Small things can do great wonders

Invest in Small Wonders -
a basket of small & mid cap stocks
hand-picked for you

PCG Research

As the famous song from Chumbawamba goes **"I get knocked down, but I get up again You are never gonna keep me down"**. It feels like that this song has been written keeping in mind small-cap and mid-caps stocks only!

When we studied smaller stocks for the last 15 years, we find there are four instances, when mid and small cap indices declined in a year. In all four instances, we find these indices bounced back with the vengeance in the very next year.

Mid cap and small cap indices fell by 15% and 29% last year. If history is any guide, these stocks are primed for a major bounce-back. Smaller stocks had a stellar run in 2017. Notably, the Nifty mid- and small-cap indices delivered 47% and 57% returns as compared to the Nifty's 29% return in that year. As a consequence, P/E valuation premium of mid-caps v/s large-caps reached 46% in Mar'18. However, after the correction in mid-caps, the P/E premium has now corrected significantly now stands at 10% only.

The global economy is slowing. The IMF has lowered its estimate of world GDP growth to 3.5% in 2019 and 3.6% in 2020 from 3.7% in 2018. Central bankers are now likely to reverse their tightening stance and think of stimulating the economy by unleashing the liquidity.

We feel this liquidity will find its way into India. In fact, we are already witnessing the foreigners buying heavily into our markets. Foreign portfolio investors were net sellers in 2018 and also in January 2019 but have become net buyers since February. They have pumped in almost $3 billion into our markets as of date for this CY.

India is world's fastest growing economy among the larger ones and will continue to be the fastest. Our relative performance will continue to be better. Once the election related doubts fade away, investors will be motivated to put in more money into India.

It was a very difficult time for the investors to buy and remain invested in these stocks through-out the last year. It takes a fearless investors to summon courage and buy into smaller stocks. Most investors could not gather the will and that's why these stocks are highly under owned now.There is frenzied buying in the smaller stocks as these have seen the deepest decline last year.

Mutual Fund re-classification was behind the massacre in the smaller stocks as all funds flushed out excess small caps simultaneously from their portfolios. Now these are merely playing catch up.

We believe it is as good as any time to add small and mid-cap stocks to your portfolio. Small cap index and midcap indices are still lower by 34% and 20% from their respective highs seen in 2018. We are sure that these indices are not only going to claw back to their old highs but trade much higher levels in times to come.

We bring to you a special small case specifically designed to help you gain exposure to this fascinating world of small and mid-cap stocks.

Radico Khaitan

HDFC Scrip Code	RADKHA
BSE Code	532497
NSE Code	RADICO
Bloomberg	RDCK
CMP as on 14 Mar 19	396
Equity Capital (Rscr)	26.68
Face Value (Rs)	2
Equity Sh. Outstanding (cr)	13.34
Market Cap (RsCr)	5,286
Book Value (Rs)	86.72
Avg. 52 Week Volumes	901189
52 Week High	499
52 Week Low	297

Shareholding Pattern	
Promoters	40.38
Institutions	28.68
Non Institutions	30.94
Total	**100.0**

Fundamental Research Analyst:
Kushal R. - kushal.rughani@hdfcsec.com

Industry	CMP	Recommendation
Consumer	₹ 396	Buy

Radico Khaitan is one of the few companies in India to have developed its entire brand portfolio with in house capabilities. The Company's brand portfolio across the Indian made Foreign Liquor (IMFL) categories of Whisky, Brandy, Rum and White Spirits includes After Dark Whisky, Contessa Rum, Jaisalmer - Indian Craft Gin, Magic Moments Vodka, Magic Moments Verve Vodka, Morpheus Brandy, Old Admiral Brandy, Pluton Bay Rum, Rampur Indian Single Malt Whisky, Regal Talon Whisky, 1965 – The Spirit of Victory Rum and 8PM Whisky. Radico has evolved from a distillery player to branded IMFL player in India with presence across products categories. Radico has a strong distribution network; ~75,000 retail outlets and ~8,000 on premise outlets.

Investment Rationale

Radico is an attractive player in the IMFL space with ~20mn cases sales (6.5-7% market share). Our optimism on Radico is premised on (1) Its strong presence in fast growing and niche segment of Vodka (~50% share) and super premium Brandy. Prestige and Above (P&A) constitutes ~20% of its total revenue but 50% of its EBITDA, leaving significant headroom for Radico to premiumise, (2) Canteen Stores Department (CSD) sales at ~17% in the IMFL revenue, with high entry barriers. (3) Captive ENA manufacturing in the largest sugar producing state of UP that provides raw material tailwinds, and (4) Balance sheet deleveraging.

View & Valuation

We expect revenue to post 10.5% CAGR led by continuous robust growth momentum from its premium & above segment. As revenues from P&A grows faster, we believe margin would expand further. In 9M FY19, the company has already posted 250 bps surge to 17.6%. Strong sales coupled with operating margin expansion and lower finance costs would ensure robust earnings, a CAGR of 28.5% over FY18-21E. Company had ~Rs 800cr debt including long term debt of Rs 240cr in FY16. Now, company has zero long term debt as on 9M FY19; as on Dec-18, short term debt stood at Rs 290cr. The company does not expect any major capex in next 2-3 years as it has enough capacity to meet its growth. The stock trades at FY21E PE of ~20x and is available at a steep discount to its peer United Spirits (USL).

Currently, Radico is trading at a significant discount on all parameters, despite the fact that Radico has a good brand recall and grown very well in the past several quarters.

Financial Summary

Rs cr	FY17	FY18	FY19E	FY20E	FY21E
Revenue	1,680	1,823	2,067	2,281	2,461
Operating Profit	212	269	347	397	440
OPM (%)	12.6	14.8	16.8	17.4	17.9
PAT	81	124	187	229	263
EPS	6.1	9.3	14	17.2	19.8
PE	65	43	28	23	20
EV/EBITDA	26.8	20.5	15.3	13	11.5

(Source: Company, HDFC sec)

Quess Corp

HDFC Scrip Code	QUECO
BSE Code	539978
NSE Code	QUESS
Bloomberg	QUESS
CMP as on 14 Mar 19	785
Equity Capital (Rscr)	146.08
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	14.61
Market Cap (Rscr)	11,468
Book Value (Rs)	177.39
Avg. 52 Week Volumes	147723
52 Week High	1303
52 Week Low	579

Shareholding Pattern	
Promoters	71.4
Institutions	19.7
Non Institutions	8.9
Total	**100.0**

Fundamental Research Analyst:
Kushal R. - kushal.rughani@hdfcsec.com

Industry	CMP	Recommendation
Diversified IT	₹ 785	Buy

Quess Corp is one of the India's largest staffing company in India. Company has team of more than 2.8 lakh employees in India, America, Middle East & South East Asia. In the past few years, company has made 22 acquisitions and investments at very attractive valuations and turned them around very well. Quess' service and product offerings are currently grouped under four operating segments: Global Technology Solutions, People and Services (PS), Integrated Facility Management (IFM), and Industrial Asset Management (IAM). PS account for ~47% of revenues, GTS at 30%, IFM at 17% and IAM at 6%.

Monster Acquisition Update

In Q4FY18, Quess announced acquisition of 100% stake in Monster India and its business in South East Asia and the Middle East for a cash consideration of US$ 14 mn on debt-free-cash-free basis. If we look at the job board market, ~70% is Naukri.com, the next is Monster with ~20%. So it is like a duopoly structure. Quess believes that if they can fix Monster to some extent, then it can become strong No. 2, the opportunity to become much stronger is clearly there. In the past also acquisitions, where company has bought assets and turned them around quite well. Monster Business is posting losses and it is expected to turnaround in the next two-three quarters.

On a Strong growth Trajectory

Quess has posted ~44% revenue CAGR over FY13-18. EBITDA has witnessed 50% CAGR over the same period. Company continues to grow both organically and inorganically. Net profit has grown at a faster speed at 79% CAGR over FY13-18. PAT margin has also witnessed a robust 330 bps expansion to 5% in FY18. In the past few years, company has made 22 acquisitions and investments. Over the same period, Quess has acquired companies at attractive valuations, and then turned them around successfully. Quess has India's largest Staffing team with ~1,60,000 associates. Quess is No.1 in Indian IT Staffing market, No.1 in Singapore IT Staffing space, and Top 3 BPO services provider in India.

