

# Value Invest December 2016



**Keep Investing in Indian Equities**  
**Keep Calm During Turbulence in Short Term**  
**Keep Growing in the Long Term**

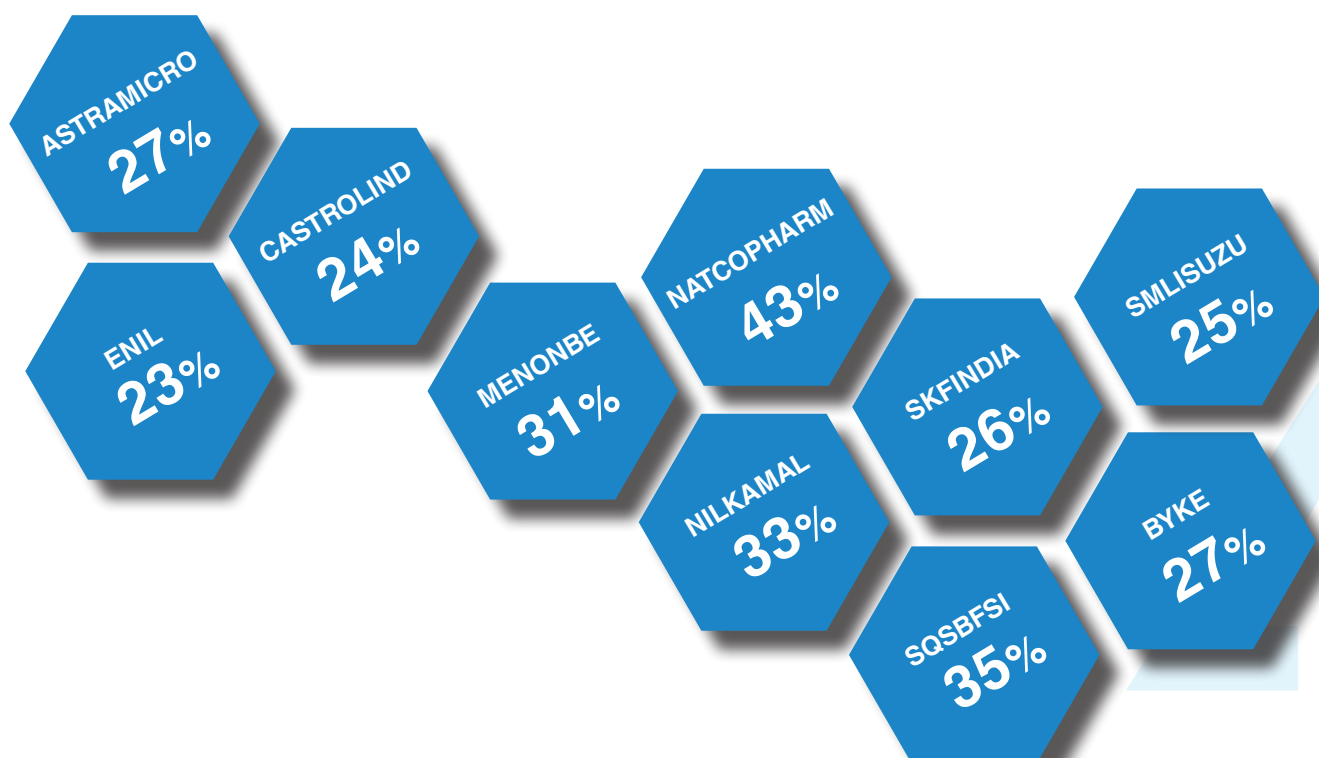
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# Top 10 Midcap Stocks

## Value Invest Dec 2016

NSE Symbol	Sector	Market Cap (Rs. Mn.)	CMP * (Rs.)	Target Price (Rs.)	Upside (%)
ASTRAMICRO	Defense products	9423	109	138	27
CASTROLIND	Lubricants	196786	398	494	24
ENIL	Media-Radio	33608	705	870	23
MENONBE	Capital Goods	3900	69	90	31
NATCOPHARM	Pharma	103085	589	841	43
NILKAMAL	Plastics	19769	1325	1756	33
SKFINDIA	Capital goods	66179	1257	1580	26
SMLISUZU	Auto	15653	1082	1350	25
SQSBFSI	IT	7223	677	916	35
BYKE	Hospitality	6514	162	207	27

\*As on Dec 05, 2016; Time frame 9-12 Months



# Astra Microwave Products Ltd

Bloomberg Code: ASTM IN

India Research - Stock Broking

**BUY**

## Future Likely to be Robust; Order Book Offers Visibility

**Future likely to be robust:** Astra Microwave Products (ASTM) management continues to maintain its full year guidance with a negative bias for the targeted revenue and PAT of Rs.4,500mn and Rs.650mn respectively. For the half-year ending, revenue, EBITDA and PAT reach to Rs.1,472mn, Rs.314mn and Rs.137mn.

**Order book offers revenue visibility:** Order booking during H1FY17 comes in close to Rs.1,630mn and outstanding order book by end of Q2FY17 stood at Rs.5,610mn, of which domestic defence orders constitute close to 85%, exports at 7% and space at around 6%. We estimate order book and net revenues could reach to Rs.5,837mn and Rs. 4117 mn respectively for FY17E while the same for FY18E could reach to Rs.6,304mn and Rs.4483 mn respectively.

**Stable Profit Margins:** Order book mix remains a key determinant for margins as observed during H1FY17; over three-fourths of revenue contribution came in from domestic businesses largely mitigating shrinkage in absolute profits despite declining revenues. We estimate absolute EBITDA and PAT to reach to Rs. 861mn and Rs.482mn respectively for FY17E and the same could reach to Rs.1031mn and Rs.617mn respectively for FY18E. EBITDA and PAT margin reach to 20.9% and 11.7% respectively by FY17E and the same is estimated to reach to 23.0% and 13.8% respectively by FY18E.

**Capex, R&D activities and new product development:** We estimate CapEx to be of maintenance nature in the range of Rs.150mn-Rs.250mn for FY17E and FY18E. Bangalore R&D centre is on track to complete the test facilities. ASTM continues to peruse medium to long term opportunities in various radar and Radio-Frequency (RF) programs that include development of seekers, Transmit/Receive (TR) modules for LRSAM, QRSAM, Uttam, AWCAS etc. These programs are in various stages from design, prototype and engineering model development.

