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Values that bind

New Year Picks : 2017

December 27, 2016

2017 – Look beyond the near-term...

Year 2016 began on a weak note for Indian equities with the Nifty sliding by over 14% (1,100+ points) in the first couple of months of the calendar, which was largely a continuation of the trend witnessed in H2CY2015. However, a pragmatic budget and expectations of benefits accruing to the Indian economy from a normal monsoon and the 7th pay commission disbursements ensured that the Indian stockmarket was in good stead thereafter. Notably, between March and early September, the Nifty gained ~31% (2,100+ points) as it headed back closer to its lifetime highs.

However, once again, certain factors like the geo-political tensions between India and Pakistan and a strong indication by the US Fed of an interest rate hike in December 2016 turned the sentiments against the emerging markets pack, including India. This was followed by the surprise outcome of the US Presidential election with Donald Trump's victory and his proposed policies which risked stoking inflation in the US. This consequently led to expectations of more-than-expected rate hikes by the US Fed (in 2017) to counter any possible inflationary pressures, leading to strengthening of US bond yields and an exodus of capital from emerging markets, thus impacting stockmarkets considerably.

Apart from the global challenges, India has had an additional challenge to deal with. Notably, the Indian government undertook a historic, significant and an unprecedented initiative in the form of Demonetization in November 2016, the implications of which on the Indian economy are still being assessed. However, at the outset, considering the role of cash in Indian domestic trade and also on account of the presence of a huge rural sector in India, one thing which is clearly evident so far is that demonetization has had an adverse impact on businesses across sectors – big and small, organised and unorganised, at least in the near-term.

Notwithstanding the positive implications that demonetization is expected to have on the Indian economy over the long-term, post demonetization the Indian stockmarket has behaved nervous so far. This is primarily owing to the hazy outlook with respect to the extent of impact which demonetization will have on various sectors and the economy at large over the near-to-medium-term. Thus, the impact of this is already visible on the stockmarket, which has lost over 7% since the demonetization announcement.

There is little doubt that the government's demonetization move has created ripples in the economy. However, we expect the same to settle sooner than later once the remonetization of the system nears completion. Moreover, the government is expected to be proactive in terms of policy actions – both outside and within the Budget (on February 1, 2017). Also, the government is expected to use both monetary (e.g. interest rate cuts) and fiscal (e.g. public spending, tax rate rationalization) tools to boost domestic consumption / sentiments, which will augur well for the market.

Going forward into 2017, with the Indian economy expected to be back on the recovery path from Q2CY17 onwards, as the liquidity crunch wanes away and the pent up demand comes back to the fore, we expect Indian equities to perform well too. Notably, factoring the impact on corporate earnings over the next couple of quarters and the fact that the market has also corrected, the Nifty currently trades at ~15x FY18E earnings. However, post the year-long volatility and finally ending 2016 almost flat, we believe the Nifty has the potential to scale new lifetime highs in 2017 post two consecutive years of negative / flat returns (2015: -4%; 2016: -1%). Having said this, the key risks at the current juncture remain the pace of remonetization and the actual impact of demonetization, the uncertainties surrounding the GST framework and its implementation, the state elections and their outcomes (particularly UP) and the pace / frequency of US Fed rate hikes.

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Religare Investment Call

Company Update

Auto Ancillary

Fiem Industries

CMP (Rs)	1,089
Target Price (Rs)	1,315
Potential Upside	20.8%
Sensex	25,807
Nifty	7,908

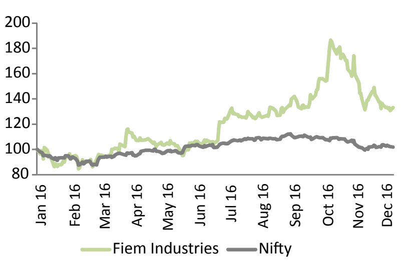
Key Stock data

BSE Code	532768
NSE Code	FIEMIND
Bloomberg	FIEM:IN
Shares o/s, Cr (FV 10)	1.3
Market Cap (Rs Cr)	1,427
3M Avg Volume	23,000
52 week H/L	1510/653.6

Shareholding Pattern

(%)	**Mar-16**	**Jun-16**	**Sep-16**
Promoter	70.0	70.0	63.6
FII	8.1	8.5	15.2
DII	3.4	3.4	6.2
Others	18.5	18.1	15.0

1 Year price performance



Analyst

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Fiem Industries is among the leading manufacturers of automobile lightings, signaling equipment and rear view mirror for two wheelers and four wheelers. It has also forayed in LED luminaires for indoor and outdoor applications and Integrated Passenger Information System with display and softwares for buses, metros and railways. It has 9 manufacturing units in India with diversified products base.