We estimate 20% revenue & 40% PAT cagr over FY19-21E. Given the robust balance sheet, reasonable return ratios, expansion in margin and strong revenues visibility, stock deserves to trade at premium valuations. Quess trades at ~12.3x FY21E EV/EBITDA and ~22x FY21E EPS. We continue to believe that Quess is a leader in Flexi-Staffing Industry and given the diversified business mix and scale and size of the company, we remain positive on the stock.

Financial Summary

Rs cr	FY17	FY18	FY19E	FY20E	FY21E
Revenue	4,157	6,167	8,571	10,217	12,240
Operating Profit	222	355	469	614	780
OPM (%)	5.3	5.8	5.5	6.0	6.4
PAT	113	262	261	391	512
EPS	7.7	18	18	26.8	35
PE	102	44	44	29	22
EV/EBITDA	47.3	29.3	21	16	12.3

(Source: Company, HDFC sec)

Coromandel International

HDFC Scrip Code	CORINT
BSE Code	506395
NSE Code	COROMANDEL
Bloomberg	CRIN
CMP as on 14 mar 19	448
Equity Capital (Rscr)	29.25
Face Value (Rs)	1
Equity Sh. Outstanding (cr)	29.25
Market Cap (Rscr)	14273
Book Value (Rs)	110.34
Avg. 52 Week Volumes	172303
52 Week High	579
52 Week Low	339

Shareholding Pattern	
Promoters	61.80
Institutions	17.15
Non Institutions	21.05
Total	**100.0**

Fundamental Research Analyst:
Nisha S. - nishaben.shankhala@hdfcsec.com

Industry	CMP	Recommendation
Fertilizers	₹ 448	Buy

Coromandel International (CIL) is a flagship company of the Murugappa Group and is a subsidiary of E.I.D Parry (India) Ltd, which holds 60.5% of the equity share capital in the Company. It is one of India's largest integrated Agri solutions providers. The company operates through two major segments: Nutrients & other allied business and Crop Protection, offering farming solutions comprising of Fertilisers, Crop Protection, Specialty Nutrients and Organic Compost. CIL is India's second largest Phosphatic fertilizer player.

Key Highlights

- Favorable Government policies and especially DBT Roll out are all set to positively change the dynamics of industry and being a market leader CIL has huge opportunities lying ahead.

- CIL has also presence in retail business through Mana Gromor. It operates a network of around 800 rural retail outlets under its retail business across Andhra Pradesh, Telangana, Karnataka and Maharashtra. Through this company provides an entire range of Multi-Brand Farming Solution to farmers. This will help CIL in saving distributor's margin and getting business insights from the ground level.

- During the year, Coromandel Int. acquired the Biopesticide business from E.I.D Parry (India) Limited. This acquisition and strategic investments will help company in getting into new business segments and uninterrupted raw material supply.

Outlook and view:

The Company is consistently paying dividend to its shareholders from the last 24 consecutive years. In FY18, it declared dividend of 650%, i.e. Rs 6.5 per share yielding 1.5%.We expect the revenue of the company to grow at 15% CAGR and Net profit to grow at 12% CAGR between FY18-20E. Margins might remain stable at around current level of 11% and Debt to Equity ratio is expected to inch down at 0.6 by FY20 compared to 0.9 in FY18. The stock trades at 15.7x FY20E EPS.

Financial Summary (Rs. mn)

Year Ending March	FY17	FY18	FY19E	FY20E
Net Sales	1,00,308	1,09,467	1,30,813	1,45,203
EBITDA	10,368	12,847	14,585	15,713
APAT	4,770	6,636	7,708	8,366
EPS (Rs)	16.4	22.7	26.4	28.6
P/E (x)	27.3	19.7	17	15.7
RoE (%)	17.3	22.1	22.6	20.8

(Source: Company, HDFC sec)

Subros

HDFC Scrip Code	SUBLTD
BSE Code	517168
NSE Code	SUBROS
Bloomberg	SUBR
CMP as on 14 Mar 19	267
Equity Capital (Rscr)	13.05
Face Value (Rs)	2
Equity Sh. Outstanding (cr)	6.53
Market Cap (Rscr)	1,742
Book Value (Rs)	67.5
Avg. 52 Week Volumes	52386
52 Week High	379
52 Week Low	205

Shareholding Pattern	
Promoters	36.79
Institutions	6.57
Non Institutions	56.65
Total	100.0

Fundamental Research Analyst:
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Industry	CMP	Recommendation
Auto Parts & Equipment	₹ 267	Buy

Subros Limited, founded in 1985, is a joint venture public limited company with 40% ownership by Suri family of India and 13% ownership each by Denso Corporation & Suzuki Motor Corporation of Japan. It is the largest automotive air conditioning systems company in India, with around 42% market share in the domestic Passenger Vehicle (PV) industry.
Company also supplies its products to CVs segment i.e. Trucks, Buses, Reefer transports and Off-roaders. Recently it forayed into the Railways and Home AC segment to diversify further.

Key Highlights

• Their main clientele include: Maruti Suzuki, TATA Motors, Mahindra & Mahindra, Force motors, Ashok Leyland, Nissan, Whirlpool for home ACs and Indian railways. It has 42% market share in domestic PV segment.

• According to SIAM, Indian PV sale is expected to grow at 10.7% CAGR over FY18-21E. Being Market leader in the Indian auto air-conditioning segment, Subros is well poised to ride the growth.

• Rule of mandatory ACs or truck blowers from Jan-18 has opened up another revenue stream for Subros.

• Subros has raised fund of ~Rs 200cr through issue of 5.2mn equity shares on preferential basis to Denso, at the Price rate of Rs. 400 per share. Consequently, Denso's stake has risen to 20% from 13% earlier). This money will be used for repayment of Debt and capacity addition.

Outlook and view:

We expect Subros' core PV AC business will continue to deliver strong growth led by steady volume growth of MSIL, shift in demand towards petrol variants plus rising wallet share in other key OEMs. More importantly, growth visibility of new businesses like Truck/Bus Aircon, radiators and Condensers is strong and provides scale and diversification.

Total revenue of the company is expected to post 11% CAGR over FY18-21E. We expect EPS CAGR growth of 25.6% over FY18-21E. The stock is trading at 20.1x/16.9x of FY19E/FY20E EPS.

Financial Summary (in Rs. mn)

Year Ending March	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	15,349	19,129	21,702	24,008	26,296
EBITDA	1,678	2,100	2,344	2,713	3,024
APAT	341	624	868	1,031	1,237
EPS (Rs)	5.7	10.4	13.3	15.8	19
P/E (x)	46.8	25.7	20.1	16.9	14
RoE (%)	10	16.6	16	14.3	15.4

(Source: Company, HDFC sec)

MCX

HDFC Scrip Code	MCXLTD
BSE Code	534091
NSE Code	MCX
Bloomberg	MCX
CMP as on 07 Mar 19	780
Equity Capital (Rs cr)	51
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	5.1
Market Cap (Rs cr)	3,980
Book Value (Rs)	240.30
Avg. 52 Week Volumes	604791
52 Week High	918
52 Week Low	644

Shareholding Pattern	
Promoters	69.06
Institutions	30.68
Non Institutions	0.26
Total	100.0

Fundamental Research Analyst:
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Industry	CMP	Recommendation
Exchange	₹ 780	Buy

Multi Commodity Exchange of India is a leading commodities exchange in India based on value of commodity futures contracts traded. The company is a de-mutualised exchange and received permanent recognition from the Government of India on September 26, 2003, to facilitate nationwide online trading, clearing and settlement operations of commodities futures transactions. MCX offers trading in varied commodity futures contracts across segments including bullion, industrial metals, energy and agricultural commodities. The Exchange focuses on providing commodity value chain participants with neutral, secure and transparent trade mechanisms, and formulates quality parameters and trade regulations, in conformity with the regulatory framework. The Exchange has an extensive national reach, with 709 registered members, operating through more than 5,80,000 trading terminals (including CTCL), spanning over 1700+ cities and towns across India as at the end of 2015-16. MCX is India's leading commodity derivatives exchange with a market share of 88.8 per cent in terms of the value of commodity futures contracts traded in the quarter ended June 2016. MCX has forged strategic alliances with leading international exchanges such as CME Group, London Metal Exchange (LME), Dalian Commodity Exchange (DCE) and Taiwan Futures Exchange (TAIFEX). The Exchange has also tied-up with various trade bodies, corporates, educational institutions and R&D centres across the country.