**Focus on Market Opportunities through JVs and subsidiaries:** ASTM focuses on peruse market opportune areas, in over five year period, Canadian JV is expected to peruse revenues of close to Rs.3,000Mn, Israeli JV of Rs.15,000mn while the same for Singapore subsidiary is in the range of US\$ 0.5Mn and US\$ 1.5Mn beyond FY18E.

## Valuation and Outlook

At CMP of Rs.109, ASTM is currently trading at 19.6x of FY17E EPS of Rs.5.6 and 15.3x of FY18E EPS of Rs.7.1. We value ASTM on FY18E estimate and recommend a 'BUY' rating for a price target of Rs.138 valuing the company at 15.3x FY18E EPS of Rs.7.1 representing an upside potential of 27% for a 9-12 months period.

### Valuation Summary

YE Mar - Standalone (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	5312	6343	4196	4117	4483
EBITDA	837	1064	953	861	1031
EBITDA Margin (%)	15.8	16.8	22.7	20.9	23.0
Adj. Net Profit	509	608	564	482	617
EPS (Rs.)	6.2	7.4	6.5	5.6	7.1
RoE (%)	23.0	22.9	16.4	11.5	13.4
P/E (x)*	8.1	19.9	16.3	19.6	15.3

Source: Company, Karvy Research, \*Represents multiples for FY14, FY15 & FY16 are based on historic market price

### Recommendation (Rs.)

CMP (as on Dec 05, 2016)	109
Target Price	138
Upside (%)	27

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	9423 / 138
52-wk High/Low (Rs.)	152 / 101
3M Avg.daily volume (Mn)	0.3
Beta (x)	1.1
Sensex/Nifty	26349 / 8129
O/S Shares(mn)	86.6
Face Value (Rs.)	2.0

### Shareholding Pattern (%)

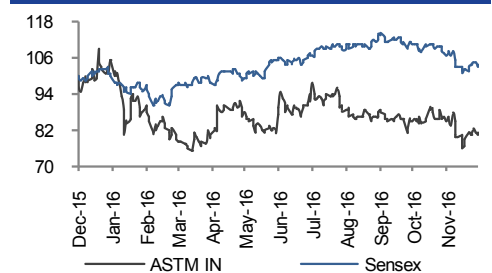
Promoters	16.1
FII's	2.7
DII's	32.2
Others	49.0

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(5)	(6)	(1)	(24)
Relative to Sensex	(2)	1	1	(26)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

ASTM is one of the leading designers and manufacturers of highquality radio frequency (RF) and microwave components and sub-systems in India. Astra Micro's products find application in Defense, Space and Civil communication systems. ASTM's major products include radar, telemetry, ground surveillance antenna and electronic counter measures for defence applications, ground based generators and S-level (on-board) for space application. Telecom products include MSS terminals, industrial security system and civil telecom products. Meteorology products are met towers & automatic weather stations.

# Castrol India Ltd

Bloomberg Code: CSTR IN

India Research - Stock Broking

**BUY**

## Strong Balance Sheet and Return Ratios to Compete with Market Conditions

**Strong Market share:** Castrol has established its presence in the engine oil segment with 20% domestic market share in retail segment. They predominantly catering to the personal mobility and commercial vehicle segments having ~20.0% and ~30.0% market share respectively making about 200 Mn Lt (including industrial sales). They have placed themselves in the premium lot in all categories of their products.

**Strong Brands in its Portfolio:** Strong position and market share is on the back of its power brands - Activ, CRB, GTX and pioneering technology. Castrol India products are the largest selling product in two wheeler, Diesel engine Oil and Car segments. It is also market leader in corrosion preventive and metal cutting fluid segments. These brands were supported by good advertisement investments and strong distribution network of 420+ distributors, servicing over 105,000 retail sites.

**Differentiated product mix:** With more focus and investment on power brands, Castrol India with change in product mix is expected to record good volumes in the premium category catering mainly to the passenger segment.

**Strong Balance sheet:** With strong free cash flow, dividend payout ratio of 75% over the years and asset light business model, Castrol India continued to build strong cash reserves (Rs.8157 mn). Backed by these strengths, Castrol India continues to report return ratios above 100%.

## Valuation and Outlook

Despite strong fundamentals of the company, there is tough competition in the market in terms of pricing where Castrol has indicated investments in personal mobility and commercial vehicle segments. Crude Oil and rupee volatility are the key factors which affects the margins of Engine Oil business. Castrol India focuses on personal mobility and commercial vehicle segments supported by strong balance sheet and brands which are placed well are expected to help the company to report volume growth along with current market share. We expect trade discounts to impact realizations in the near term which led to conservative estimates. At CMP of Rs.398, Castrol India Ltd is trading at 29.9x CY17E EPS and we value the company at 37.0x to CY17E EPS with a “**BUY**” rating for a revised target price of Rs. 494 having an upside of 24% for a 9-12 month period.

### Valuation Summary

YE Dec - Standalone (Rs. Mn)	CY13	CY14	CY15	CY16E	CY17E
Net Sales	31796	33923	32980	33947	34632
EBITDA	6874	7167	8949	9818	9891
EBITDA Margin (%)	21.6	21.1	27.1	28.9	28.6
Adj. Net Profit	5085	4746	6152	6570	6583
EPS (Rs.)	10.3	9.6	12.4	13.3	13.3
RoE (%)	72.6	76.0	114.7	103.2	88.5
P/E (x)*	30.6	51.4	35.6	29.9	29.9

Source: Company, Karvy Research, \*Represents multiples for CY13, CY14 & CY15 are based on historic market price

### Recommendation (Rs.)

CMP (as on Dec 05, 2016)	398
Target Price	494
Upside (%)	24

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	196786 / 2883
52-wk High/Low (Rs.)	495 / 360
3M Avg.daily volume (Mn)	2.7
Beta (x)	0.8
Sensex/Nifty	26349 / 8129
O/S Shares(mn)	494.6
Face Value (Rs.)	5.0

### Shareholding Pattern (%)

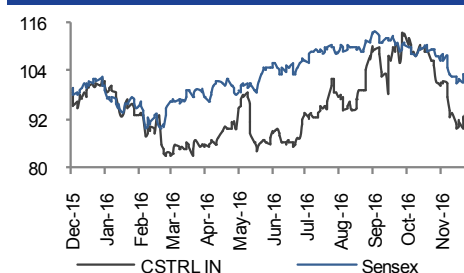
Promoters	51.0
FIIIs	12.3
DIIIs	17.4
Others	19.2

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(7)	(13)	5	(10)
Relative to Sensex	(4)	(6)	7	(13)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

The history of Castrol dates back to 1899 when Charles Wakefield decided to quit his job at Vacuum Oil and started his own lubricants company under the name “CC Wakefield & Company”. The company was later renamed to Castrol in 1960s. Later, it became part of BP Group in 2000. Headquartered in Mumbai, Castrol is one of the leading manufacturers of engine lubricants in India. The company has pan India presence with its 3 manufacturing plants located at Silvassa, Patalganga and Paharpur.