Recent developments:

- The performance of the LED segment has been encouraging. Revenue in H1FY17 came at Rs. 36.6 cr compared to Rs. 11 cr in H1FY16. The order book as on September, 2016 stood close to Rs. 56 cr. The company has already spent Rs. 102 cr in setting up the facility for LED lighting facilities. We expect more order inflow and LED business to report healthy growth in the coming years.

- Fiem Industries has signed a Technology License and Assistance Agreement with Aisan Industry Co. Ltd., Japan and Toyota Tsusho Corporation, Japan for manufacturing of Canister. Canister is an emission control system product, which will have huge market in India due to implementation of stricter emission norms from April, 2017. The company aims to supply the Canister to all its existing and new customers in two wheelers and three wheelers segments.

- Fiem Industries signed a Memorandum of Understanding with Sukam Power Systems in a bid to start a 50:50 Joint Venture Company in India for the purpose of selling and marketing LED lighting products under the brand name of 'Sukam Fiem'. This strategic marketing venture will equip Fiem Industries with Sukam's nationwide distribution network for the retail market and expand its presence in LED business.

Outlook and valuation:

We expect the company's H2FY17 performance to get negatively impacted due to demonetization as it largely caters to the two wheelers industry. However we believe, it will continue to benefit from gradual recovery in demand from two wheeler industry from Q1FY18 and new orders from LED segment. The LED business offers superior margins as compared to the automotive parts business. LED Lights contributed to 11.5% of the top line sales in FY16, as against less than the 4% in FY15. The company has invested Rs. 102 Cr in their LED facilities and we expect it to generate healthy revenues in the coming years. A higher turnover from the LED segment will improve operational margins and will impact the bottom line directly. Thus, with advance technology, investment in LED business and tie ups with foreign and domestic firms, we expect Fiem to report Revenue and Profit at CAGR of 18% and 23.5% respectively over FY16-FY19E. At CMP of Rs. 1,089, it is trading at FY19E P/E of 13.2x. We reiterate a Buy on the stock with a target price of Rs. 1,315

Financial summary

Particulars, Rs cr	FY15	FY16	FY17E	FY18E	FY19E
Net revenue	825	988	1,148	1,355	1,613
EBITDA	103	127	148	179	220
EBITDA (%)	12.4	12.9	12.9	13.2	13.6
APAT	42	57	59	80	108
APAT (%)	5.1	5.8	5.1	5.9	6.7
EPS (Rs)	34.1	46.3	44.5	60.8	82.1
P/E (x)	32.0	23.5	24.5	17.9	13.2
RoE (%)	20.0	22.9	16.4	17.0	19.8

Source : Company; RSL Research

CMP (Rs)	358
Target Price (Rs)	483
Potential Upside	34.9%
Sensex	25,807
Nifty	7,908

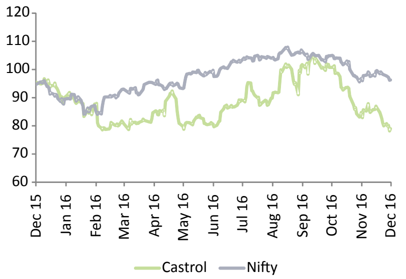
Key Stock data

BSE Code	500870
NSE Code	CASTROLIND
Bloomberg	CSTRL:IN
Shares o/s, Cr (FV 5)	49.5
Market Cap (Rs Cr)	17,707
3M Avg Volume	10,17,158
52 week H/L	495 / 356

Shareholding Pattern

(%)	Mar-16	Jun-16	Sep-16
Promoter	71.0	59.5	51.0
FII	5.9	9.7	12.3
DII	7.9	13.4	17.5
Others	15.2	17.4	19.2

1 Year price performance



Analyst

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Incorporated in 1979, Castrol India Ltd (CIL) is one of the leading automotive and industrial lubricant manufacturing and marketing companies in India. CIL is 51% owned by Castrol Ltd, UK, a 100% subsidiary of British Petroleum group. With over 1.05 lacs retail outlets, CIL derives ~88% of its sales volumes from the Automotive segment and commands market leadership (22.4% share) in the retail automotive lubricant segment.