Positive developments for the company have been in the form of recovery in volumes for the last two quarters and return of volatility in commodities globally. Regulatory tailwinds like institutional participation (MFs, PMS), launch of Indices, partnership with retail banks subsidiaries can boost trading volumes. MCX delivered good set of numbers in 3QFY19. Revenue was up 8.2% QoQ to Rs 0.77bn, led by 7.9% QoQ increase in volume. MCX maintained its market share at 91% and ADTV grew 7.9% QoQ, despite increased competition from NSE & BSE. Recovery in volumes will continue in 4Q led by bullion and energy. Margins will recover due to absence of one-off and operating leverage. Any consolidation in the industry will ease competition and can result in re-rating.

Outlook & Valuations

The stock has under-performed due to concerns related to increase in competition (NSE & BSE has launched gold & silver commodity derivatives trading). The volume uptick in BSE & NSE is very slow and volume in MCX has risen in 3Q. We believe it's difficult to shift liquidity from one exchange to other given the legacy that MCX has. Any merger possibility will trigger upside as the risk of competition will subside significantly. We expect MCX to post 36% EBITDA CAGR, driven by revenue CAGR of 18% and EBITDA margin expansion (42.6% in FY21E vs. 27.7% in FY18) for FY18-21E. Considering the asset-light nature of the business, we expect RoE to expand to 13.6% in FY21E from 7.9% in FY18. MCX currently trades at 23.8x FY20E and 19.5x FY21E EPS (implying PEG ~1.2x).

Financial Summary

Rs cr	FY17	FY18	FY19E	FY20E	FY21E
Revenue	254	260	302	366	427
Operating Profit	74	72	96	141	182
OPM (%)	29.1	27.7	31.8	38.5	42.6
PAT	121	108	150	167	199
EPS	23.8	21.3	29.6	32.8	39
PE	32.8	36.6	26.4	23.8	20
EV/EBITDA	39	40	30	21	15

(Source: Company, HDFC sec)

Mahanagar Gas Ltd (MGL)

HDFC Scrip Code	MAHGAS
BSE Code	539957
NSE Code	MGL
Bloomberg	MAHGL
CMP as on 14 Mar 19	928
Equity Capital (Rs cr)	98.78
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	9.88
Market Cap (Rs cr)	9,167
Book Value (Rs)	225.8
Avg. 52 Week Volumes	596825
52 Week High	1041
52 Week Low	756

Shareholding Pattern	
Promoters	42.5
Institutions	45.0
Non Institutions	12.5
Total	100.0

Fundamental Research Analyst:
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Industry	CMP	Recommendation
Gas	₹ 928	Buy

Mahanagar Gas Ltd (MGL) is one the India's leading Natural Gas Distribution Companies. MGL is engaged in supplying natural gas in Mumbai and is presently the sole authorised distributor of compressed natural gas (CNG) and piped natural gas (PNG) in Mumbai, its adjoining areas and the Raigarh district in the state of Maharashtra. MGL is a joint venture between GAIL (India) Ltd and the British Gas Group, (U.K.) - both together hold 42.5% (32.5% by GAIL) (10% by BG Group) of equity. MGL plans to expand its gas distribution network in its current geographical areas, i.e. Greater Mumbai (GA1) and surrounding regions (GA2) such as Mira-Bhayander, Thane (Urban) – Vashi Belapur, Kharghar-Panvel-Taloja, Kalyan-Dombivali-Ambernath and Ulhasnagar. Besides Mumbai, Thane, Mira Bhayander and Navi Mumbai, MGL is expanding its distribution reach in new area of Kalyan, Dombivali, Ambernath, Badlapur, Ulhasnagar, Bhiwandi Panvel, Taloja and Kharghar. MGL's current area is inhabited by almost 2 Cr people and offers a natural gas potential of about 5 MMSCMD. The company procures natural gas primarily from GAIL (India). As at September 30, 2018, MGL had a supply network of over 5,150 kms of pipelines and 223 CNG filling stations (now it stands at 224, one added in Q3FY19), MGL also supplies CNG to more than 0.65mn Vehicles.

The GOI is highly focused on reducing pollution and offers incentives for adoption of CNG in transportation as well as in industrial and commercial space. Government's priority allocation of domestic gas to the CGD sector has enabled MGL to access cheaper gas for CNG and domestic business segments, constituting ~86.4% of total sales volume. MGL has a strong gas pipeline infrastructure in place and is expanding operations in Mumbai. MGL is currently operating 224 CNG stations. Even on the PNG front, MGL plans to add to its current run rate of ~1.5 lakh PNG connections per year to its existing base of ~11 lakh connections.

Mahanagar Gas Ltd (MGL)

Fighting pollution is one of the key reasons for promoting the spread of CGD/PNG. Reducing petrol/diesel/LPG consumption which is largely imported is another reason.

Outlook & Valuations

MGL boasts of a strong financial profile – debt-free balance sheet, strong free cash flow and robust return ratios. Despite operating in an asset-heavy industry, MGL has maintained low debt levels and increased its customer base. It has been consistently paying dividends. MGL has maintained its operating and net profit margins throughout the years of change in natural gas prices even when the input and output prices are governed by external factors. CGD (City Gas Distribution) business is monopolistic in nature due to allotment of license for specified region and cities (Gujarat Gas for Surat, Bharuch & Ankleshwar, Indraprastha Gas for Delhi, Ghaziabad, Noida & Greater Noida, Mahanagar Gas for Mumbai, Thane, Mira Bhayandar & Navi Mumbai).

Volume growth is expected to accelerate due to addition of new areas and increase spread in PNG connections/CNG fuel stations and better economics of CNG/PNG versus liquid fuels, even after crude prices have corrected. Further unified tariff, if and when implemented, will lower its gas transmission cost as it can source gas from any part of India. The company recommended an interim dividend of Rs 9.5 per share on January 29, 2019. The total dividend in FY18 stood at Rs 19 per share, dividend yield stands at 2.2% and the payout at 47.1%. The stock trades at 16.2x FY20E EPS.

Financial Summary

Rs cr	FY17	FY18	FY19E	FY20E	FY21E
Revenue	2,034	2,233	2,820	3,053	3,220
Operating Profit	644	780	908	929	986
OPM (%)	31.7	34.9	32.2	30.4	30.6
PAT	393	480	553	566	592
EPS	39.8	48.4	56	57.2	59.5
PE	23.3	19.2	16.6	16.2	16
EV/EBITDA	13.3	10.8	8.9	8	7.5

(Source: Company, HDFC sec)

Exide Ind

HDFC Scrip Code	EXIIND
BSE Code	500086
NSE Code	EXIDEIND
Bloomberg	EXID
CMP as on 14 Mar 19	228
Equity Capital (Rscr)	85
Face Value (Rs)	1
Equity Sh. Outstanding (cr)	85
Market Cap (Rscr)	19,410
Book Value (Rs)	63.87
Avg. 52 Week Volumes	2145642
52 Week High	305
52 Week Low	194

Shareholding Pattern	
Promoters	45.99
Institutions	34.16
Non Institutions	19.84
Total	**100.0**

Fundamental Research Analyst:
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Industry	CMP	Recommendation
Auto Parts & Equipment	₹ 228	Buy

With a presence spanning over 6 decades and strong customer relationship, Exide Industries is now the market leader in the domestic automobile battery industry. It manufactures lead acid storage batteries for both automotive and industrial applications. Exide also has a presence in the life insurance business through its fully-owned subsidiary, Exide Life Insurance.

Key Highlights

The share of the unorganised segment in the replacement market has been gradually declining, but is still at ~40-50% of the overall market. After the implementation of GST, the price difference between the organised and unorganised players is shrinking. To tap the market share of unorganised players, Exide is increasingly promoting competitively-priced brands, and is also increasing its reach in the semi- urban and rural markets. We expect the share of unorganised players to reduce to ~30% by FY22. As per our channel check, Exide has also taken many corrective actions to recover market share lost in the automotive replacement segment.