# Entertainment Network (India) Ltd

Bloomberg Code: ENIL IN

India Research - Stock Broking

**BUY**

## Radio Mirchi (98.3 FM) Well Positioned to Capture the Growth Opportunities

**Market leadership, Higher blended capacity utilization and sustained margins:** ENIL has seen its revenue, EBITDA and PAT CAGR of over 14.4%/15.1%/13.5% respectively during FY13-FY16. We expect the company to register operating revenue CAGR of over 14.8% during FY16-FY18E to reach Rs. 6,703 mn on account of increase in volumes and average realization. EBITDA is expected to decrease to Rs. 1,332 mn in FY17E and further increase to Rs. 1615mn in FY18E. This is on account of the company's focus on increased spending on brand and marketing expenditure. PAT is expected to decrease to Rs. 588 mn in FY17E and further increase to Rs. 781 mn in FY18E on account of decrease in other income and increased depreciation and amortization costs.

**Company to strengthen its leadership position:** The company enjoys approximately 1/3rd market share in Private FM radio space and was continuously debt free for previous 5 years prior to FY16. The company has successfully bid in the batch-I of phase-III radio FM auctions and has obtained 17 new stations.

**Strong brand footing:** Once all the radio stations of the company become operational, ENIL with its strong parent company will be in a formidable position to further increase its market share post complete roll out of Phase – III licenses.

## Valuation and Outlook

Being a market leader in the private FM radio space along with strong parentage, the company is in a formidable position to expand and further increase its market share and improve the return ratios from FY17E levels. We factor in the revenues from existing 32 stations, 4 stations acquired from TVTN and 17 stations obtained in batch-1 of phase-3 and value ENIL at 25.8x based on one year forward EBITDA with a "BUY" rating for a target price of Rs. 870, which is also the ENIL market capitalization ratio at 31.7x based on forward one year operating cash flows of FY18E.

## Key Risks

- Lack of price rise, than desired, will put pressure on revenue growth.

### Valuation Summary

YE Mar - Consolidated (Rs. Mn) <sup>#</sup>	FY14	FY15	FY16	FY17E	FY18E
Net Sales	3848	4385	5086	5676	6703
EBITDA	1249	1452	1594	1332	1615
EBITDA Margin (%)	32.5	33.1	31.3	23.5	24.1
Adj. Net Profit	836	1060	1000	588	781
EPS (Rs.)	17.5	22.2	21.0	12.3	16.4
RoE (%)	15.4	16.9	13.9	7.4	9.1
P/E (x) <sup>*</sup>	21.3	35.8	37.2	57.1	43.0

Source: Company, Karvy Research, <sup>\*</sup>Represents multiples for FY14, FY15 & FY16 are based on historic market price

<sup>#</sup> FY14, FY15 & FY16 are based on IGAAP

### Recommendation (Rs.)

CMP (as on Dec 06, 2016)	705
Target Price	870
Upside (%)	23

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	33608 / 492
52-wk High/Low (Rs.)	908 / 612
3M Avg. daily volume	25480
Beta (x)	0.7
Sensex/Nifty	26349 / 8129
O/S Shares(mn)	47.7
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

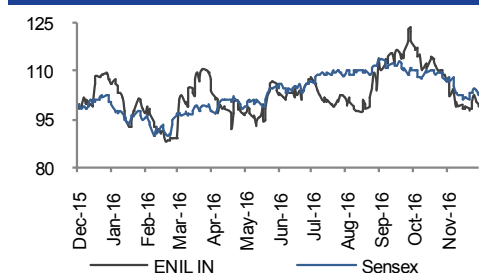
Promoters	71.2
FII's	16.9
DII's	2.3
Others	9.6

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(7)	(5)	(5)	(2)
Relative to Sensex	(4)	3	(3)	(5)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

Entertainment Network (India) Limited (ENIL), a subsidiary of Times Infotainment Media Ltd (TIML) incorporated in 1999. After the successful bidding in the radio phase-I and phase-II auctions, ENIL had 32 radio stations. ENIL obtained 17 stations under batch-I of phase-III auctions. ENIL also acquired 4 oye radio stations from TVTN. As on today, after the migration of 32 existing stations and acquired 4 stations along with new radio stations acquired under batch-1 of phase-III, ENIL has 52 stations in which 45 of them are operational across 32 cities. It has also presence in the UAE through a shared agreement with local player. The company has around 20 online streaming stations.

# Menon Bearings Ltd

Bloomberg Code: MEN IN

India Research - Stock Broking

**BUY**

## Significant Demand Pick Up & Strategic Positioning to Aid Growth

**Revenue to Surge on the Back of Strong Economic Recovery:** With automotive industry estimated to grow at a CAGR of 10.1% for FY15-FY18E coupled with auto components industry expected to record a CAGR of 24.5% to reach a high of \$115Bn by FY20E from the current levels of \$38.5 Bn. With IIP & core sector growth exhibiting signs of recovery on the back of strong macro-economic factors, Menon bearings is well positioned to benefit from the same.

**Superior Execution Capabilities and Reputed Clientele:** TATA, VOLVO, Ashok Leyland, IFB, Mahindra are few of the reputed clients that Menon bearings caters to. Menon bearings contribution has been in critical engine products for which high level of testing & validation are required mitigating the counterfeit product problems and the criticality of the application helps in maintaining its superior market share going forward.