Investment rationale:

- After a subdued performance over the last few years, the Indian lubricant industry is set to witness a turnaround, led by anticipated revival in the Autos and GDP/IIP cycle. Auto sector is likely to witness a healthy growth in the medium to long term, led by falling interest rates, cooling inflation and revival in the Capex cycle. Personal mobility space is already witnessing healthy traction over the last few quarters, which is reflected in improved lubricant consumption. With leadership, strong brand recall and vast reach, CIL is comfortably placed to capitalize on the available opportunities.

- After five straight years of de-growth, CIL managed to deliver a decent volume growth of 5% in 9MCY16. While in the near term, the growth could be impacted due to the Government's recent currency demonetisation move (due to anticipated impact on Automobile sales), we expect it to be back on track, as the demand is likely to resume once the cash crunch situation normalizes in 1-2 quarters. New launches, increasing presence in fast growing personal mobility space and sustained investments in A&P should help CIL report 7% volume growth over CY17-18E.

- CIL has a strong tie up with established OEMs like Maruti, Volkswagen, Tata Motors, Ford, JCB, Bosch, GM, Komatsu, Skoda, Audi etc. Going forward, we expect CIL to continue strengthening its partnership with existing OEMs and enter into new partnerships as well, which should strengthen its brand positioning.

- While the raw material benefits could wane out from Q4CY16 / Q1CY17 with likely stability in the base oil prices and unfavourable base (base oil prices have fallen by ~37%% over the last two years), structural levers like improved mix and operating leverage should help CIL report steady margin gains over the longer term.

Outlook and valuation:

The near term negative impact of demonetisation on CIL's financials could be more than anticipated earlier. Further, the recent OPEC agreement on production cuts is likely to limit the downside in crude oil and base oil prices and cap CIL's margin gains. We are downgrading our Revenue and PAT estimates over CY16-18E by upto 4%. At CMP of Rs 358, CIL is trading at 22.2x CY18E EPS. Good prospects, cash rich and debt-free status, superior return ratios and high & consistent dividend payouts could provide cushion to its premium valuations. We maintain a BUY with a revised target price of Rs 483 (earlier TP Rs 504).

Financial Summary

Particulars, Rs cr	CY14	CY15	CY16E	CY17E	CY18E
Net revenue	3,392.3	3,298.0	3,339.9	3,606.7	3,948.7
EBITDA	716.7	894.8	990.3	1,074.8	1,190.5
EBITDA (%)	21.1	27.1	29.7	29.8	30.2
APAT	474.5	615.2	658.7	719.6	796.3
APAT (%)	14.0	18.7	19.7	20.0	20.2
EPS (Rs)	9.6	12.4	13.3	14.5	16.1
P/E (x)	37.3	28.8	26.9	24.6	22.2
RoE (%)	76.0	114.7	111.0	114.3	120.6

Source : Company; RSL Research

Company Update

Leisure Facilities | **Wonderla Holidays Ltd.**

CMP (Rs)	332
Target Price (Rs)	430
Potential Upside	29.5%
Sensex	25,807
Nifty	7,908

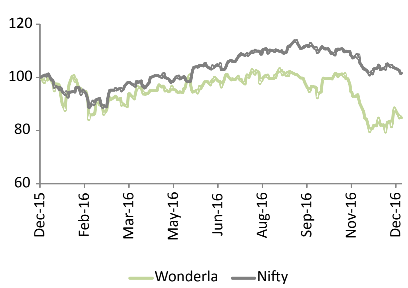
Key Stock data

BSE Code	538268
NSE Code	WONDERLA
Bloomberg	WONH:IN
Shares o/s, Cr (FV 5)	5.6
Market Cap (Rs Cr)	1,860
3M Avg Volume	62,426
52 week H/L	424/316

Shareholding Pattern

(%)	Mar-16	Jun-16	Sep-16
Promoter	70.9	70.9	70.9
FII	10.3	10.4	11.0
DII	4.3	5.1	5.1
Others	14.2	13.3	12.8

