16E	CY17E
Net sales	₹ crore	8,123	10,703	12,246
Growth	%	-17.2	31.8	14.4
EBITDA margins	%	20.0	18.9	20.4
PAT	₹ crore	563	1,166	1,586
PAT growth	%	(52.5)	107.0	36.0
P/E	x	111.9	54.1	39.7
P/BV	x	22.4	20.6	17.8
RoE	%	32.3	38.1	44.7
RoCE	%	29.7	36.1	41.6

Zee Entertainment (ZEETEL)

BACK

Investment Rationale

- Zee Entertainment offers a bouquet of 32 domestic channels spread across genres such as general entertainment (GEC), music, sports and regional. Zee TV, its flagship GEC, has consistently remained among the top three GECs while it continues to top the Marathi and Telugu market and is a strong No. 2 in the Bangla and Kannada space. The company posted stellar ad growth revenues of 29.2% in FY16, aided by the launch of new channels and strong traction in regional channels.
- Rural BARC ratings have also been helpful for the overall positioning with Zee Anmol its free to air (FTA) channel commanding a leading viewership share. The management has guided an overall industry ad revenue growth of 15-17% owing to increased ad appends by FMCG & telecom companies. Zee is expected to surpass the industry growth and post 17.0% and 15.0% YoY ad revenue growth in FY17E & FY18E, respectively, to ₹ 4533.5 crore in FY18E.
- Subscription revenues would get a fillip as and when phase III digitisation, which covers ~36 million subscriber base, is successful. Also, digitisation will lead to better tiering of packages enabling Zee to better monetise its sports content. We expect a domestic subscription revenue CAGR of 11.6% in FY16-18E to ₹ 2009.9 crore. EBITDA margins are expected at 26.2% & 26.9% in FY17E & FY18E, respectively

Likely Short Term triggers

- Given the traction in the regional portfolio and continued performance of new channels, the company is expected to post of ad growth of ~15.7% in Q1FY17, ahead of expected industry growth of ~14%

Key Financials

Key Financials		FY16	FY17E	FY18E
Net sales	₹ crore	5,851	6,647	7,474
Growth	%	19.8	13.6	12.4
EBITDA margins	%	25.8	27.1	28.1
PAT	₹ crore	1,027	1,368	1,569
PAT growth	%	5.0	33.3	14.6
P/E	x	43.7	32.8	28.6
P/BV	x	7.2	6.0	5.1
RoE	%	16.8	18.3	17.8
RoCE	%	25.9	27.4	26.7

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