**Superior return ratios & strong financials:** Menon bearings has always been recording healthy margins. EBITDA & PAT margins have expanded by nearly ~830 & ~630 bps during FY14-FY16 recording 26.0% & 13.4% respectively in FY16. Return ratios have also been impressive with RoE & RoCE at 28.7% & 38.8% respectively in FY16. On account of new client addition, stabilizing depreciation expenses, we expect the margins to stabilize by FY18E with EBITDAM, PATM, RoE, RoCE reaching 25.1%, 14.9%, 29.8% & 40.6% respectively. Net debt to equity of 0.1x in FY16, near zero debt levels, net working capital to sales at less than 20%, cash per share of Rs. 1.1 and interest coverage multiple of 15x indicate its balance sheet strength to remain debt free, while maintaining operational prudence & gaining market share.

## Valuation and Outlook

While global growth outlook remains gloomy, India is one of the few economies expected to deliver growth. At CMP of Rs. 69, Menon Bearings is trading at 15.7x to FY18E EPS. During FY05-FY15, it has been trading at a one year mean forward P/E of 17.7x, further to add, Menon bearings is trading at 1 standard deviation level of 20.6x during last twelve months. In view of economic revival coupled with positive industry sentiments & incremental revenue addition from new clients, we ascribe a multiple of 20.6x to FY18E EPS with a “**BUY**” rating for a target price of Rs. 90 representing an upside potential of 31% for a 9-12 months period.

### Valuation Summary

YE Mar - Consolidated (Rs. Mn) <sup>#</sup>	FY14	FY15	FY16	FY17E	FY18E
Net Sales	868	1032	1114	1392	1645
EBITDA	154	225	290	326	413
EBITDA Margin (%)	17.7	21.8	26.0	23.4	25.1
Adj. Net Profit	62	115	149	183	246
EPS (Rs.)	1.3	2.5	3.2	3.3	4.4
RoE (%)	17.2	26.9	28.7	28.8	29.8
PE (x) <sup>*</sup>	5.1	15.2	15.5	21.0	15.7

Source: Company, Karvy Research; <sup>\*</sup>Represents multiples for FY14, FY15 & FY16 are based on historic market price

<sup>#</sup> FY14, FY15 & FY16 are based on IGAAP

### Recommendation (Rs.)

CMP (as on Dec 06, 2016)	69
Target Price	90
Upside (%)	31

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	3900 / 57
52-wk High/Low (Rs.)	93 / 40
3M Avg.daily volume (Mn)	0.1
Beta (x)	1.4
Sensex/Nifty	26359 / 8129
O/S Shares(mn)	56.0
Face Value (Rs.)	1.0

### Shareholding Pattern (%)

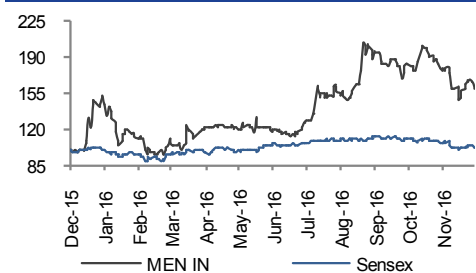
Promoters	74.7
FII's	0.0
DII's	0.0
Others	25.3

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(8)	(16)	36	57
Relative to Sensex	(4)	(9)	39	53

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

Menon Bearings Ltd. was incorporated in 1991 headquartered at Kolhapur, Maharashtra. The company is engaged in manufacturing automobile components like bushes, bearings, thrust washers, aluminum die cast and bimetal strips. These products are customized according to the clients requirements. The products find applications in light & heavy commercial vehicles, passenger vehicles, compressors, combustion engines and electrical appliances such as refrigerators and air conditioners. The company caters OEM, replacement market and the export market. Products are exported to USA, UK and Middle East.

# Natco Pharma Ltd

Bloomberg Code: NTCPH IN

India Research - Stock Broking

**BUY**

## New Product Launches and gTamiflu Inventory Build-up to Boost US Exports

**gTamiflu Sales Recorded:** For Q2FY17, Natco recorded the following gTamiflu sales to Alvogen: Rs.1000 Mn formulations sales and Rs.420 Mn API trading sales. Alvogen (Natco's commercialization partner for gTamiflu) did not launch gTamiflu yet, but launch can happen anytime before Feb 23, 2017. The sales are basically inventory build-up of gTamiflu in the run-up to the launch. Post launch by Alvogen in US, the profits from gTamiflu sales would be shared between Alvogen and Natco.

**Strong Flu Season Leads to Large gTamiflu Sales:** Typically, 85% of annual sales occur during the flu season (Dec to Apr). Average annual Tamiflu sales in US for last 3 years have been about \$550 Mn, which is our base case. Mild flu season leads to sales closer to this average, strong flu season leads to higher than average sales. Major and widespread flu outbreaks may create windfall profits for Natco because the US government may stockpile large quantities. In a base case scenario, i.e. assuming a mild flu season in US, we expect gTamiflu to generate cash flow of Rs.5 per share during FY17E, and contribute Rs.3.1 to EPS for FY18E.

**Recent FDA Approvals to Expand Revenues and Increase Profits:** Annual sales during 2015 of brand Entocort and its generic versions in US are about \$370 Mn. Currently, four manufacturers have approved ANDAs in the US market – Teva, Mylan, Mayne and Perrigo. Alvogen/Natco would be the fifth manufacturer to receive approval. Budesonide is a specialty drug with limited competition, so we don't expect very large price erosion upon launch by Alvogen. We estimate Budesonide to contribute Rs.0.6 to EPS for FY17E and Rs.2.0 for FY18E. Annual sales of Armodafinil during 2015 in US are about \$480 Mn. Breckenridge Pharmaceutical is the marketing partner of Natco for Armodafinil. We estimate Armodafinil to contribute Rs.0.9 to EPS for FY17E and Rs.1.5 for FY18E.

## Valuation and Outlook

Natco expects to file about 6 to 7 ANDAs during FY17E, the company has also made considerable investments for its new formulations facility at Vizag and is expected to be completed around March 2017. Currently, there are about 21 ANDAs under review (as of March 31, 2016) with US FDA having a combined market size of \$15.4 Bn. At CMP of Rs.589, Natco is trading at Adj. PE of 15.9x FY18E Adj. EPS of Rs.37 (this includes EPS of Rs.3.1 of gTamiflu for FY18E). We reiterate a **"BUY"** recommendation with Rs.841 target price based on 22x FY18E EPS of Rs.37 for the recurring business and a net present cash flow of Rs.27 per share for FTFs/Para IV opportunities. The target of Rs.841 represents a potential upside of 43%.