1 Year price performance



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Wonderla Holidays Ltd. (WHL), a leading amusement park operator in India, operates 3 amusement parks at Kochi, Bengaluru and Hyderabad and 1 resort at Bengaluru. The company plans to add one more park in Chennai for which land clearance is still under progress. With increase in discretionary spends, we expect footfalls to rise in tandem. WHL's systematic approach towards increasing ATP will be another revenue growth lever. Healthy cash generation from matured parks, Kochi and Bengaluru, will be used to fund the capex of new parks. Though with the Government's demonetization move, we expect earnings to be subdued in FY17E, however, with improvement in liquidity and spending sentiments, sales growth will resume in FY18E. Maintain BUY.

Investment rationale:

- Amusement park industry is set to benefit from increasing discretionary spending. Wonderla, being the bellwether of the industry with 2 matured parks at Kochi and Bengaluru and a newly launched park at Hyderabad, will be key beneficiary of higher spends on leisure and entertainment. The company witnessed CAGR of 2% & 13.7% footfalls and average ticket price increase over FY11-16. With the launch of new park in Hyderabad, footfalls are expected to increase, aiding healthy revenue growth.

- In terms of a new park planned in Chennai, the management plans to fund the capex through internal cash accruals. The management plans to expand footprint in tier II cities by launching a park every 4 years. Well planed expansion strategy supports Wonderla to maintain its leadership position.

- Wonderla's 17% revenue comes from non-ticketing segment while globally non-ticketing revenue constitutes ~ 40% of sales. The management is confident of increasing the share of non- ticketing revenue to ~30% over next 3/4 years. Non-ticketing revenue is a higher margin business. Wonderla's strategy to increase share of non-ticketing revenue will eventually lead to margin expansion.

- Wonderla procures 30% of rides from its own manufacturing plant in Kochi. This results in lower lead time, cost effectiveness as well as lower maintenance cost. This gives the company an added advantage over its peers in terms of higher operating margin and better safety measures.

Outlook and valuation:

Wonderla Holidays Ltd., with its 3 amusement parks at Kochi, Bengaluru and Hyderabad, is the bellwether of India's amusement park industry. The company also owns a resort in Bengaluru. Wonderla's well planned expansion plan, deleveraged balance sheet, higher margins than the industry and owned ride manufacturing plant at Kochi gives an added advantage over its peers. We estimate revenue, EBITDA and PAT to grow at a CAGR 17.2%, 15.3% and 10.6% respectively over FY16-19E. The stock is available at 23.5x PE at FY19E earnings. We maintain BUY on the stock with a revised target price of Rs 430.

Financial Summary

Particulars, Rs cr	FY15	FY16	FY17E	FY18E	FY19E
Net revenue	182	205	227	272	330
EBITDA	80.6	84.2	51.2	83.6	129.0
EBITDA (%)	44.3	41.0	22.6	30.7	39.1
APAT	50.6	59.8	33.9	53.5	80.9
APAT (%)	27.8	29.1	15.0	19.7	24.5
EPS (Rs)	9.0	10.6	6.0	9.5	14.3
P/E (x)	37.6	31.8	56.1	35.6	23.5
RoE (%)	20.0	15.8	8.2	12.3	16.7

Source : Company; RSL Research

Initiating Coverage

Plastic Products **Jain Irrigation Systems Ltd.**

CMP (Rs)	82
Target Price (Rs)	104
Potential Upside	26.8%
Sensex	25,807
Nifty	7,908

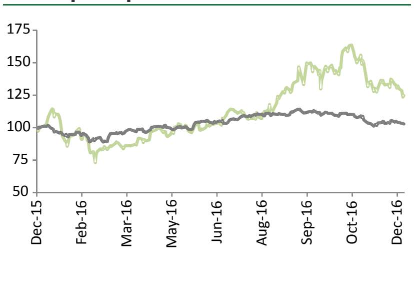
Key Stock data

BSE Code	500219
NSE Code	JISLJALEQS
Bloomberg	JI:IN
Shares o/s, Cr (FV 2)	46
Market Cap (Rs Cr)	3,907
3M Avg Volume	14,57,182
52 week H/L	108.6/46.8

Shareholding Pattern

(%)	Mar-16	Jun-16	Sep-16
Promoter	30.9	30.9	30.7
FII	42.2	34.5	43.7
DII	3.4	3.4	1.7
Others	23.0	20.8	23.3

