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GNAM INVESTMENT THESIS

IIM BANGALORE

Pulkit Aggarwal

Divya Ganapati

Jayesh Bhansali

Madhav Marda

Mohan Raj

Udit Jalan



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Executive Summary

Page Industries have leveraged Jockey's 120 years' experience in textile space and has developed economic moats around the following:

- a. Strong Distribution channel with access to more than 44,000 outlets spread across geography
- b. Backward integrated providing good quality raw material and bringing cost advantages
- c. Labour training centres and efficient labour management leading to very low labour turnover
- d. Launching innovative products frequently with high quality product at comparable price
- e. Strategically Brand positioned as an aspirational brand and developed the mid-premium segment in innerwear segment.

Hence, new entrants and existing competitors find it challenging to break Jockey's customer loyalty. Based on above and our valuation analysis, we recommend a **BUY** rating on Page Industries with target price of **INR 17,446 (upside potential of 10%)** in next 12 months.

In addition to the above key success factors of the company, there are various other factors which supports our proposition such as,

- a. Favourable macro-economic factors like inflation, interest rates, fiscal deficit, foreign investments, currency movements etc. all highlight the improving economic conditions of India.
- b. High growth expected in Innerwear segment (CAGR 13% over 2015-23) valuing the industry at INR 600bn in FY 2023.
- c. Favourable market forces like rise in household disposable income, increase in organised player market share, favourable youth demographics, increase in online channels, increase in working women, growth in branded apparel segment etc.
- d. Good corporate governance and strong management, which professionally focuses only on this business has won various accolades for exemplar performance in this space.

On performing Du-Pont analysis on Page and its peers, we see that Page has historically performed better than its peers on all ratios like highest pat margin, highest asset turnover, decently leveraged and highest ROE. Due to the above competencies and high growth displayed in past years, Page commands P/E of 78.52, while its peers trade at average P/E of ~30.

We have valued the company based on the DCF valuation method. We applied three stage FCFF model as the company is currently in high growth phase. We also applied relative valuation methods of P/E, P/Bv and EV/EBITDA multiple to value the company. We applied weights to each method and arrived at the weighted average target price of 17,446 (upside of 10%).

There are few investment risks like impact of GST, new entrants in market, increase in raw material cost, slowdown in the consumer spending etc. which can affect our fair value estimate of the company.



Indian Economic Outlook

Indian Economy is one of the bright spots in the slowing global economy. The below signals highlight the positive picture for the Indian economy.

Fastest Growing GDP

Growth prospects look bleak for the World. However, Indian Economy is expected to grow fastest and will overtake China in year 2016

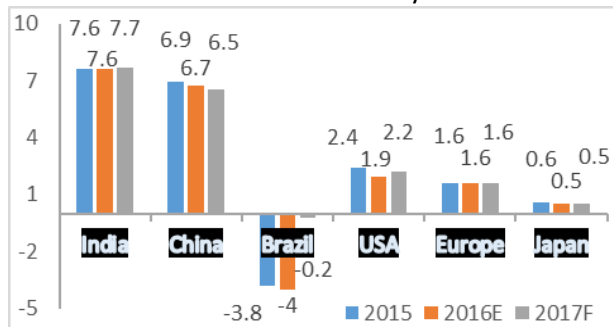


Figure 1 - GDP growth. Source: World Bank

Fall in Oil and commodity prices

Crude prices have corrected ~43% in 2015. Oil accounts for 35% of India's imports and hence this is a favourable situation for India

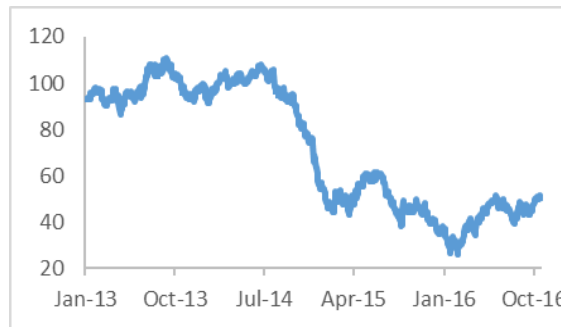


Figure 2 - Crude Oil Prices. Source: US Energy Information Administration

Fiscal Deficit Under Control

Indian government has continuously focused on reducing the fiscal deficit. It is committed to reduce the fiscal deficit to 3% over next 2 years. This is very good sign of strength in the Indian economy

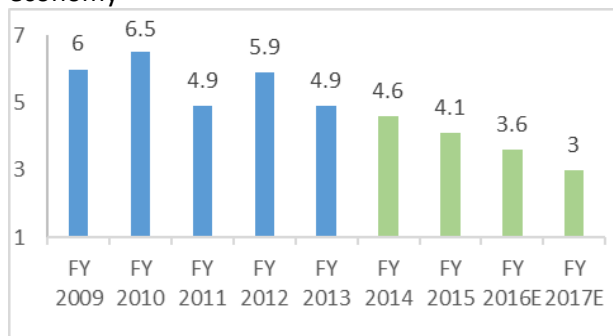


Figure 3 - Fiscal Deficit % of GDP. Source: Government Budget documents

Strong Indian Currency over others

Indian currency has corrected by around 5% which is much lower than its most of the peer countries. It is in comfortable position due to approximate \$330bn foreign exchange reserves

