VALUE INVEST
MARCH 2018

Analyst Contact

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Karvy Stock Broking Research is available on Thomson Reuters & Bloomberg (Code: KRVY<GO>)
## Value Invest

<table>
<thead>
<tr>
<th>Company Name</th>
<th>NSE Symbol</th>
<th>Sector</th>
<th>Market Cap (Rs. Mn.)</th>
<th>CMP* (Rs.)</th>
<th>Target Price (Rs.)</th>
<th>Upside (%)</th>
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<tbody>
<tr>
<td>Astra Microwave Products Ltd</td>
<td>ASTRAMICRO</td>
<td>Defence</td>
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<td>Textiles</td>
<td>30958</td>
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*As on Mar 23, 2018. Please [CLICK HERE](#) for previous Value Invest report*
MARKET OUTLOOK

Looking Beyond the Correction

Normalization of volatility: In the past couple of months, markets have witnessed a rise in volatility; however, it is still below the 20 year historical average of 22%. We believe that the volatility regime is shifting to a more normal one.

A correction, not a crash: We believe that the market is experiencing a correction (Sensex down 10.1% from recent high), but not a crash. This is on account of the following reasons:

• The Indian economic data is likely to improve over the coming months. In Q3FY17-18, the economy grew at 7.2% compared to an estimate of 6.9%, in Q2FY17-18 the GDP growth rate was 6.5%.
• IMF in its latest update forecasted a growth rate of 7.4% for FY18-19 and 7.8% in FY19-20. Leading indicators also point to a pickup in the months ahead. The OECD leading indicator has picked up after its bottom in March 2017.
• Global growth remains supportive. Growth is forecasted to pickup to 3.9% in CY18 from 3.7% in CY17 and 3.2% in CY16.
• Though it is early, IMD has indicated that the probability of an unfavorable monsoon is low.
• However, the following factors are likely to limit upside.
  ♦ Beginning of trade disputes around the world, especially the prospect of escalation between the US and China, the two largest economies.
  ♦ Ongoing process of resolution of NPAs in the banking sector.
  ♦ State elections in states (Karnataka, Mizoram, Rajasthan, Chhattisgarh and Madhya Pradesh) in the run up to the general elections, which are to be held by May 2019.

Outlook:

Though volatility is likely to rise, we believe that the markets will move up and deliver decent returns during the year. We forecast Sensex to end year 2018 at 37500, which represents a 1 year forward PE of 16.5x, and an upside of 15% from current levels.

In the following pages, we highlight 10 mid cap stocks that have the potential to deliver good returns over the next 12 months.
Exhibit: Volatility rising from low levels

Source: Bloomberg, Karvy Research

Exhibit: Rise in policy uncertainty likely to support rise in Volatility

Source: www.policyuncertainty.com, Karvy Research

Exhibit: OECD Leading indicator shows economy likely to accelerate

Source: OECD, Karvy Research
Earnings to Revive in FY19E

Order book pipeline encouraging: Lower order booking and slower execution to impact earnings growth in FY18E and we expect Astra Microwave (ASTM) EPS for FY18E to drop by 8.3% y/y to Rs. 5.7. However, this trend could reverse in next two years on the back of large order inflows and earnings are expected to grow at 13.2% CAGR to Rs. 6.1 in FY19E and to Rs. 7.3 in FY20E; despite, higher share of low margin export orders. Hence, we assign ‘BUY’ rating for a target of Rs. 109 representing an upside potential of 38%.

Substantial revision to FY18E guidance; Introduces FY19E guidance: ASTM estimates revised down due to delay in ordering for Akash sub-systems (Rs. 1,350mn), Off-set contract from ELTA (Rs. 1,900mn) and order from BEL Ghaziabad (Rs. 360mn) which it expects to receive by H1FY19 and close the FY19E with Rs. 6,500mn of orders. We expect the order book to reach to Rs. 5,797mn in FY19E and Rs. 6,696mn in FY20E.

Revenue and EPS to improve in FY19E-20E: 9MFY18 revenue was lower by 18.6% due to delay in execution of R&D projects related to defence, lower off-take of Akash sub-systems and space programs. However, due to lower share of exports (~3.7% of revenue) EBITDAM and PATM improved to 35% and 16.5%, which could moderate by year end. Our FY18E and FY19E revenue is revised down by 4.7% and 3% to Rs. 3,761mn and Rs. 4,326mn due to lower order book and slower execution. However, EPS is revised upwards by 16.6% to Rs. 5.7 in FY18E due to lower exports order and the same for FY19E is revised downwards by 5.4% to Rs. 6.1.