### Valuation Summary

YE Mar - Consolidated (Rs. Mn) <sup>®</sup>	FY14	FY15	FY16	FY17E	FY18E
Net Sales	7,389	8,253	11,416	16,058	22,714
EBITDA	1,794	2,134	2,697	4,115	8,665
EBITDA Margin (%)	24.3	25.9	23.6	25.6	38.1
Adj. Net Profit	1,027	1,346	1,552	3,744	5,909
EPS (Rs.)	6.4	8.1	9.1	21.5	33.9 <sup>#</sup>
RoE (%)	16.1	17.0	14.4	25.4	30.9
PE (x)*	24.7	51.9	45.3	27.4	17.4 <sup>#</sup>

Source: Company, Karvy Research; <sup>®</sup>Represents multiples for FY14, FY15 & FY16 are based on historic market price  
<sup>#</sup>Excludes EPS of Rs.3.1 for gTamiflu for FY18E, @ FY14, FY15 & FY16 are based on IGAAP

### Recommendation (Rs.)

CMP (as on Dec 05, 2016)	589
Target Price	841
Upside (%)	43

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	103085 / 1511
52-wk High/Low (Rs.)	704 / 390
3M Avg.daily volume (Mn)	0.3
Beta (x)	0.4
Sensex/Nifty	26349 / 8129
O/S Shares(mn)	174.2
Face Value (Rs.)	2.0

### Shareholding Pattern (%)

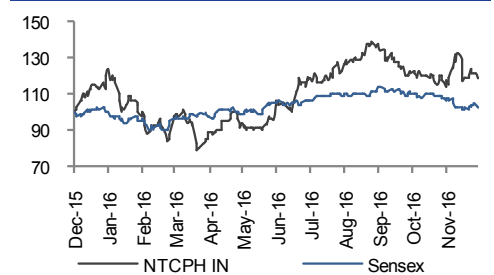
Promoters	51.3
FII's	19.4
DII's	6.4
Others	22.9

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	4	(13)	13	18
Relative to Sensex	8	(6)	16	14

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

Founded in 1981, Natco is a mid-size pharma manufacturer. It is the market leader in the domestic Oncology segment. Natco has presence in niche therapeutic areas and sells products in more than 40 countries. Natco prides itself in "Resisting the usual" by identifying and pursuing products with large and sustainable revenue potential. In Indian market, it offers 20 oncology medicines (9 for blood cancers + 11 for solid tumors) and medicines in other therapeutic classes mainly gastroenterology. Natco has 4 finished dosages facilities in Kothur, Nagarjuna Sagar and Dehradun, and 2 API facilities in Mekaguda and Chennai.

# Nilkamal Ltd

Bloomberg Code: NILK IN

India Research - Stock Broking

**BUY**

## Sustained Performance Aided By Slow Recovery in Raw Material Prices

**Established player in the moulded plastic furniture and material handling segment:** Nilkamal is among the top players in material handling segment and moulded plastic furniture. Both of these segments contribute nearly 85% of the company's topline. It has nearly 36% & 32% market share in material handling and moulded plastic furniture businesses respectively. Their retail segment consisting "@home" brand is also expected to improve in the years to come. Being an established player in plastic segment, we expect the company's topline to grow at 7.5% CAGR during FY16-18E.

**Profit Margins Expanded on the back of Drop in Raw Material Prices:** Drop in the crude oil prices in the recent past reflected in drop in the prices of Polyethylene (PE) and Polypropylene (PP) which are key raw materials for Nilkamal. This aided the company to improve its operating performance along with the increased profit margins. We expect the recovery in the prices of its key raw materials to be slow and the company to continue to stand beneficial in the years to come.

**Strengthening financial position:** Nilkamal has been offloading the debt in the recent past mainly on account of increased cash flows aided by the improving operating margins. The total debt on standalone basis decreased to Rs. 844 Mn as on Sep-17 which was around Rs. 3199 Mn in FY14. We expect the company to continue to improve its financial position benefitting it in terms of the reduced interest cost leading to improved profitability in the years to come.

## Valuation and Outlook

Nilkamal Ltd continues to benefit from the slow recovery in the key raw material prices coupled with the management's effort to get into the new product line, increased advertisement budget to create strong brand and improving financial position. We maintain a positive view on the developments of the company assigning a P/E of 18.5x to FY18E EPS and give a "BUY" rating with a target price of Rs. 1756 representing an upside potential of 33% for a period of 9-12 months.

## Key Risks

- Increase in the raw material prices could affect the operating profitability.
- Weak macro sentiment and lower consumer spending could affect the performance of the company's retail business.

### Valuation Summary

YE Mar - Consolidated (Rs. Mn) <sup>#</sup>	FY14	FY15	FY16	FY17E	FY18E
Net Sales	17418	18946	20033	21235	23150
EBITDA	1571	1562	2401	2529	2664
EBITDA Margin (%)	9.0	8.2	12.0	11.9	11.5
Adj. Net Profit	470	505	1133	1311	1420
EPS (Rs.)	31.5	33.8	75.9	87.9	95.2
RoE (%)	10.0	9.9	18.5	18.3	17.1
P/E (x) <sup>*</sup>	6.3	12.4	14.6	15.1	13.9

Source: Company, Karvy Research; <sup>\*</sup>Represents multiples for FY14, FY15 & FY16 are based on historic market price

<sup>#</sup> FY14, FY15 & FY16 are based on IGAAP

### Recommendation (Rs.)

CMP (as on Dec 05, 2016)	1325
Target Price	1756
Upside (%)	33

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	19769 / 290
52-wk High/Low (Rs.)	1842 / 884
3M Avg.daily volume (Mn)	0.2
Beta (x)	1.0
Sensex/Nifty	26349 / 8129
O/S Shares(mn)	14.9
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