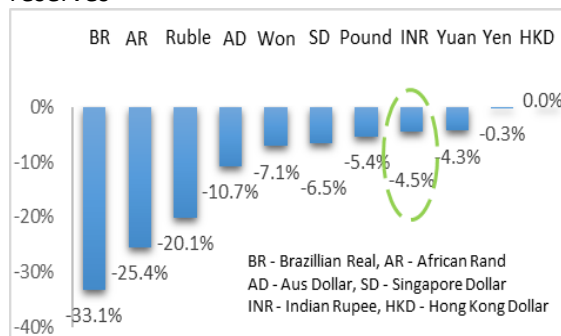


Figure 4 - Currency movement against USD as on 31st December 2015. Source: Bloomberg

Lower Inflation and hence reduction in policy rates by Reserve Bank of India

India has seen fall in inflation since 2014 and hence RBI has consistently reduced the Repo rate to boost credit in the economy. This has helped in increasing the investor confidence in India

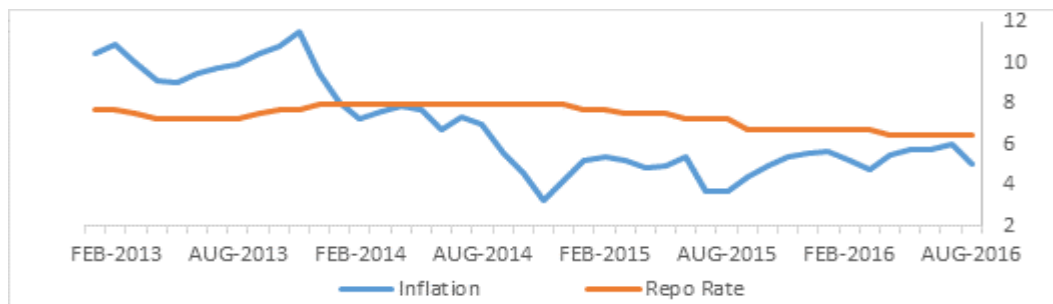


Figure 5 - Inflation and Repo Rate. Source: Reserve Bank of India Website

All the above factors point towards strong Economic Growth in Indian in coming years, making itself as an attractive investment opportunity for global investors.



Indian Apparel Industry

Indian Apparel Industry is approximately INR 2,460bnⁱ in size and has posted CAGR of 8% over FY 2010 to 2015. The industry structure is explained in figure 6. The Indian innerwear market stands at INR 200bn (8% of overall apparel industry) and has grown at CAGR of 11% over FY 2010 to 2015. The reasons for the increase in the innerwear industry are explained in figure 7. The Innerwear segment is expected to grow at CAGR 13% over 2015-23, valuing the industry at INR 600bnⁱ in FY 2023.

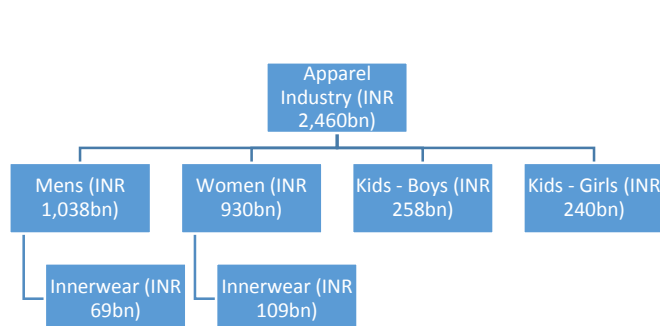


Figure 6 - Apparel industry structure

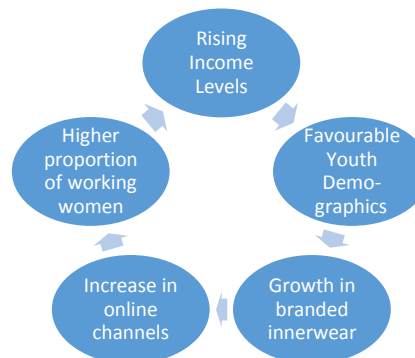


Figure 7 - Reasons for growth in innerwear market

Segment-wise Analysis

Men's Innerwear

Men's innerwear industry size is INR 69bnⁱ and is expected to post CAGR of 9% over 2015-23, valuing this segment at INR 155bn in FY 2023. Over the past few years, share of organized players in this segment has expanded significantly. Currently, 45%ⁱ of the market is unorganized and this is expected to reduce further due to rise in income levels and preference for branded products. Per capital spend in India on innerwear is approx. 90% lower than China and Thailandⁱⁱ, which shows the potential growth in this sector.

Women's Innerwear

Women's innerwear industry size is INR 109bnⁱ and is expected to post 4x growth over 2015-23, valuing this segment at INR 440bn in FY 2023. Over the past few years, share of organized players in this segment has expanded significantly. Currently, 50%ⁱ of the market is unorganized and this is expected to reduce further due to growth in rising number of working women, increased purchasing power / frequency, increase in hosiery innerwear etc.