Valuation and Risks: We assign ‘BUY’ rating by valuing ASTM at 18x of FY19E EPS of Rs. 6.1 for a target of Rs. 109 representing an upside potential of 38% from a 12 months perspective. Our estimates reasonably weigh against inert temporality risks to order booking and execution. However, spillage in order booking could impact our margin estimates going forward.

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<thead>
<tr>
<th>Valuation Summary</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
<th>FY20E</th>
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<td>Net Sales</td>
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<td>539</td>
<td>495</td>
<td>524</td>
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<td>EPS (Rs.)</td>
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<td>5.7</td>
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<td>7.3</td>
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<tr>
<td>RoE (%)</td>
<td>16.4</td>
<td>12.7</td>
<td>10.5</td>
<td>10.3</td>
<td>11.4</td>
</tr>
<tr>
<td>PE (x)*</td>
<td>16.2</td>
<td>17.8</td>
<td>13.8</td>
<td>13.0</td>
<td>10.8</td>
</tr>
</tbody>
</table>

Source: Company, Karvy Research, *Represents multiples for FY16 & FY17 are based on historic market price
Company Background

ASTM is one of the leading designers and manufacturers of high quality radio frequency (RF) and microwave components and sub-systems in India. Astra Micro’s products find application in Defence, 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.

ASTRAMICRO: Technical View

The company is a small cap company with presence in niche areas of defence like sub systems for RF and microwave systems used in defence, space, meteorology and telecommunication with very few competitors and it can be one of the major beneficiaries of the Indian government’s effort to modernize Indian defence forces. ASTRA MICRO WAVE LTD has been under a prolonged consolidation phase for around 46 months in a very broad range of Rs. 96 to Rs. 160 before giving breakdown from the consolidation owing to the tremendous selling pressure for the past few months on account of bearish trend in the overall broader markets. The shorter term chart structure of the stock indicates formation of lower tops and lower bottoms. However, the longer term chart patterns indicate that the stock is nearing major support levels around Rs. 78.5 which is around 61.8% Fibonacci retracement level for the stock’s steep rally from Rs. 28 levels to Rs. 159.9 levels. The 14 period RSI (Relative Strength Index) of the stock is trading at 24.92 below its 9 period averages of 31.35 in weekly charts. It suggests that the stock is in negative momentum however, it is over sold in long term which means that the stock may bounce from these levels and there is a possible reversal if the stock breaches next resistance levels. Another oscillator MACD suggests positive divergence in daily chart. The stock has immediate supports pegged around Rs. 78.5 - Rs. 76 levels below which the next meaningful support zone for the stock lies around Rs. 59 - Rs. 56 levels. On the upside, the stock has its immediate supply zone around Rs. 93 - Rs. 97 levels crossing which a surge towards a potential upside target zone around Rs. 110 - Rs. 113 levels may also be seen in the counter.
Future Growth to be Propelled by Burgeoning Market Share & Strong Order Book

New Business with HMSI: The company recently won a Letter of Intent (LoI) from Honda Motorcycles & Scooters India (HMSI) to supply front fork for their largest selling scooter “Activa”. This is a new business opportunity for Gabriel as the company currently supplies only shock absorbers to HMSI. The supply will take place for the Gujarat and Karnataka plant of HMSI and would commence in early 2019. Given that HMSI commands ~57.3% of the total scooter market in India, Gabriel is expected to have a scalable opportunity of the front fork business with HMSI.

CVs & Railways to Push the Growth Agenda: The company continues to be the market leader in supplying shock absorbers to the CV segment, accounting for ~85% of the total market share. CV’s volumes are expected to surge with the pick-up of infra-spending and mining activities in coming quarters. Sales from railways are growing at more than 100% YoY and Gabriel being the first mover in supplying new generation shock absorbers to the railways, stands to significantly benefit from the ongoing railway modernization.

Auto Industry Outlook Promising: We are bullish on the growth prospects of the automotive industry, going forward. Higher allocation for the rural sector in the Budget 2018-19 fares well for the two-wheeler segment. The industry has recovered from the unsettling impact of demonetization & GST and is set on the growth track.

Valuation and Risks: Gabriel is currently trading at 15.0x FY20E EPS. Our positive view on the company is on the basis of robust track record of growth, continuous order acquisition and improving market share. We value the company at 20.5x FY20E EPS for a target price of Rs. 189, which implies an upside potential of 37.4%. However, factors like industry cyclicity and commodity price fluctuations may be the potential risks.
Company Background

Established in 1961, Gabriel India Limited is the flagship company of ANAND and the company provides the widest range of ride control products in India including Shock Absorbers, Struts and Front Forks across all automotive segments i.e. 2&3 wheelers, passenger cars, commercial vehicles and railways with over 300 product models to offer. The manufacturing facilities of the company are located across India in Chakan, Nashik, Hosur, Dewas, Khandsa, Parwanoo, and Sanand. Four of its satellite plants are located in Malur, Aurangabad, Kumbalgodu and Manesar.