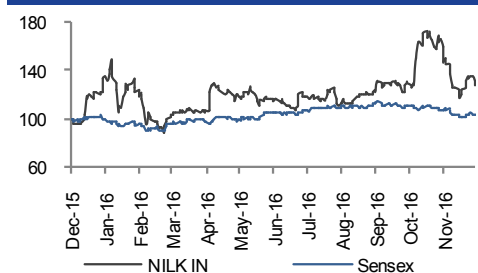
Promoters	64.1
FII's	6.9
DII's	0.1
Others	28.9

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(20)	5	10	28
Relative to Sensex	(17)	14	12	24

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

Nilkamal Ltd, a leader in moulded plastic products is present in three segments, viz Plastics (84.7%), Lifestyle Furniture, Furnishings & Accessories (11.4%) and Mattress (3.8%). The Plastics division consists of Material Handling, Moulded Furniture segments and Lifestyle Furniture, Furnishings & Accessories division consists of "@home" retail outlets. Its manufacturing plants are located at Barjora and Hooghly in West Bengal, Hosur in Tamil Nadu, Jammu, Kharadapada and Vasona in Dadra & Nagar Haveli, Noida in UP, Sinnor in Maharashtra and in Puducherry. It has currently 3 foreign subsidiaries: two based out of Sri Lanka and one in UAE; and has two joint ventures.



# SKF India Ltd

Bloomberg Code: SKF IN

India Research - Stock Broking

**BUY**

## Riding on Multiple Engines

**SKF is well positioned to capitalize on economic recovery:** With an up-tick in the economy, aided by government's industry friendly policies coupled with RBI's initiative to cut interest rates, manufacturing sector is feeling re-energized. And bearing, being the basic requirement in manufacturing sector and SKF, being the market leader with ~28% market share & 15% headroom in capacity utilization, is more than well placed to capitalize on the much anticipated revival in the economy. Auto industry, which is the major revenue contributor to SKF, is expected to exhibit healthy growth for near future.

**Increased business from railways & automotive to aid revenue growth:** SKF has forayed into railways segment and has won the approval from Indian Railways for supply of bearings for freight car application and we believe the current ~5% contribution from railways is expected to go up in years to come. Also significant private and public investments in infrastructure development projects and policy initiatives may augur well for SKF. Along with increase in turnover aided by volumes growth, we expect EBITDA, EBIT & NPM to stabilize at 11.3%, 12.2%, & 8.6% levels respectively by FY18E. Also we believe the return ratios to stabilize at 15.1% RoE & 21.6% RoCE by FY18E. SKF's strong balance sheet along with current capacity utilization levels imply low capex requirements in near future.

**Presence in Renewable Energy (RE) well complemented by huge distribution network:** SKF draws ~6% of revenue from RE. With intense focus on implementation, Indian government has set a target of 175 GW of RE by FY22E. We believe India's wind energy installed capacity is expected to grow at a CAGR of 15.4% during FY16-FY22E & we expect SKF's RE revenue to grow in tandem. SKF's strong distribution network comprising 400 distributors pan India is expected to aid in future growth.

## Valuation and Outlook

In view of the expanding Indian economy, softening interest rates aided by strong parentage, robust balance sheet, varied product mix and healthy cash flow generation, SKF is well positioned to benefit from the much anticipated economic revival. At CMP of Rs. 1257, SKF is trading at 24.1x to its FY18E EPS. We ascribe a multiple of 30.4x FY18E EPS, which is 1 standard deviation of one year forward mean PE during CY05-FY16. We recommend a "BUY" rating for a target price of Rs. 1580 representing an upside potential of 26%.

### Valuation Summary

YE Mar - Consolidated (Rs. Mn) <sup>#</sup>	CY13	FY15**	FY16	FY17E	FY18E
Net Sales	22750	24136	29979	28601	32038
EBITDA	2612	2812	3639	3324	3614
EBITDA Margin (%)	11.5	11.7	12.1	11.6	11.3
Adj. Net Profit	1888	2028	2572	2493	2745
EPS (Rs.)	35.8	38.5	48.8	47.3	52.0
RoE (%)	15.5	15.1	17.2	15.1	15.1
P/E (x)*	18.7	34.9	25.9	26.6	24.1

Source: Company, Karvy Research; \*Represents multiples for CY13, FY15 & FY16 are based on historic market price  
\*\*FY15: for 15 months from Jan 2014 to Mar 2015, # CY13, FY15 & FY16 are based on IGAAP

### Recommendation (Rs.)

CMP (as on Dec 05, 2016)	1257
Target Price	1580
Upside (%)	26

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	66179 / 969
52-wk High/Low (Rs.)	1550 / 1040
3M Avg.daily volume	23269
Beta (x)	0.8
Sensex/Nifty	26349 / 8129
O/S Shares(mn)	52.7
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

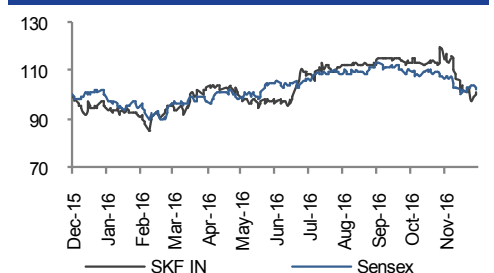
Promoters	53.6
FII's	12.2
DII's	20.3
Others	14.0

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(12)	(11)	1	2
Relative to Sensex	(9)	(4)	3	(1)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

Incorporated in 1961, as Associated Bearing Company Limited, SKF is part of the Swedish SKF Group. In 2004, it became SKF India Ltd and it manufactures rolling bearing and seals. Besides its wide-ranging products, it also offers extensive solutions and services. SKF is a market leader in Indian bearing market with ~28% market share. The products of the company consists of Bearings, Housing/ Sleeves & Accessories, Seals, Lubrication Solutions, Spherical Plain Bearings, Maintenance Products, Condition Monitoring Equipments, Linear Motion Products, Special Steel and a wide range of their high-tech industrial components. Manufacturing facilities are at Pune, Bangalore & Haridwar.

# SML ISUZU Ltd

Bloomberg Code: SM IN

India Research - Stock Broking

**BUY**

## Poised to Benefit from Auto-industry Revival with its New Capital Expansion

**Capex Plans to Aid Sales Momentum:** As the industry enters the growth phase, SML is well planned to increase its sales momentum. New capex investment of Rs.2200 Mn is expected to be deployed in the next two years i.e. by 2017, exclusively for product and research development. This outlay is expected to cater mainly to the goods segment. The capex is expected to be aided by internal accruals and ~Rs. 1400 Mn from External Commercial Borrowings (ECB). This up-gradation is mainly to improve the Horse Power (HP) of the engines and vehicle design. The company has witnessed 100% capacity utilization during the Q1FY17 (technically 4893 units). SML has healthy balance sheet to support the new capex plan.