Leisurewear

Leisurewear segment is INR 100bnⁱ and has posted 14% CAGR over FY 2010-15. This segment is expected to grow at higher CAGR due to increase in the health consciousness has made gym, sports, yoga etc. an important part of modern life, especially in metros. The demand of such active wear is on rise within Indian menswear market.

Future Outlook

Indian Apparel Industry has seen strong growth in the past years due to increased penetration by organized players. Within this industry, the Indian Innerwear market has grown faster than the overall apparel industry in past few years. We think that the Indian Innerwear market is about to witness faster growth than Indian GDP and various other sectors / industries in coming years due to the rising income levels, increase in online channel, favorable youth dynamics, higher proportion of working women, growth in branded markets etc. Hence, we decided to analyze this industry. We selected Page Industries for our in-depth investment thesis, based on the reasons mentioned in the following sections of this report.



Page Industries

Company Overview

Page Industries is a leading player in the inner wear market in India. The company holds an exclusive license to manufacture, market and sell inner wear under the “Jockey” brand in India, Sri Lanka, Bangladesh, Nepal and the UAE. Jockey International is one of the oldest and well known U.S. innerwear manufacturer and has leading presence in 120 countries. Page is also exclusive licensee of Speedo International for the “Speedo” brand which includes swimwear, water shorts, apparel, equipment and footwear.

Page’s manufacturing prowess encompasses a 19,000 workforce with manufacturing spread across 12 cities in India. It is headquartered in Bangalore. On the distribution front, it has a Pan-India presence with 44,000+ retail outlets in 1,400 cities and towns across the country. It was publicly listed in March 2007 and quotes at both the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) in India. Page has had an incredible growth story with a 35% Sales CAGR over the past 5 years. The bottom line grew at a 38% CAGR over the same time and the ROCE averaged at 60%.

Brief History

Jockey entered in India by licensing its brand to the Genomal family, a long-time partner of Jockey in Philippines. And thus Page Industries was set up in 1994.

Page industries wanted to be the brand of choice and hence focused on the mid to premium innerwear segment. Unlike competitors like Liberty, Rupa etc. which had set up wholesale-driven distribution networks, Page expanded solely through individual distributors. It wanted consumers to interact with the product directly rather than being showcased the products by the retailer. With that in mind, it introduced a new method of in-store marketing of innerwear products. Other areas where Page heavily focused on were quality and advertising. Traditionally, the innerwear segment was a low profile one and associated with mediocre quality. Page challenged both – they established strong relationships with high quality raw material suppliers to ensure superior quality which would be leveraged to command premium pricing.

The biggest testimony of the strength of relationships between Jockey USA and Page is the fact that in 2010 Jockey extended its licensing agreement with Page for a 20-year period instead of the standard practice of 5 years. Moreover, in the new agreement, the UAE was added as a new territory of exclusive license.

Page has been extremely successful in executing its strategy and is a leader today in the mid to premium segment of the innerwear market in India. As we will describe in the following sections, it has been able to develop deep economic moats which put it in a very strong position for the future.

Financial Summary

Particulars	2012	2013	2014	2015	2016
Total Revenue (INR mn)	7,017	8,842	11,941	15,516	17,896
EBITDA (INR mn)	1,480	1,810	2,565	3,212	3,787
EBITDA Margin %	21.10%	20.50%	21.50%	20.70%	21.20%
Net Income (INR mn)	924	1,152	1,546	1,971	2,335
Net Income Margin %	13%	13%	13%	13%	13%
EPS diluted (INR)	80.68	100.89	137.87	175.75	208.59
Dividend per share (INR)	42.31	35.14	20	25	17.33
ROCE %	63.11%	57.61%	56.54%	59.47%	62.13%



Management and Governance

Mr. Sunder Genomal is the promoter and Managing Director of the company and his son, Mr. Shamir Genomal is Executive Director and Chief Strategy Officer. Mr. Sunder has won Best CEO Textiles award 2015 and has over 30 years of work experience in textiles space. However, the decision-making at a senior management level is carried out in an independent and professional manner.

The professional backgrounds of individuals at a senior management level either include home-grown outperformers or external hires with relevant high-quality work experience. For instance, their COO, Vedji Ticku, joined Page in 1997 as a Regional Sales Manager for the South Zone and has growth within the firm rapidly. Page's head of product development, Shelagh Margaret, recently joined in March 2014 with 20 years' experience in designing and development of intimate apparel across different countries like Mexico, Sri Lanka, and Bangladesh. Thus a blend of internally groomed talent and laterally hired star performers make up Page's senior management team.

Most importantly, the incentive structure of Page's senior management team is strongly aligned with the interests of the company's shareholders. Bonuses for the year are determined by earnings growth achieved during the year. Pay-out of majority of the bonuses are deferred for 3-4 years and it compounds at the rate of Page's overall earnings growth of the corresponding years. Consequently, a well-incentivized professionally-run management team delivers proactive and dynamic changes to the structure of distribution model, raw material procurement model, R&D initiatives and branding initiatives. These proactive changes are needed for all parts of the business to 'manage growth' in revenues and earnings for the company consistently over a period of time.