To take advantage of emerging market opportunities, Exide is continuously focussing on product development and innovation. Recently, the company has forayed into many such newer products like E-rickshaw, solar, and lithium-ion batteries. According to management, they are also getting strong traction.

Exide has announced capex of Rs 1,100 cr for FY19, and is looking at a self-funded 2-pronged strategy for expansion at its Haldia facility. A bulk of the capex will be invested in two new projects that includes a Greenfield battery recycling plant, and also the expansion of current battery-manufacturing capacities. This will turn the Haldia unit into one of the biggest battery making centers in South East Asia.

India presents immense opportunities to expand the company's life insurance business given low penetration, favourable demographics, rising household income and the increasing awareness of the need for financial protection.

Outlook and view:

Exide is likely to benefit from

1) An expected improvement in replacement demand on the back of healthy primary sales in the past three years
2) gaining market from unorganized players post roll out of GST
3) Traction in the nascent e-rickshaws /solar battery segments and
4) strengthening distribution network through introduction of the sub-distributor model
5) weakening lead prices to aid margin. We expect standalone earning for the business to grow at 14% CAGR Over FY18-21E.

Financial Summary (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	75,835	91,863	1,06,232	1,20,191	1,36,676
EBITDA	10,825	12,408	13,938	16,624	18,919
PAT	6,936	7,102	7,555	9,284	10,474
EPS (Rs)	8.2	8.4	8.9	10.9	12.3
P/E (x)	27.8	27.1	25.6	20.9	19
EV / EBITDA (x)	19.5	15	13.3	11	9.4
RoE (%)	14.9	13.9	13.7	15.4	15.7

(Source: Company, HDFC sec)

Everest Industries

HDFC Scrip Code	EVERES
BSE Code	508906
NSE Code	EVERESTIND
Bloomberg	EVI
CMP as on 14 mar 19	447
Equity Capital (Rscr)	15.64
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	1.56
Market Cap (Rs cr)	699
Book Value (Rs)	254.5
Avg. 52 Week Volumes	62155
52 Week High	598
52 Week Low	376

Shareholding Pattern	
Promoters	48.1
Institutions	5.9
Non Institutions	46
Total	100.0

Fundamental Research Analyst:
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Industry	CMP	Recommendation
Cement Products	₹ 447	Buy

Everest Industries, incorporated in 1934, has a rich history in the manufacturing of building and steel products. Everest offers a complete range of roofing, ceiling, wall, flooring, and cladding products distributed through a large network, as well as EPC of pre-engineered steel buildings for industrial, commercial, and residential applications. The company has two distinct business segments – building products and steel buildings. 63% of the company's overall revenue comes from building products, while the remaining 37% from steel buildings.

Key Highlights

The Government's recent initiatives will prove to be game-changers for the industry as a whole, as it will fetch a large market share for organised players. The push for "Housing for all" will spur demand for speedier construction, while the implementation of GST will narrow down the price difference of similar quality products between the organised and unorganised segments. This will drive a structural demand in the coming years, and being one of the oldest and largest players, Everest is bound to benefit.

The pre-engineered building segment enjoys increasing acceptance, replacing RCC and conventional steel structures, and it is growing fast. The rise in e-commerce and agricultural enterprises businesses, as well as a pick-up in investments in the manufacturing sector bode well for the segment. Market for PEBs is growing at 25-30% annually, but is still way below developed nations.

Outlook and view:

Over the time frame of FY18-20E, sales may see 12% CAGR, while PAT is expected to post at 24% CAGR led by margin expansion over the next two years. Currently, the stock trades at 8.5x P/E of FY20.

Financial Summary (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E
Net Revenues	11,600	12,710	14,230	15,940
EBITDA	510	1,000	1,220	1,430
APAT	30	530	690	820
Diluted EPS (Rs)	2	34.2	44	52.4
P/E (x)	232.5	13.1	10.2	8.5
RoE (%)	0.1	13.3	14.8	14.9

(Source: Company, HDFC sec)

Capacite Infra

HDFC Scrip Code	CAPINF
BSE Code	540710
NSE Code	CAPACITE
Bloomberg	CAPACITE
CMP as on 14 Mar 19	246
Equity Capital (Rscr)	67.9
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	6.8
Market Cap (Rscr)	1,669
Book Value (Rs)	110.1
Avg. 52 Week Volumes	132415
52 Week High	374
52 Week Low	171

Shareholding Pattern	
Promoters	43.8
Institutions	12.6
Non Institutions	43.6
Total	100.0

Fundamental Research Analyst:
Nisha S. - nishaben.shankhala@hdfcsec.com

Industry	CMP	Recommendation
Infrastructure	₹ 246	Buy

Capacite Infraprojects (CIL) is a fast growing construction company focused on Residential, Commercial and Institutional buildings, with specialization in construction of super high rise buildings. The Company provides end-to-end construction services for residential buildings, multi-level car parks, corporate office buildings and buildings for commercial purposes and buildings for educational, hospitality and healthcare purposes. The Company's capabilities include constructing concrete building structures as well as composite steel structures. It also provides mechanical, electrical and plumbing ('MEP') and finishing works. The Company predominantly operates in the Mumbai metropolitan region ('MMR'), the National Capital Region ('NCR'), Bengaluru. Its operations are geographically divided into MMR and Pune ('West Zone'), NCR and Patna ('North Zone') and Bengaluru, Chennai, Hyderabad and Kochi ('South Zone').

In June 2018, CIL announced that a consortium of the company (lead member), Tata Projects Limited and CITIC Construction Co Ltd, had received Letter of Acceptance from Mumbai Housing and Area Development Board (a MHADA Unit) for total contract value of Rs.11744 Cr. The project will be executed through a SPV in which CIL will have 37.1% share worth Rs.4357 crore. The project involves technical designing (structure service + infrastructure), co-ordination and construction of rehabilitation/ sale/commercial/ amenities/any other structure along with construction of Habitable temporary transit camps, work of on-site, off-site infrastructure and landscaping & performing various co-ordination activities and obtaining all relevant permissions & approvals from all concerned authorities on lump-sum basis for Redevelopment of project of BDD Chawls at Lower Parel Division at Worli, Mumbai. Later last year, CIL received repeat orders from Oberoi Realty Group and Wadhwa Group and order from Kohinoor CTNL Infrastructure for total contract value of Rs 851 crore. CIL has a very strong order book position worth ~Rs 75bn.

Capacite Infra

Outlook & Valuation

CIL expects the ground work to start in MHADA by Mar-19 (currently designing is in advanced stages) with revenue flowing in from FY20E. CIL aims to increase govt. projects' share to ~25% eventually and in the private space will continue to eye repeat orders from Oberoi / Piramal etc. CIL is expected to perform well as it has ~4x book to bill ratio (FY19E revenue), steady EBITDA margins in the range of 14.2-15% and stable finance costs. We expect CIL to post 26.4% earnings CAGR over FY19-21E. CIL has been able to mine a better order book share in existing clients and has very limited competition in the super high-rise segment with tickets values >Rs 4bn.

CIL has been bidding conservatively for new orders as order backlog is robust. Given its strong operational credentials, a robust balance sheet, strong revenue visibility, tight control on WC, CIL is expected to continue to demonstrate exceptional execution and earnings growth trajectory.