**Improving Market Share:** On the back of expected increase in the utilization rate and slight increase in the unit vehicle realization, we expect the revenue to grow at a CAGR of 15% between FY16-18E, purely driven by volume growth and realizations on account of their product shift towards MHCVs. Driven by robust revenues, EBITDA is expected to grow at a CAGR of 18.6% between FY16-18E. Further, PAT is expected to increase at a CAGR of 27.3%. SML has posted double digit growth in all domains thus improving their market share in all categories where there was a 100bps increase in LCV passenger share from 7.4% in H1FY16 to 8.4% in H1FY17 majorly driven by their Q1FY17 performance.

**Consistent Cash Generation:** They have consistent cash flow generation which has helped in maintaining a net cash position, indicating sufficient room for capital expansion and other long term goals. Also, there has been a considerable improvement in their working capital cycle. We have assumed a similar trend for FY16-18E.

## Valuation and Outlook

SML posted H1FY17 sales volumes posted 8320 vehicles as compared to 6852 vehicles in H1FY16 registering 21.4% growth. In the same period, revenue increased by 21.4%, EBITDA margins improved by 146 bps to 9.5% and PAT changed by 43.5%. Currently, the stock is trading at 20.0x FY18E EPS. We value the company at 25.0x P/E for FY18E EPS. We maintain our positive view on SML with a "BUY" rating for a target price of Rs. 1350 representing an upside potential of 25% in a 9-12 month period.

### Valuation Summary

YE Mar - Standalone (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	8813	11055	11643	13755	15291
EBITDA	317	655	848	1045	1193
EBITDA Margin (%)	3.6	5.9	7.3	7.6	7.8
Adj. Net Profit	174	369	511	669	782
EPS (Rs.)	12.0	25.5	35.3	46.2	54.0
RoE (%)	6.8	13.4	16.7	19.0	19.1
P/E (x)*	27.6	45.9	22.1	23.4	20.0

Source: Company, Karvy Research, \*Represents multiples for FY14, FY15 & FY16 are based on historic market price

### Recommendation (Rs.)

CMP (as on Dec 05, 2016)	1082
Target Price	1350
Upside (%)	25

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	15653 / 229
52-wk High/Low (Rs.)	1434 / 639
3M Avg.daily volume (Mn)	0.1
Beta (x)	1.3
Sensex/Nifty	26349 / 8129
O/S Shares(mn)	14.5
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

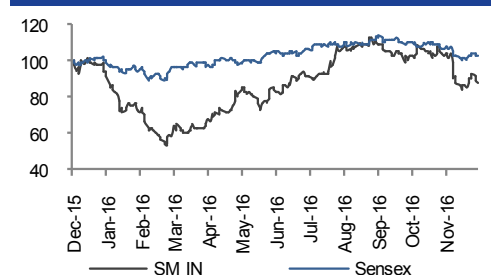
Promoters	44.0
FII's	0.8
DII's	17.7
Others	37.6

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(15)	(21)	3	(13)
Relative to Sensex	(12)	(15)	5	(15)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

Incorporated in the year 1983, SML ISUZU Ltd is an automobile manufacturer whose main product base includes Trucks, Buses and Special application vehicles such as Ambulance, Military vans, Tipper etc. They can be broadly classified into Light, Medium and Heavy commercial vehicles. The company has only one plant in Punjab from where it primarily manufactures vehicles. In this span of time, different variants of Trucks and Buses were introduced which catered to diverse consumer segments. In addition to this, bus chassis is also a part of their portfolio. Since Isuzu Motors is a stake holder, premier bus/truck models are launched under this brand. Further, exports constitute 3% of the total sales volume.

# SQS India BFSI Ltd

Bloomberg Code: SQSI IN

India Research - Stock Broking

**BUY**

## World's Leading Specialist in Financial Services Testing

**Benefits from SQS Group drive growth opportunities:** SQS India BFSI is now part of the SQS group, which is world's largest independent specialist testing company. Before acquisition, the consolidated revenue was Rs. 1614 mn in FY13. Over FY13-FY16, the company recorded revenue growth at a CAGR of 18%. We estimate the revenue will grow at a CAGR of 11% in FY16-FY18E. Going ahead, EBITDA margin expansion will continue from 20.5% in FY16 to 21.6% in FY18E due to revenue acceleration, changing business mix and employee cost rationalization.

**Focus continues to be on the US and Europe:** USA is 50% of the global market in IT services, but SQS presence has been only 22%. Post acquisition by SQS AG in Nov 2013, they have entered US software testing market in a big way. Management is very keen to focus its presence in US for which they have recently acquired two US based consulting companies with strong clientele across various verticals.

**Strong Business Potential and Increased Client Traction:** In terms of strong business potential and increased client acquisition, inorganic additions through group, SQSI is expecting business momentum to be driven by its increased focus in DACH (Austria, Switzerland and Germany) region and possible leverage from the group's new acquired entities in the US market. We are marginally re-estimating the revenue to Rs. 2876 mn and Rs. 3243 mn for FY17E & FY18E respectively. We expect EBITDA may increase further from 20.5% in FY16 to 21.6% in FY18E and the EPS is expected to reach at Rs. 41.8 by FY18E. The current net profit stood at Rs. 369 mn in FY16 which can reach Rs. 446 mn level by FY18E.

## Valuation and Outlook

We expect Revenue and PAT to reach Rs.2876 Mn and Rs.392 Mn for FY17E and Rs. 3243 Mn and Rs. 446 Mn for FY18E respectively. At CMP of Rs. 677, SQS India BFSI is trading at a P/Ex of 18.4x and 16.2x on FY17E and FY18E earnings respectively. On the back of benefit from SQS brand leverage, incremental migration revenue from the parent, increased focus in DACH region, demand environment in BFSI and robust pipeline, we continue to maintain our "BUY" recommendation for a target price of Rs. 916 based on 21.9x P/E FY18E, representing an upside potential of 35% in a 9-12 months period.