Favourable Market forces

Shift towards organized sector and premium products

48% of the innerwear segment in the apparels industry is unorganized sector. With increasing disposable income people are shifting to the organized sector. Premium innerwear segment is expected to outperform the economy innerwear segment by growing at higher pace. This is due to change in mindset from considering them as an essential commodity to a fashion and brand sensitive product. Page industries has positioned itself in premium segment and this will boost the sales growth of Page Industries.

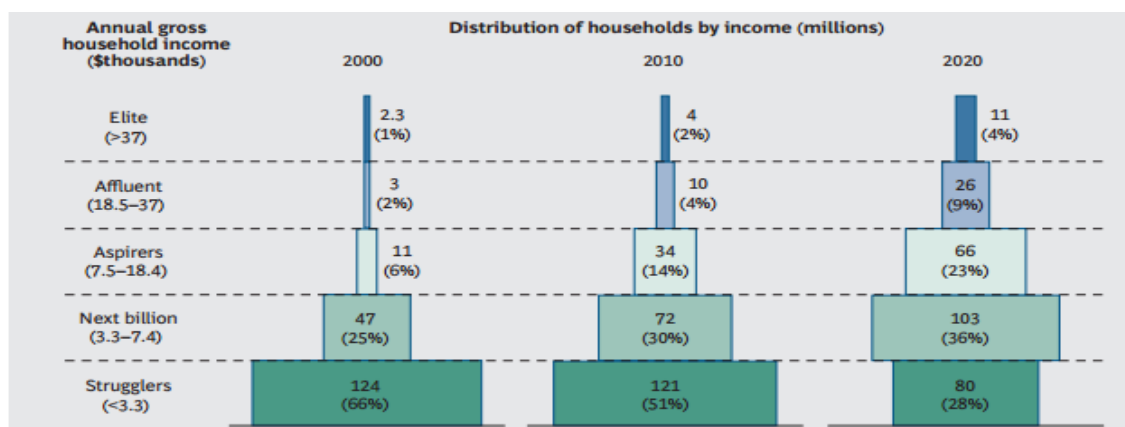


Figure 8 - Expected Household Income. Source: National Council for Applied Economic Research

Continued thrust from government through favorable policies

The Indian government recently allowed 100% FDI in textile sector. This will attract global investors to invest in this sector leading to improving the manufacturing, supply chain and back-end processes of the apparel sector. The government is promoting the Scheme for Integrated Textile Parks (SITP) to provide state of the art infrastructure facilities and meet international environmental and social standards.



The Union Ministry of Textiles plans to enter into bilateral agreements with Africa and Australia for exports. Moreover, the government is also considering a trade agreement with EU which will allow a duty free access of Indian garments in EU, which is the second largest destination for readymade garments in the world. This will lead to higher exports and page industries due to its competitive advantages is in better position to leverage the same. Further, this will also lead to improving the EBITDA margins due to better infrastructure.

Economic Moats

Aggressive Distribution

Page has more than 450 distributors across India which are segmented geographically and on product range. They cater to more than 44,000 retail outlets. Page has more than 139 exclusive brand outlets (EBO). Page also has Multi-brand outlets (MBO), large format stores and hosiery stores. The EBOs help push new SKUs onto the MBO channel and all new products are first introduced in EBOs which may be purchased by MBOs after initial success. Sophistication of distribution channel and frequent product launches gives Page a big advantage.

Research & Development / Innovation

Page has always been one step ahead from competitors in terms of innovation. Page, Jockey's USA team and other licensees meet twice a year to discuss about new innovations related to product development. They have recently launched 3-D innovation collection, based on 8-way stretch technology. Further it has 20-member R&D team which focuses on local preferences and keeps on introducing new styles.

Aspirational Brand Recall

Unique approach towards advertising with aggressive in-store advertising involving the use of Caucasian models has given the brand an international perception. Page has consistently spent around 5% of its revenues on advertising.