Financial Summary

Rs cr	FY17	FY18	FY19E	FY20E	FY21E
Revenue	1,125	1,336	1,802	2,122	2,684
Operating Profit	197	203	255	315	399
OPM (%)	17.5	15.2	14.2	14.8	14.9
PAT	69	79	102	123	164
EPS	15.9	11.6	15.1	18	24
PE	15.5	21.2	16.3	13.7	10
EV/EBITDA	5.7	6.9	5.7	4.7	3.6

(Source: Company, HDFC sec)

NIIT

HDFC Scrip Code	NIILTD
BSE Code	500304
NSE Code	NIITLTD
Bloomberg	NIIT
CMP as on 14 Mar 19	91.9
Equity Capital (Rscr)	33.46
Face Value (Rs)	2
Equity Sh. Outstanding (cr)	16.73
Market Cap (Rscr)	1,538
Book Value (Rs)	46.80
Avg. 52 Week Volumes	1229839
52 Week High	125
52 Week Low	61

Shareholding Pattern	
Promoters	31.60
Institutions	27.99
Non Institutions	40.41
Total	**100.0**

Fundamental Research Analyst:
Kushal R. - kushal.rughani@hdfcsec.com

Industry	CMP	Recommendation
IT / Education	₹ 91.9	Buy

NIIT currently has three main lines of business: Corporate Learning Group (CLG), Skills and Careers Group (SNC), and School Learning Group (SLG). CLG (~70% of revenues for H1 FY19) is the largest revenue contributor. The Corporate Learning Group (CLG) offers training to global corporate in North America, Europe, Asia, and India. NIIT is focussed on verticals with high regulatory/compliance requirements such as Oil & Gas, Technology / Telecom, BFSI and Life sciences. Its business model is such that it enters either long term MSA contracts with clients (for 3-5 years) where it is the exclusive training provider, which is called Managed Training Services (MTS), or it gets into custom projects. The company's portfolio of training services includes (a) Content Development and Custom Curriculum Design, (b) Learning Administration, (c) Learning Delivery, and (e) Strategic sourcing and advisory Services. Skills & Careers Group (SNC) delivers a diverse range of learning and talent development programmes to individual and corporate learners. NIIT is amongst the two global companies with the entire bouquet of training offerings, and has showcased strong performance with strong revenue CAGR of > 15% over the last four years, an increase in Managed Training Services (MTS) customers from 24 in FY15 to 40 as on Sep-18, which provides a strong referral base.

NIIT Technologies posts strong show for H1 FY19

Revenues have grown from USD 225mn to USD 255 for the first half. In Rupee terms, it posted strong 20% YoY growth. EBITDA has posted robust ~29% growth led by operating leverage. PAT for the H1 FY19 surged ~60% to Rs 198 cr. Other Income surged to Rs 42 cr vs. Rs 15 cr. As NIIT is the parent and holds ~23.5% stake in the company, its strong performance helps in increasing profitability for the company. NIIT Tech's order intake grew for the fifth straight quarter to US$ 160 mn and has total order book of US$ 363 mn as on

Sep-18. There are news with regards to stake sale in NIIT Tech, if that is fructified would be added benefit to shareholders. There will be value unlocking for NIIT as NIIT has 23.5% stake.

Outlook & Valuation

NIIT has been focusing on MTS, which forms > 80% of CLG revenues. Company has now 40 MTS customers under the CLG segment. We forecast 11% revenue CAGR over FY18-20E, led by strong momentum in the CLG segment and sustained revenue growth from the Skills segment. As the CLG segment revenue increases, we estimate 230 bps margin expansion, which would in turn lead to ~34% PAT CAGR over the same period. We expect the CLG segment to post strong 20% revenue CAGR on the back of a strong deal pipeline of ~US$ 226 mn.

Financial Summary (Consolidated)

Rs cr	FY17	FY18	FY19E	FY20E
Revenue	845	850	929	1,038
Operating Profit	57	67	91	110
OPM (%)	6.7	7.9	9.8	10.6
PAT	42	64	93	117
EPS	2.5	3.9	5.6	7.1
PE	36.8	23.6	16.4	12.9
EV/EBITDA	24	21	15.3	13

(Source: Company, HDFC sec)

Nucleus Software

HDFC Scrip Code	NUCSOF
BSE Code	531209
NSE Code	NUCLEUS
Bloomberg	NCS
CMP as on 14 Mar 19	354
Equity Capital (Rs cr)	29.04
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	2.9
Market Cap (Rs cr)	1,027
Book Value (Rs)	161.05
Avg. 52 Week Volumes	38108
52 Week High	506
52 Week Low	315

Shareholding Pattern	
Promoters	67.59
Institutions	9.82
Non Institutions	22.59
Total	**100.0**

Fundamental Research Analyst:
Kushal R. - kushal.rughani@hdfcsec.com

Industry	CMP	Recommendation
IT / Software	₹ 354	Buy

Nucleus Software Exports is a leading software provider with software solutions for banks and financial organisations globally. Its software powers the operations of more than 150 companies in 50 countries, supporting retail and corporate banking, cash management, internet banking, automotive finance, and other business areas. Nucleus has products for two sub-segments of the banking industry – Finnone Neo for retail banks and Finnaxia for corporate banking customers. Finnone is its lending solution that enables end-to-end loan management for banks/NBFCs. Finnaxia is a transaction banking solution that offers efficient and innovative services in global payments & receivables, liquidity management and business internet banking. With deep domain knowledge and robust research capabilities in the banking sector, the company has also developed several innovative solutions in the areas of mobility, analytics and offline digital cash solutions. It derives ~80% revenue from products and ~20% from projects & services.

PaySe

PaySe is an offline digital cash solution designed to democratise money. PaySe utilizes the latest advances in mobility, big data, open source and crypto currency (primarily tokenisation) to deliver a peer-to-peer payment solution.

PaySe, the digital wallet from Nucleus Software, is one of India's Offline payment solution designed to the card payments market. Traditional card-based payments are based on a hub and spoke methodology, and hence are focussed mostly on the connected and banked population of the world. The payment solution is targeted at customers and merchants in the rural and semi-urban areas where mobile data connectivity is still a challenge. The infrastructure consists of a POS terminal and a Mifare card (Chip Based Smart Card). PaySe, the digital wallet from Nucleus Software, is an online payment solution that is still in the initial stages of development. The company plans to ramp up the same in the coming quarters. Company is looking at the microfinance sector as a possible market for the product.

Outlook & Valuations

We believe the company would accelerate its growth momentum, and we expect it to post 15% revenue CAGR over FY18-20E, mainly driven by its products business. We forecast 260 bps (basis points) margin expansion over the same period. A strong operational performance is expected to lead to 21% PAT CAGR over FY18-20E. Total cash and equivalents as on Dec-18 were at Rs 480 cr, which is Rs 164 per share cash in the balance sheet.

Company has huge cash reserves that it plans to use to explore attractive inorganic opportunities. For product companies like Nucleus, earnings could be lumpy. So, we have valued them on EV/Revenues and EV/EBIDTA basis.

Currently, Nucleus trades at 1.6x FY20E EV/Revenue and ~9x FY20E EV/EBITDA. We find that Nucleus is available at attractive valuations as compared to its mid-sized peers. If the PaySe innovation works on a larger scale, Nucleus can be an enormous wealth creator.

Financial Summary (Consolidated)

Rs cr	FY17	FY18	FY19E	FY20E
Revenue	372	412	485	558
Operating Profit	54	59	79.2	95
OPM (%)	14.5	14.3	16.3	17.0
PAT	66	63	79.4	94
EPS	20.6	21.7	27.4	32.4
PE	17.2	16.3	12.9	10.9
EV/EBITDA	17.4	15.8	12	9.5
EV/Revenues	2.5	2.3	1.9	1.6

(Source: Company, HDFC sec)

PSP Projects

HDFC Scrip Code	PSPPRO
BSE Code	540544
NSE Code	PSPPROJECT
Bloomberg	PSPPL
CMP as on 14 Mar 19	466
Equity Capital (Rscr)	36
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	3.6
Market Cap (Rscr)	1,679
Book Value (Rs)	83.73
Avg. 52 Week Volumes	37513
52 Week High	595
52 Week Low	358

Shareholding Pattern	
Promoters	73.3
Institutions	7.3
Non Institutions	19.4
Total	100.0

Fundamental Research Analyst:
Kushal R. - kushal.rughani@hdfcsec.com

Industry	CMP	Recommendation
Infrastructure	₹ 466	Buy

PSP Projects (PSP) is an efficient and organised constructor in the medium ticket size institutional and industrial construction segment in and around Gujarat. The company has created a niche for itself in the healthcare, FMCG and educational institution construction space riding on its strong history of superior work quality and timely execution. PSP's tightly run operation, centralized control and focused approach has made the company most efficient amongst peers with robust net profit margin of 8%, negative NWC cycle, strong balance sheet and industry leading Return Ratios of 25-30%.

Surat Diamond Bourses (SDB), worth Rs 1,575 cr, is the largest order the company won and its execution will eject PSP into the league of larger constructors like L&T, Shapoorji and NCC wherein competition is limited to 5-6 players. With strong order book and revenue visibility, the company's topline is expected to post 28% and PAT to see 25% CAGR over FY18-21E, and is expected to maintain an EBITDA margin of around 13 - 14%. FY18 was a year of inflection - for the full year the company added orders worth > Rs 2,700 cr backed by SDB order worth Rs 1,575 cr; and that offers more than two years revenue visibility (higher vs. industry average).