### Valuation Summary

YE Mar - Consolidated (Rs. Mn) <sup>#</sup>	FY14	FY15	FY16	FY17E	FY18E
Net Sales	1944	2142	2642	2876	3243
EBITDA	397	371	541	601	700
EBITDA Margin (%)	20.4	17.3	20.5	20.9	21.6
Adj. Net Profit	300	216	369	392	446
EPS (Rs.)	29.5	20.9	34.9	36.8	41.8
RoE (%)	30.6	20.6	35.0	34.7	35.9
P/E (x)*	10.7	27.4	26.1	18.4	16.2

Source: Company, Karvy Research, \*Represents multiples for FY14, FY15 & FY16 are based on historic market price  
 # FY14, FY15 & FY16 are based on IGAAP

### Recommendation (Rs.)

CMP (as on Dec 05, 2016)	677
Target Price	916
Upside (%)	35

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	7223 / 106
52-wk High/Low (Rs.)	1291 / 660
3M Avg.daily volume	18460
Beta (x)	0.7
Sensex/Nifty	26349 / 8129
O/S Shares(mn)	10.7
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

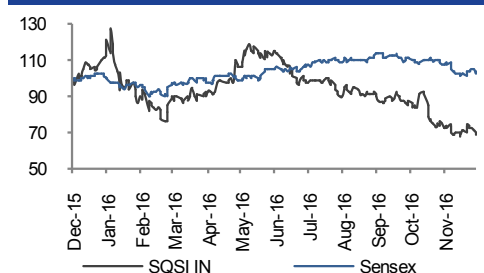
Promoters	53.9
FII's	1.3
DII's	1.9
Others	42.9

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(11)	2	(4)	(3)
Relative to Sensex	(8)	11	(3)	(5)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

SQS India BFSI Limited was acquired by SQS Software Quality Systems AG in November 2013. The company is an India based software service provider primarily delivering software validation and verification services to the banking and financial services industry worldwide. SQS India has a total employee strength of over 1000 with client base of more than 200 across 23 countries. The company has subsidiaries in Singapore, USA, Germany, UK and UAE for market development and service delivery in the respective regions. With over 7,000 completed projects, SQS has a strong customer base, including half of the DAX-30, almost a third of the STOXX-50 and 20 FTSE-100 companies.

# The Byke Hospitality Ltd

Bloomberg Code: BYKE IN

India Research - Stock Broking

**BUY**

## Unique Asset Light Business Model Continues to Scale New Heights

**Room inventory addition to drive hotel revenues:** In order to scale its room inventory and increase its geographical presence, Byke is planning to add 8 new leased properties by FY19E. We expect the 4 properties to be operational by mid-FY18E leading to an addition of ~420 leased rooms, ~10 restaurants & ~12 conference halls and the total hotel revenues to grow at 21.2% during FY16-18E reaching to Rs. 1677 Mn in FY18E with Rs.914 Mn contributed from room rental revenue and Rs. 763 Mn from F&B and other segments.

**Chartering business revenues to grow at healthy rate:** The numbers of the chartering rooms sold are expected to grow at 22.8% CAGR and reach 0.74 Mn room nights in FY18E. We expect the ARR (Average Room Rent) to grow at 3.0% with occupancy levels in the range of 94-95% and revenues to grow at 26.4% to reach Rs. 1871 Mn by FY18E.

**Rich Cash Flows and asset-light structure turning out to be a self funding hybrid model:** We expect the business model to continue to support Cash Flow from Operations (CFO) and to grow at 24.7% CAGR during FY16-18E. The increasing CFO is further enabling "Byke" to invest in the leased properties and chartering segment leaving aside healthy free cash flows to the equity owners. We expect the free cash flow yield to remain in the range of 1.3-2.7% during FY16-18E.

## Valuation and Outlook

The upcoming addition of leased room inventory and restaurants along with increasing room nights sold in chartering segment will aid the company to grow its revenue with improving operating margins and blended return ratios in the years to come. We recommend "The Byke" assigning P/E multiple of 19.7x to FY18E EPS and give a "BUY" rating with a target price of Rs. 207 with an upside potential of 27% for a period 12-15 months.

## Key Risks

- Natural calamities and lack of seasonal demand.
- Competition from the Online Room Aggregators.

### Valuation Summary

YE Mar - Standalone (Rs. Mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	1557	1814	2315	2763	3549
EBITDA	286	372	526	595	792
EBITDA Margin (%)	18.3	20.5	22.7	21.5	22.3
Adj. Net Profit	159	200	259	298	422
EPS (Rs.)	4.0	5.0	6.5	7.4	10.5
RoE (%)	20.2	21.7	23.4	22.5	26.4
P/E (x)*	40.4	32.2	24.2	21.8	15.4

Source: Company, Karvy Research, \*Represents multiples for FY14, FY15 & FY16 are based on historic market price

### Recommendation (Rs.)

CMP (as on Dec 05, 2016)	162
Target Price	207
Upside (%)	27

### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	6514 / 95
52-wk High/Low (Rs.)	200 / 148
3M Avg.daily volume (mn)	0.2
Beta (x)	0.8
Sensex/Nifty	26349 / 8129
O/S Shares(mn)	40.1
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

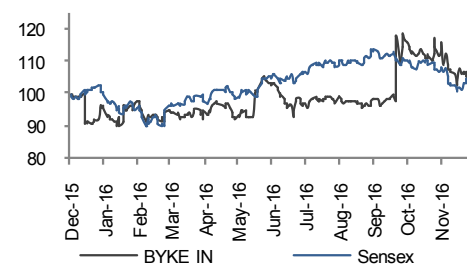
Promoters	45.0
FIIIs	5.8
DIIIs	7.9
Others	41.3

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(11)	2	(4)	(3)
Relative to Sensex	(8)	11	(3)	(5)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Company Background

The Byke Hospitality Ltd incorporated in 1990, consists of two broad categories, Owned & Leased (O&L) hotels and Room Chartering (RC) business. In the O&L hotels business, the company enters into an operating lease agreement with hotel property on an annual lease basis, renovates it and operates it under the brand "The Byke". Currently, the company has 11 properties under its operation: of which, 2 are owned and the rest 9 are leased. It is also engaged in the room chartering business where the company buys bulk hotel room inventory in advance and then sells them through its network of agents.

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