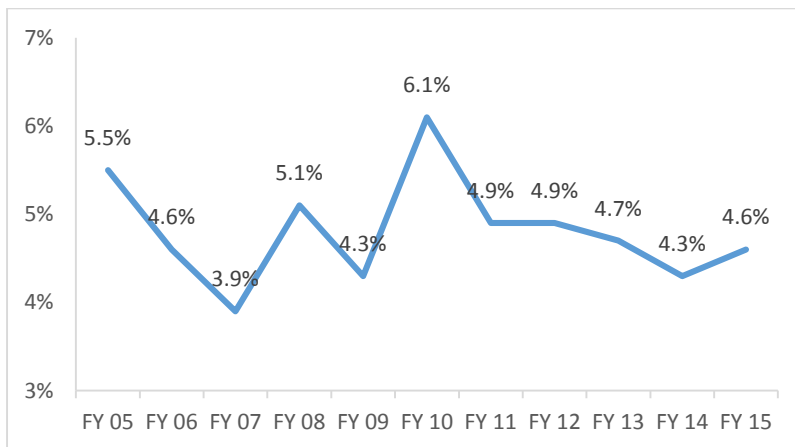


Figure 9 - Advertising & Promo / Revenue %. Source: Company Reports

This has helped Page in maintaining itself as an aspirational brand. Another reason for high brand recall is the nature of advertising & media initiatives. Its advertising campaigns have consistently been high-impact affairs like 'Just Jockeying' in FY10-14 and 'Jockey or Nothing' launched in FY15. Secondly, Page emphasizes on in-store advertising to the extent that in most Multi-Brand Outlets (MBOs), Jockey's adverts cover the bulk of in-store advertising space. This unique approach in advertising has helped Jockey emerge as the sole aspirational brand in the mid-to-premium innerwear segment.

Backward Integration

Page currently employs more than 16,000 laborers out of which 88% are womenⁱⁱⁱ. It has started its own training centers to train fresh recruits and workers and is able to train 1000 workers annually.



This can be seen from increase in per sales per employee from 0.4 mn in FY 2011 to 0.7 mn in FY 2014.

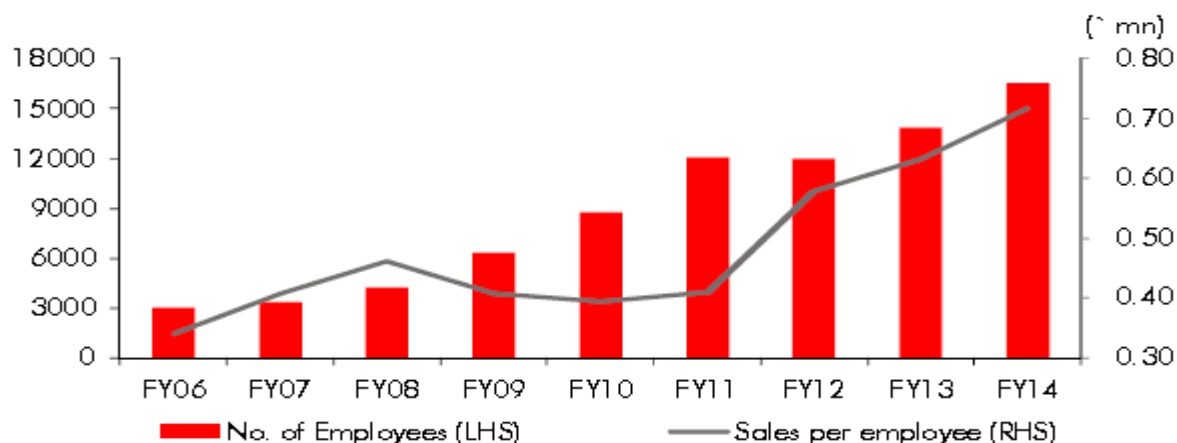


Figure 10 - Number of Employees and sales per employee. Source: Company presentation

In addition to above, backward integration also allows better control on product development and generates cost advantages. It has developed in-house capabilities for elastic manufacturing whilst most of its competitors procure from small cottage industries. Due to this Page is able to sell micro-fiber elastics to customers at same price as that of inferior quality products. The above resource and capabilities provide Page with long term sustainable competitive advantage.

Competitor Analysis

Peers have been considered from the innerwear segment in apparels sector in India. Page competes in mid to premium segment of the innerwear market whereas most of the peers operate in the low and economy segment. In the male innerwear segment, Page competes with Rupa and Maxwell, while in the female innerwear segment, it competes with Lovable Lingerie and Maxwell.

Competitive mapping framework for mid to premium innerwear segment shows that Page's competitive advantage remain unchallenged.

	Page	Rupa	VIP	Lovable Lingerie
Manufacturing Prowess	██████	██████	██████	██████
Distribution Aggression	██████	██████	██████	██████
Aspirational Brand Recall	██████	██████	██████	██████
Product Portfolio / Mix	██████	██████	██████	██████
Overall	██████	██████	██████	██████

Note: ██████ - Strong, ██████ - Relatively Strong, ██████ - Average ██████ - Relatively Weak^{iv}

Figure 11- Competitive mapping of Page along with its peers

Key financial metrics of Page and its peers are as follows:

FY 2016	Mkt Cap (INR bn)	1M % Chg	1 Yr EPS Gr (%)	P/E	P/B	ROE	Div. Yld. 12m
Page	182.68	6.78	18.69	78.52	26.75	52.17	0.54
Rupa	22.55	-1.60	-3.27	34.20	5.92	18.97	0.97
Lovable	4.9	7.92	17.46	21.21	1.87	NA	0.51
Maxwell	4.25	0.31	47.95	NA	3.11	-10.52	NA

Page has outnumbered its peers in all the above metrics. The higher EPS growth of Maxwell is due to decrease in losses in FY 2016 compared to FY 2015.

Page is trading at high multiple because of the higher revenue growth, return on equity, asset turnover etc. compared to its peers. Page has historically delivered strong growth due to constant



product innovation and entry into new segments like kids wear, sportswear, casual wear and then an exclusive contract with Speedo for swim wear. This is expected to continue due to its competitive advantage. Below graphs justify the higher multiple which Page commands over its peers.