View & Valuations

We estimate 28% revenue cagr led by SDB project execution over FY18-21E. Margins would remain around 13.5% levels. Strong revenues and steady margins would drive 24% PAT cagr over FY18-21E. Given the Indian infra push, Superior return ratios, cash rich B/S (Net cash Rs 1.5bn in 1HFY19), Negative net working capital, marquee projects and past track record makes a strong case for premium valuations over peers. Stock is currently trading at 13.5x FY21E Earnings.

PSP Projects

Financial Summary

Rs cr	FY17	FY18	FY19E	FY20E	FY21E
Revenue	401	730	1,040	1,405	1,533
Operating Profit	66	101	145	188	208
OPM (%)	16.5	13.8	13.9	13.4	13.6
PAT	42	65	89	111	123
EPS	14.5	18	24.7	30.8	34.2
PE	32.1	25.9	18.9	15.1	14
EV/EBITDA	17.4	13	10	7.4	6.5

(Source: Company, HDFC sec)

NRB Bearings

HDFC Scrip Code	NRBBEA
BSE Code	530367
NSE Code	NRBBEARING
Bloomberg	NRBBR
CMP as on 14 Mar 19	200
Equity Capital (Rs cr)	19.38
Face Value (Rs)	2
Equity Sh. Outstanding (cr)	9.69
Market Cap (Rscr)	1,938
Book Value (Rs)	39.01
Avg. 52 Week Volumes	213727
52 Week High	224
52 Week Low	149

Shareholding Pattern	
Promoters	52.67
Institutions	33.15
Non Institutions	14.18
Total	100.0

Fundamental Research Analyst:
Nisha S. - nishaben.shankhala@hdfcsec.com

Industry	CMP	Recommendation
Auto Parts	₹ 200	Buy

Founded in 1965, NRB was the first company to manufacture Needle Roller Bearings in India. For over 40 years, NRB has pioneered the leading edge of bearing technology. Today most of the vehicles on Indian roads run on NRB parts. NRB has plants in Thane, Aurangabad (2 plants), Jalna, Waluj, Hyderabad and Pantnagar. NRB group has a market share of ~70% in the needle roller bearings segment. It also has a strong market position in the cylindrical roller bearings segment. Revenue from OEMs reduced to ~66% of the group's total revenue in FY18 from 74% in FY11. Despite the large proportion of revenue from OEMs, no single customer accounts for more than 10% of the group's revenue. NRB's product range covers over 5500 different types of parts of primarily customized friction solutions. It is one of the three largest suppliers in the world of customized bearings and crank pins to the two and three wheeler industry. NRB's largest volume and range of bearings are deep drawn or formed type bearings that are lighter than conventional (solid race) bearings and are often specifically designed for the application. As of FY18, NRB had three subsidiaries viz. SNL Bearings Ltd, NRB Bearings (Thailand) Ltd and NRB Bearings Europe GmbH.

According to a report by Business Wire, the Indian automotive bearings market is projected to grow at a CAGR of over 13% over FY18-FY25. Some of the major factors contributing to the growth are i) growing automobile industry and increasing vehicle production and sales, ii) expanding fleet size of two-wheelers, passenger cars and three-wheelers and iii) with expanding middle class population and increasing disposable income, automobile sales across all the major automobile segments are expected to grow in the coming years. All these factors will positively impact the automotive bearings market. The Indian Government is all set to introduce Bharat Stage VI emission control norms from April-2020, which is a significant jump from the Bharat Stage IV norms currently under implementation. This implies that a number of changes to be made in the engine systems. This will in turn raise demand for bearings manufactured by the likes of NRB.

NRB is the first Indian component supplier to Audi for engines. Its customers include Daimler for Trucks and Mercedes cars, ZF and Getrag (two of Europe's largest Gearbox manufacturers), Honda and Mazda for cars, and every single Japanese two wheeler manufacturer. The company is looking to invest Rs 1.5bn over the next 2 years to bring out new products and offer customised solutions for its main suppliers. It is also readying itself for hybrid and electric vehicles through its dedicated R&D team. NRB already has a prototype ready and has patent for a product that will significantly reduce weight of bearings. Over the last few years the management has been utilising its strong cash flows to pare down its debt levels. Cash flows are expected to remain strong in the coming years and the company is likely to meet its capex requirements from internal accruals while continuing to repay its debt. On a net basis NRB may become debt free by FY21E.

Outlook & Valuations

NRB has been posting strong results driven by robust growth in the Indian automobile industry. It remains a key beneficiary of the strong volume growth witnessed in the automobile segment. Exports by the company are also increasing at a strong pace. Implementation of emission norms from FY20 is likely to trigger pre-buying in CVs and boost volume growth. Increasing R&D spend and foray into Defence, Aerospace and Railway segments coupled with fall in interest cost would aid in topline and margin expansion. The stock trades at ~16.5x FY20E EPS.

Financial Summary (Consolidated)

Rs cr	FY17	FY18	FY19E	FY20E	FY21E
Revenue	726	855	981	1,076	1,184
Operating Profit	117	168	188	204	219
OPM (%)	16.1	19.6	19.2	19.0	18.5
PAT	52	91	122	118	125
EPS	5.3	9.4	10.9	12.1	12.9
PE	37.7	21.3	18.3	16.5	16
EV/EBITDA	17.5	11.7	10	9.1	8.3

(Source: Company, HDFC sec)

Deepak Nitrite

HDFC Scrip Code	DEENIT
BSE Code	506401
NSE Code	DEEPAKNI
Bloomberg	DN
CMP as on 14 mar 19	258
Equity Capital (Rscr)	27.28
Face Value (Rs)	2
Equity Sh. Outstanding (cr)	13.6
Market Cap (Rscr)	3,519
Book Value (Rs)	67
Avg. 52 Week Volumes	282324
52 Week High	305
52 Week Low	205

Shareholding Pattern	
Promoters	44.63
Institutions	25.26
Non Institutions	30.11
Total	**100.0**

Fundamental Research Analyst:
Nisha S. - nishaben.shankhala@hdfcsec.com

Industry	CMP	Recommendation
Chemicals	₹ 258	Buy

Headquartered in Gujarat, Deepak Nitrite was founded in 1970 by Mr. C. K. Mehta and managed now by his son Mr. Deepak Mehta. Deepak Nitrite is a multi- product company ranging across 3 major categories of: Basic Chemicals, Fine & Specialty Chemicals and Performance Products. DNL holds a strong market position in India in several of its chosen niches within the chemical industry. Its distribution network also spans over 30 countries. The company has five manufacturing plants and an R&D facility, all in India, and has recently commissioned its mega phenol-acetone project.

Key highlights

India's chemical industry is projected to double in size to US$ 300 bn by 2025, growing at nearly 10% annually with specialty and agrochemical sectors leading the pace. The Government has put in place several initiatives like 'Make in India' and accelerative policies for textile intermediates that will support this growth. Growing demand from global consumer-facing industries, need for innovation, capacity rationalisation in China, coupled with the requirement to maintain cost-effective production will open up multi-year growth opportunities for India's chemical sector.

DNL has recently commissioned the Greenfield project of Phenol and Acetone. The total capex for the project was around Rs 1400 Cr which company funded through combination of debt and equity. In the first quarter itself company has managed to get 80% utilization and make it EBITDA positive.

Phenol and Acetone are import substitutes, till now we were importing 80% of our overall demand but after commissioning of this plant having huge capacity to fill the demand supply gap in the country.

The demand of the traditional business has been continuously growing well aided by growing demand in India as well as opportunities created by the environmental crackdown in China. Backward integration project in the Fine & Specialty Chemicals segment could help boost segment EBITDA margins 200-250bps by FY20.

Outlook and view:

Deepak Nitrite, with diversified product portfolio and huge distribution network, is favourably positioned to capture opportunities emerging across the chemicals & specialty chemicals landscape.

Commissioning of Phenol and Acetone at Dahej, strong potential of Fine and Specialty Chemical segment, new product launches etc. will drive sharp rise in earning. Currently, the stock trades at 13x of FY20E which we think is quite an attractive level given the bright future prospects.