1 Year price performance



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Jain Irrigation Systems Ltd (JISL), established in 1986, is India's largest micro irrigation company. The company's other business division includes agro processing, piping systems, PVC sheets, tissue culture and solar energy. The company has 30 manufacturing plants and presence in 120 countries across the globe. JISL has a strong network of over 8,600 dealers and distributors. The company has consistently delivered revenue growth in spite of macro economic challenges like drought and subdued demand in the past. Diversified business portfolio, dominant market share in micro irrigation and Piping business, foray into new segments like solar energy augurs well for JISL's earnings growth trajectory. We initiate coverage on JISL with a positive outlook.

Investment rationale:

- The global micro irrigation system market is one of the fastest growing segments of the global agricultural industry. In India, though fragmented, the industry is in a position to aid Governments programs like Prime Minister's Krishi Sinchai Yojana (PMKSY). Almost 50% of the arable land in the country is still rain fed. The Government (Central and State) provides up to 50% capital subsidy for promoting the use of Micro Irrigation to farmers. JISL is a market leader in domestic Micro irrigation system market with over 50% market share and second largest worldwide. JISL will be a key beneficiary of higher spends on micro irrigation.

- The PVC pipes and fittings market in India is projected to register strong growth of 17% CAGR over FY16-19E and is expected to reach Rs 39,100 Crs in FY19E as compared to Rs 24,000 Crs in FY16. India's Irrigation demand is significant and the demand for quality PVC pipes remains firm. In terms of PE pipes, the government's focus to improve infrastructure in the country will bring in incremental demand. Planned investment of Rs 13, 200 Crs shall provide ample opportunities for enormous demand for PE pipes. JISL will benefit from growth of PVC& PE pipes industry.

- India has a strong and dynamic food processing sector playing a vital role in diversifying the agricultural sector, improving value addition opportunities and creating surplus food for agro- food products industry. The food industry, currently valued at Rs 2.5lac Crs and it is expected to grow at a CAGR of 18.8% to Rs 4.2lac Crs by 2018. The National policy aims to increase the percentage of food being processed in the country to 25% by 2025. JISL, being the largest player in food processing industry, will benefit from the Government's drive to push industry growth.

Outlook and valuation:

JISL is a market leader in domestic MIS segment, among top 3 players in PVC & PE piping and the largest player in food processing in India. The company is poised to benefit from higher spends on MIS and food processing by the government. PVC and PE pipe industry growth will be another key revenue driver for JISL. The company has diluted its stake in food subsidiary JFFFL and raised Rs 804 Crs which will be used to reduce debt. We estimate revenue, EBITDA and PAT to grow at a CAGR 7.0%, 10.6% and 32.8% respectively over FY16-19E. We recommend BUY on the stock with a price target of Rs 104.

Financial Summary

Particulars, Rs cr	FY15	FY16	FY17E	FY18E	FY19E
Net revenue	6,153	6,287	6,738	7,208	7,702
EBITDA	779.7	809.7	934.3	1,012	1,094
EBITDA (%)	12.7	12.9	13.9	14.0	14.2
APAT	55.4	88.3	127.1	167.4	206.7
APAT (%)	0.9	1.4	1.9	2.3	2.7
EPS (Rs)	1.2	1.8	2.7	3.5	4.3
P/E (x)	69.5	45.5	30.7	23.3	18.9
RoE (%)	2.5	3.8	5.1	6.5	7.6

Source : Company; RSL Research

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Statements on ownership and material conflicts of interest , compensation– Research Analyst (RA)

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below , are given separately]

S. No.	Statement	Answer	
		Tick appropriate	
		YES	NO
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interestis given below this table]		NO
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		NO
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		NO
	I/we have received any compensation from the subject company in the past twelve months?		NO
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		NO
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		NO
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		NO
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		NO
	I/we have served as an officer, director or employee of the subject company?		NO
	I/we have been engaged in market making activity for the subject company?		NO

Nature of Interest (if answer to F (a) aboveis Yes :

....

Name(s)with Signature(s)of RA(s).

[Please note that only in case of multiple RAs andif the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No	Name(s) of RA	Signatures of RA	Serial Question of question which the signing RA needs to make separate declaration / answer	YES	NO