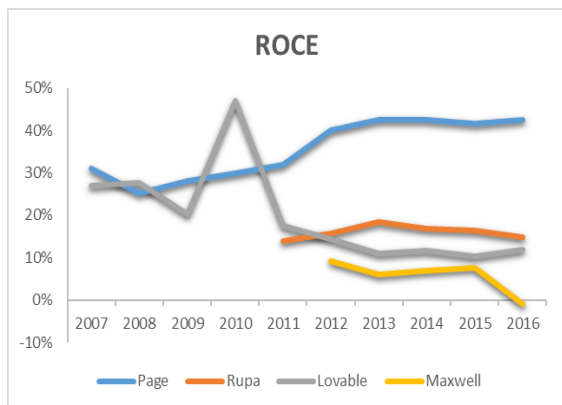


Figure 12 - ROCE for past 10 years of Page and peers

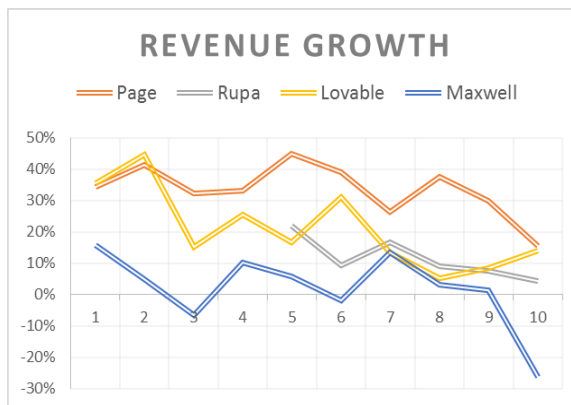


Figure 13 - Revenue growth for past 10 years of Page and peers

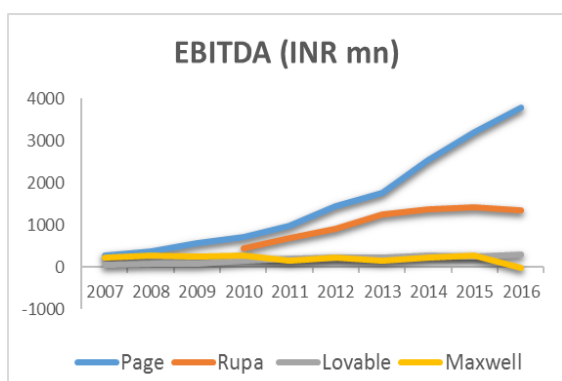


Figure 14 - EBITDA for past 10 years of Page and peers

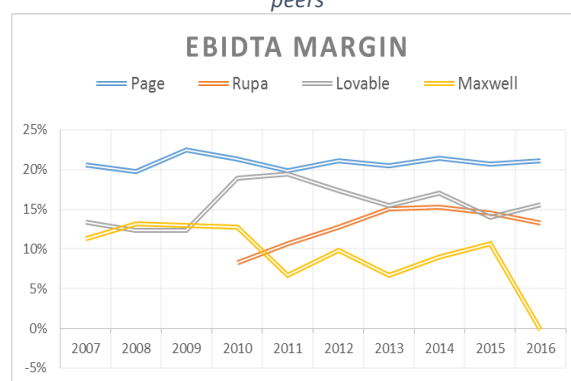


Figure 15 - EBITDA Margins for past 10 years of Page and peers

Page has very high operating margin of over 20%ⁱ, whereas the industry average is ~10%. It has highest asset turnover amongst its peers. Combined all these with book leverage ratio of around 2, it commands a very high ROE of 50-60% as compared to competitors which average around 15%.

FY 2016	PAT Margin	Asset Turnover	Leverage Ratio	ROE
Page	13%	2.02	1.98	52%
Rupa	6%	1.43	2.05	19%
Lovable	12%	0.86	1.17	12%
Maxwell	-5%	0.77	2.64	-10%

Valuation

DCF valuation

We have applied DCF valuation technique to value Page Industries because the business is currently in high growth phase and it is highly cash generative with CFO/EBIDTA ratio of ~74% over past 10 years. We have built a three stage FCF model, wherein we have forecasted high growth period for 5 years, fade period for 9 years and then stable growth period. We expect the company to post 22% revenue CAGR till FY 2021 (reported 30% in last 5 years) and post EBITDA margins of 21.5%. At the end of the fade period, we expect the revenue to fall ~6% in FY 2031 (CAGR of 15%) and EBITDA margins compressing to 20.5% only, due to increased backward integration, rationalization of working capital needs and improvement in IT platforms. During stable growth stage, we have assumed continuous growth of 6% p.a. We have calculated WACC of 10.1%, by taking risk free rate as 7.5%, historical beta as 0.56 and market premium of 4.6%. Debt Equity Ratio is only 0.3% and has



been ignored in our calculation as the impact of the same is negligible and we assume that company will be debt-free in 2 years.