Financial Summary (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E
Net Revenues	13,707	16,514.5	28,100	38,000
EBITDA	2,167.2	2,086	4,080	5,780
APAT	963.2	790.2	1,800	2,710
EPS (Rs)	8.2	6	13.2	19.9
P/E (x)	31.5	43.0	19.5	13.0

(Source: Company, HDFC sec)

Laurus Labs

HDFC Scrip Code	LAULAB
BSE Code	540222
NSE Code	LAURUSLABS
Bloomberg	LAURUS
CMP as on 14 mar 19	375
Equity Capital (Rscr)	106.44
Face Value (Rs)	10
Equity Sh. Outstanding (cr)	10.64
Market Cap (Rscr)	3,996
Book Value (Rs)	140.23
Avg. 52 Week Volumes	88954
52 Week High	548
52 Week Low	321

Shareholding Pattern	
Promoters	33.5
Institutions	46.4
Non Institutions	20.1
Total	100.0

Fundamental Research Analyst:
Kushal R. - kushal.rughani@hdfcsec.com

Industry	CMP	Recommendation
Pharmaceutical	₹ 375	Buy

Laurus Labs is a young, R&D-driven company with strengths in complex chemistry and cost-efficient capabilities in API manufacturing. Laurus has grown very well with 30% revenue, 32% EBITDA and 40% earnings CAGR over FY12-18. However, price hikes in a key raw material (FCME) and Rs 1bn operating spend on the nascent formulations business led to sharp earnings drop in 9M FY19. The stock, too, corrected ~34% (from Rs 566 peak in Jan-18). We believe these issues are temporary and offer investors an opportunity to enter a high quality pharma story at 25% discount to IPO price. Laurus is likely to come out stronger as backward integration for the key molecule is already in place and the formulations business is about to be in the black with fresh orders. With a likely initial tender win, Laurus is set to enter the US$ 1.8bn ARV formulations market in FY20. It can capture at least 15% market share (in 3 products), supported by one of the largest API capacities. The largest segment (65% of sales) is likely to remain largely steady over FY18-21E. The reduction in dosage size for ART drugs and captive consumption would lead to decline in key ARV APIs (FTC & EFV). However, fresh supplies of Lamivudine, Ritonavir and Lopinavir APIs would offset this fall to some extent.

Lucrative custom synthesis segment: 7.5% of revenues are derived from the custom synthesis segment and 50% of this business is coming from Aspen as Laurus has tie-ups for select product opportunities. We expect the Aspen business to ramp up to ~US$ 24mn from ~US$ 11mn now, led by capacity expansion. The ex-Aspen business is likely to grow at a healthy rate of 15-20%, as Laurus adds more projects in the pipeline. We believe it can be a 30% plus EBITDA margin business once Laurus achieves the required scale.

View and valuation:

We estimate 11% revenue, 15% EBITDA and 20% PAT cagr over FY18-21E. The formulations segment is going to be the new growth engine for Laurus while the synthesis and ingredients businesses are expected to continue growing at double digits. Return ratios to improve on the back of the formulations business. We estimate RoE and RoCE to reach levels of 13/17% by FY21E. At present, Laurus is trading at 21.4/13x P/E and 10/7x EV/EBITDA (FY20/21E), ~9% discount (FY21E P/E) to peers. Traits like strong R&D skills, cost competitive processes, high probability of success in tender business, potential improvement in business fundamentals like earnings growth, return ratios and free cash flows merit higher multiples. At FY21E formulations revenues/EBITDA of US$ 85/25mn, earnings can triple over FY19-21E (on a soft base). Moreover, we expect a couple of big ticket formulations launches in the US market by FY21 which can further boost profitability.

Financial Summary (Consolidated)

Rs cr	FY17	FY18	FY19E	FY20E	FY21E
Revenue	1,932	2,069	2,267	2,521	2,833
Operating Profit	408	413	338	483	634
OPM (%)	21.1	20.0	14.9	19.2	22.4
PAT	191	168	90	177	292
EPS	18.0	15.8	8.5	16.7	27.5
PE	19.8	22.6	42.0	21.4	13
EV/EBITDA	11.6	11.2	14.1	9.8	7

(Source: Company, HDFC sec)

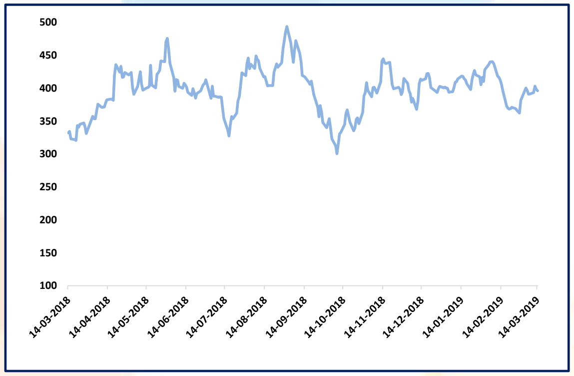
Reliance Liquid Bees

Liquid mutual funds as the name suggests are those which have a portfolio of very short term debt instruments, mainly below 91 days. Such a portfolio focuses on maintaining liquidity & safety of the investments and have potential to offer marginally higher returns than bank deposits as the returns are linked to the market.

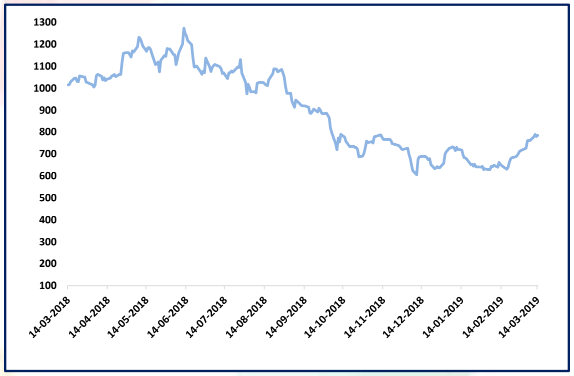
So here we recommend a small case portfolio of 15 stocks with equal weight of 5% each and park remaining 25% money in Reliance ETF Liquid Bees.

HDFC securities

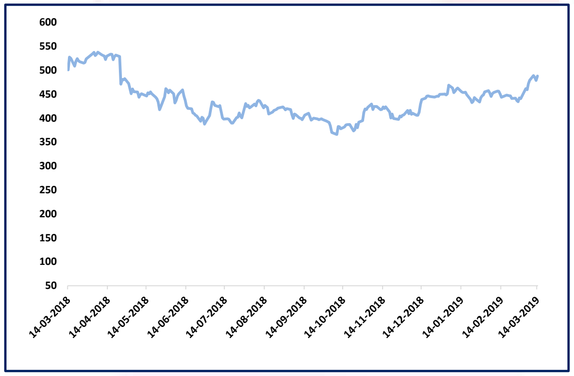
Radico Khaitan



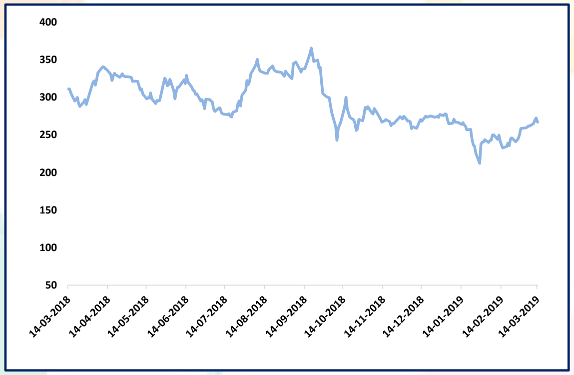
Quess Corp



Coromandel International



Subros



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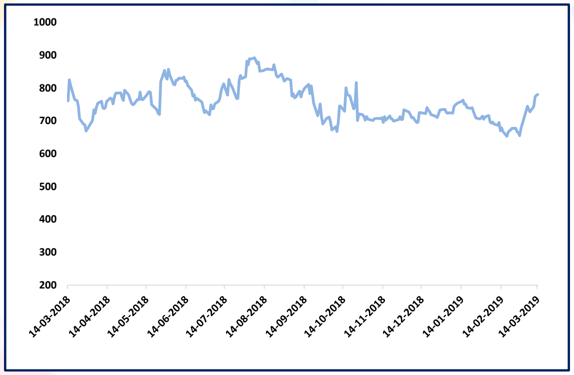