Summary table for DCF Valuation is as follows:

WACC	10.1%	Sensitivity Table	Growth Rates					
Tax Rate	30%		5.0%	5.5%	6.0%	6.5%	7.0%	
Terminal Growth Rate	6%	WACC	9.5%	17,190	18,798	20,867	23,624	27,485
EPS of FY 2017 (INR)	274.48		9.8%	16,092	17,486	19,252	21,561	24,710
Enterprise Value FY 2017 (INR)	196,978 mn		10.1%	14,938	16,124	17,603	19,500	22,019
Net Debt FY 2017 (INR)	646 mn		10.3%	14,221	15,287	16,604	18,273	20,454
Equity Value FY 2017 (INR)	196,332 mn		10.5%	13,419	14,358	15,507	16,943	18,789
No. of Shares	11.153 mn							
Expected Market Price (INR)	17,603							
Average monthly Current Market Price (Oct 16) (INR)	15,858							
Upside Potential	11%							

Figure 16 - Summary DCF Valuation and Sensitivity Analysis

Relative valuation

We have applied relative valuation based on 3 major parameters, one being P/E multiple, second being P/Bv multiple and EV / EBITDA multiple. As we have 4 players in this segment (with 1 company incurring losses) and their market size being too varied, we took historical weighted average of the multiples. By calculating weighted average of historical P/E ratio, we project the FY 17 P/E ratio of this industry as 69 and applying this to expected EPS of 2017, we get expected market price of INR 18,995 (upside potential of 19%). We have similarly projected P/Bv and EV/EBITDA. Table providing the calculation of Relative Valuation is produced below:

Forecast Avg. P/E FY 2017	69	Weighted average forecast market price		
EPS FY 2017	274.49	Method	Weights	Price
Forecast Price (based on P/E)	18,995	DCF	0.5	8,802
Forecast Avg. P/Bv FY 2017	18.4	P/E	0.3	5,699
Book Value per Share FY 2017	604	P/Bv	0.1	1,111
Forecast Price (based on P/Bv)	11,111	EV/EBITDA	0.1	1,835
Forecast EV/EBITDA FY 2017	43.88	TOTAL		17,446
EBITDA per Share FY 2017	419.43	Upside Potential		10%
Forecast Enterprise Value (mn)	205,253	Hence, we recommend "BUY" for this stock		
Forecast Price (based on EV/EBITDA)	18,345			

Figure 17 - Relative Valuation and Weighted Average Target Price

Investment Risks

Impact of Goods and Service Tax (GST) Rate:

Government is expected to introduce Goods and Services Tax (GST), a unified indirect tax scheme by April 2017. GST rate of 12% has been recommended by the Dr. Arvind Subramanian Committee formed by government. This will have a negative impact on the textile sector, especially the cotton value chain, which is currently attracting zero central excise duty.

Slowdown in the consumer spending sentiment:

Although Page has grown faster than the industry in FY 2016, however the growth rate was lower than earlier growth rates. If this trend continues then this slowdown can have impact on the revenue growth and margins of the company

**Increase in Raw Material (Cotton) cost:**

Commodity prices are gaining momentum and showing an upward trend. Increase in price of Cotton, which is the main raw material cost for the company, can affect the margins of the company. Though the company can pass on the increase in cost but generally there is a lag and it also depends on the consumer sentiment and then prevailing economic factors.

Rising competition from MNC entrants:

Currently, there are no major global brands in mid-premium innerwear segment. However due to low entry barriers and high margins in this business there is an imminent threat of some MNCs entering the market. Recently, global innerwear brands Hanes and Fruit of the Loom have entered in India. However, this is not a big threat in short term as these global brands will have to build distribution channel etc.



4 PERFORMANCE STOCKS

Company Name: India Cements

NSE Symbol: INDIACEM

Industry: Cement

Current Market Price: INR 157.05

Market Capitalization: INR 48.24 billion

52wk Low/High (INR): 63.90/ 164.20

Recommendation: BUY

About the Company:

- India Cements is the largest cement player in South India, with an installed capacity of 13.1 MTPA.
- In FY16, the company reported a top-line of ~INR 42bn, and a bottom-line of ~INR 1.4bn, an increase from ~INR 0.3bn in FY15.

Investment Thesis:

- Growth in infrastructure projects due to government initiatives, increased demand from builders, Tamil Nadu housing scheme for poor and increased infra spend in Telangana and AP are expected to boost volumes at a CAGR of 5.4% in FY16-18E.
- Management is targeting to improve operational efficiency by reducing power and fuel cost and increasing capex to induce efficiency.
- It is expected that the EBITDA gap with other players will be bridged substantially (by nearly 40-50%) in FY17.

Valuation:

- The current EV/ton is 63x. Factoring in for growth and positive future trends, the stock has been valued at an EV/ton of 58x in FY18.

Risks to recommendation:

- There may be a lag in the government policies to promote infrastructure; this could lead to substantial dip in top-line growth.
- Cement prices have been at a premium in South India, but have been softening since 2015. Continuation of this trend would mean reduced realizations.
- A significant portion of the plants can be accorded a vintage status. This could be a bottleneck due to which the EBITDA gap may not be bridged as targeted.