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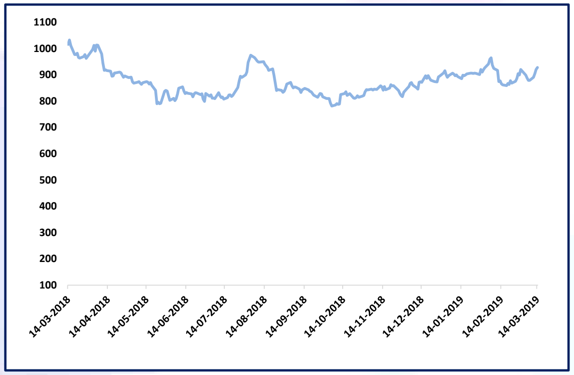

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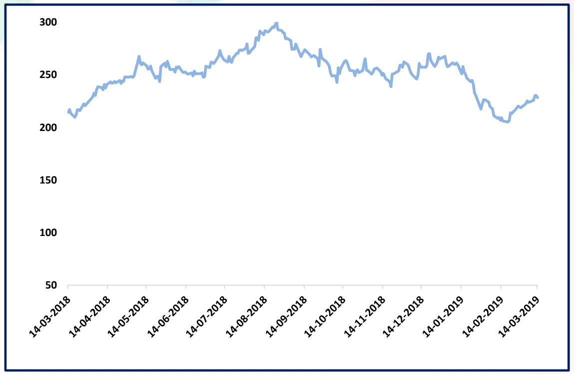

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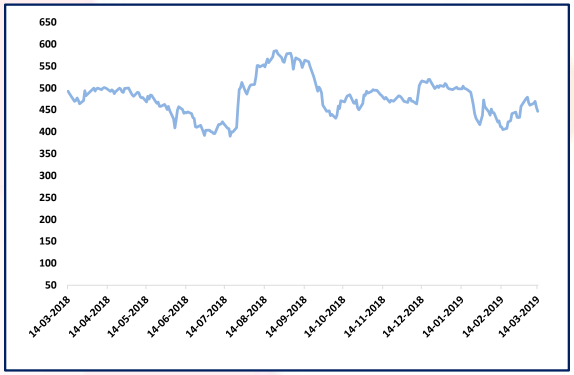

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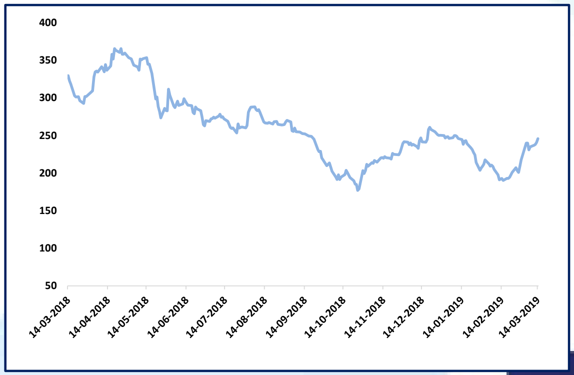

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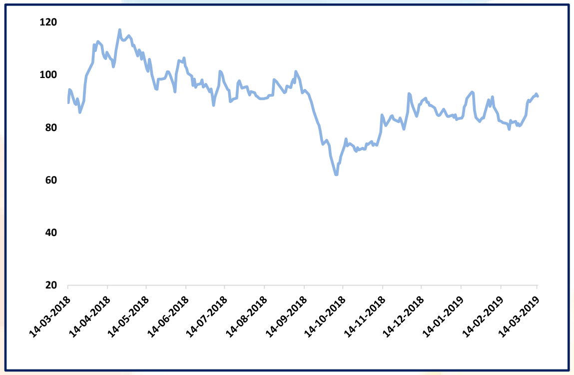

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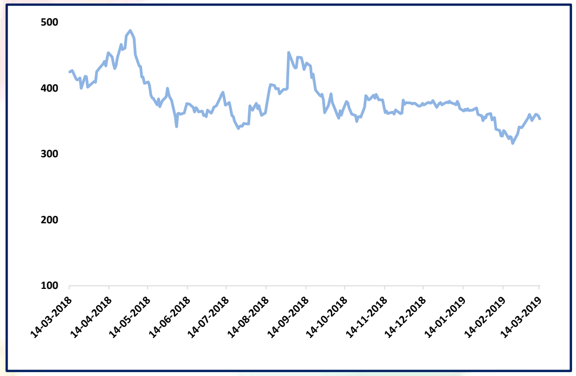

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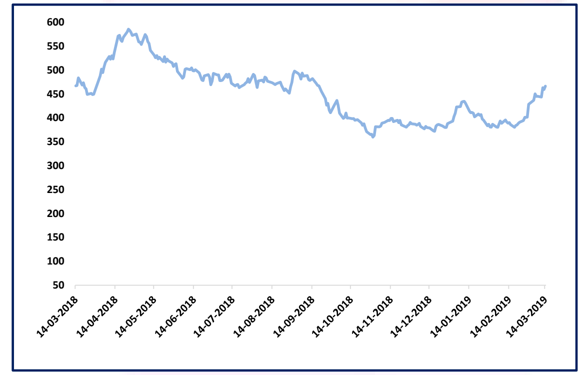

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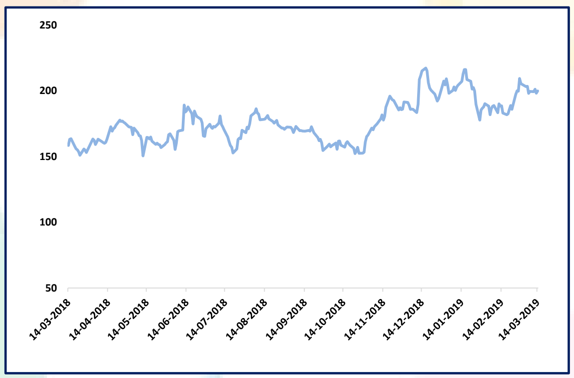

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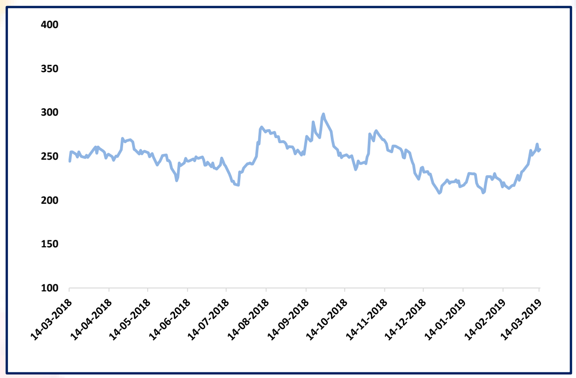

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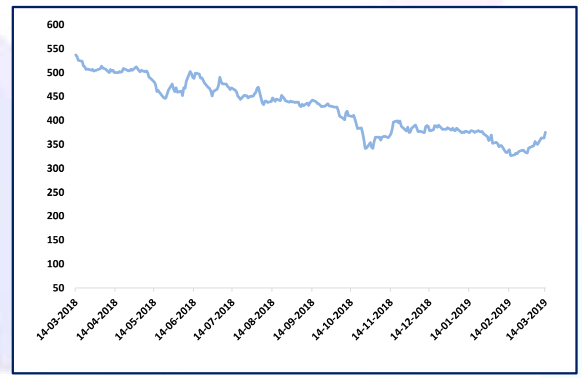

Analysts' Disclosure

Company	Analyst	Holding
Radico Khaitan	Kushal Rughani, MBA	No
Quess Corp	Kushal Rughani, MBA	No
Coromandel International	Nisha Sankhala, MBA	No
Subros	Nisha Sankhala, MBA	No
MCX	Kushal Rughani, MBA	No
Mahanagar Gas (MGL)	Kushal Rughani, MBA	No
Exide Industries	Nisha Sankhala, MBA	No
Everest Industries	Nisha Sankhala, MBA	No
Capacite Infra	Nisha Sankhala, MBA	No
NIIT	Kushal Rughani, MBA	No
Nucleus Software	Kushal Rughani, MBA	No
PSP Projects	Kushal Rughani, MBA	No
NRB Bearings	Nisha Sankhala, MBA	No
Deepak Nitrite	Nisha Sankhala, MBA	No
Laurus Labs	Kushal Rughani, MBA	No

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