Company Name: Ashok Leyland

NSE Symbol: ASHOKLEY

Industry: Automobile

Current Market Price: INR 90.25

Market Capitalization: INR 256.84 billion

52wk Low/High (INR): 75.05/ 112.90

Recommendation: BUY

About the Company:

- Ashok Leyland is a major commercial vehicle manufacturer in India. It is the second largest player across segments with a market share of ~33% in the M&HCV segment.
- In FY16, the company reported a top-line of ~INR 135.6bn, and a bottom-line of ~INR 2.6bn, an increase from ~INR 1.9bn in FY15.

Investment Thesis:

- Government initiatives towards increasing infrastructure spending, policy actions like reversal of mining bans, resumption of stalled projects, and increase in medium duty vehicles due to trickle-down effect are expected to boost volumes.
- Ashok Leyland utilized the recent downturn to revamp its product portfolio; this has enabled it to outpace the industry and gain market share.
- The debt to equity ratio is at a comfortable level of 0.24x.
- EBITDA margins are expected to improve as a result of increased utilization levels and cost rationalization measures taken by the management.

Valuation:

- The current EV/EBITDA multiple is 26.9x. Factoring in future growth prospects, the EV/EBITDA multiple, going forward is expected to be 19x in FY17.

Risks to recommendation:

- Pricing is expected to remain aggressive as recovery is fragile. However, the company is likely to pass on commodity related and regulatory costs to consumers and maintain margins.
- Delays in the implementation of government initiatives would affect the top-line.
- Lack of sufficient monsoons will affect tractor sales in particular.



Company Name: Arvind Limited

NSE Symbol: ARVND

Industry: Textiles

Current Market Price: 415.05

Market Capitalization: INR 107.23 Billion

52wk Low/High: 235/420

Recommendation: BUY

About the Company:

Arvind limited is the flagship company of the Lalbhai group. The revenue contribution by segments is Textiles (63%), Brands and Retail (30%), Real Estate and Others (7%).

The company had exhibited revenue growth CAGR of 12% in FY12-16 and EBITDA and PAT margin stands at 16.91% and 5.89% in FY16. RoE and RoCE stands at 11.6% and 7.11% respectively.

Investment Thesis:

Portfolio of strong brands: Brands straddled across various prices include Matured brands like Tommy Hilfiger, Arrow, Flying Machine to growth brands like Calvin Klein, GAP, Nautica, Aeropostale.

Integrated manufacturing facility: Has Vertically integrated manufacturing facilities producing cotton yarn to branded output and has partnered with global brands as a manufacturer.

Strong Distribution network: Has 936 Exclusive Brand Outlets and 989 Multi Brand Outlets and Large format stores including 140 Megamart stores and E-commerce channel.

Favorable social demographics: Evolving customer buying behavior such as purchasing western brands which reduces the cost of acquisition and further influenced by consumption of western media content.

Valuation:

Rolling over the EV/EBITDA of 3.5x for its standalone business and EV/Sales of 2.5x for its Brands and retail business, we arrive at a target price of 500/share.

Risks to recommendation:

1. Forex risks as Arvind derives 30% of its revenues through exports.
2. Growth triggers in Brands and retails business not panning out.
3. Increasing leverage on the back of heavy capital expenditure.



Company Name: Lupin Limited

NSE Symbol: LUPIN

Industry: Pharmaceuticals

Current Market Price: 1490.30

Market Capitalization: INR 672.48 Billion

52wk Low/High: 1280/1948

Recommendation: BUY

About the Company:

Lupin is the 9th largest Pharmaceuticals company in the world. It is engaged in development and marketing of generic and branded formulations and APIs in anti-TB and Cephalosporin segment.

The revenue decomposition by segments in FY16 is API (9%), Domestic Formulations (25%), Emerging market Formulations (20%) and Advanced Market Formulations (46%). The company had grown at a CAGR of 19% in Net Sales, 27% in EBITDA, 21% in Net Profits in FY11-16.

Investment Thesis:

Focus on chronic care in domestic market: From being a anti-TB player, Lupin is focusing on lifestyle and chronic therapy segments.

Strong growth in the US market: Sales from US market to grow due to more launches from Gavis and in Derma segment.

EBITDA margin expansion: EBITDA margin is expected to improve by 200 basis points on the back of strong US sales growth.

Large product and R&D pipeline: Lupin has a total of 149 filings and 256 projects under development with market size USD 70-80 Billion.

Gavis acquisition to fructify: Gavis sales to grow at 49.8% in FY16-18.

Valuation:

At a forward PE of 23x on the projected FY17 earnings, we have a target of INR 1800.

Risks to recommendation:

1. Competitive price pressure in the US market.
2. Annual Price cuts by MHLW in Japan.
3. Slower than expected growth in India.
4. Longer than expected delays in new products in US.

ⁱ Company, Analysts Industry Reports

ⁱⁱ Company Management Report

ⁱⁱⁱ Company Investor Presentation

^{iv} Company Reports and Analysis