Gabriel India Ltd: The stock is in strong uptrend and making higher highs and higher lows on weekly charts. The strong buying in the stock has placed the stock to the life time high of Rs. 222.50 levels. Thereafter, the price action in the stock has made bearish engulfing pattern on weekly charts before resuming its down move. The fall in the price has seen notable volume formation and placed the stock to the low of around Rs. 139 levels. The historical price action in the stock suggests that any fall in the stock can attract market participants and the stock may resume its up move. The immediate support for the stock is placed around Rs. 130 levels and below that is around Rs. 100 and Rs. 72 levels whereas resistance is placed around Rs. 170 levels and above that is Rs. 191 and Rs. 222 levels. However, any sustainable move above 222 will open upside room for the stock towards unchartered territory. On technical indicators, 14 period RSI is trading near 36 indicating comfortable placement of stock. The stock price is rolling on lower band of Bollinger band with expanding band width which indicates increase in volatility. Going forward any reversal in the stock will easily place the stock towards upper band of Bollinger band. The Parabolic SAR is trading below the price on quarterly charts which indicates up move in the stock to remain intact for long term time frame. The stock is trading below all its major moving averages near its support and historical price action in the stock suggests that any meaningful dip in the stock will attract buyers which will help the stock to maintain it’s up move.
**Market Leader Greaves Prepares for BS-VI World**

**Over three-fourths of Market is Served by Greaves:** Greaves has manufactured 5 mn diesel engines over the years and has market share of ~78.0% in the 3 Wheeler (3w) diesel engines market. Greaves’ cost leadership enables it to be a major source of 3w auto engines in India with partnerships over 35 auto manufacturers. Greaves products for Agri and Auxiliary power segment crossed 3mn pump sets and 1 mn generator sets mark recently.

**Greaves Prepares for a BS-VI World:** Greaves has signed-up with major Original Equipment Manufacturers (OEM) for development of Bharat Stage 6 (BS-VI) compliant engines, which may come to force in next 25 months. Management has commented that they had signed these arrangements based on initial simulation data and is working towards developing Proof-of-Concept (PoC) and Total Cost of Ownership (ToC) models demonstrating value proposition for both OEMs and end customers of OEMs as these initiatives range from multi-fuel to Hybrid to retrofit solutions. However, management refrained from quantifying the opportunity size for Greaves and competition thereof.

**Growth Crawls Back; Revenues to grow by 8.8% in FY17-20E:** Post several disruptions in the market place, revenue grew by 5.0% on a YoY basis to Rs. 13,059 mn in 9MFY18. We believe the improvement in 3w market, higher traction for agri equipments and powergen sales boost revenue growth by 8.8% CAGR during FY17-20E to Rs. 21,068mn. Stable material costs and other cost saving initiatives could improve EBITDA and PAT margin reaching to 15.2% and 10.7% by FY20E.

**Valuation and Risks:** Greaves domestic market to turn robust with new product launches, new geographical presence, potential addition of customers. ‘Greaves Auto Care’-new service offering and fructification of R&D efforts for BSVI engines could all shape into FY19E, FY20E and beyond. We base our valuation on FY19E estimates and arrive at a target price of Rs. 154 valuing Greaves at 20x of FY19E EPS of Rs. 7.7 representing an upside potential of 34%.

**Valuation Summary**

<table>
<thead>
<tr>
<th>YE Mar (Rs. Mn)</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
<th>FY19E</th>
<th>FY20E</th>
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<tbody>
<tr>
<td>Net Sales</td>
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<td>16344</td>
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<td>EBITDA Margin (%)</td>
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<td>EPS (Rs.)</td>
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<td>6.8</td>
<td>7.7</td>
<td>9.2</td>
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<tr>
<td>RoE (%)</td>
<td>23.0</td>
<td>19.9</td>
<td>17.8</td>
<td>19.5</td>
<td>22.4</td>
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<td>PE (x)*</td>
<td>15.0</td>
<td>19.4</td>
<td>16.8</td>
<td>15.0</td>
<td>12.5</td>
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Source: Company, Karvy Research; *Represents multiples for FY16 & FY17 are based on historic market price
Company Background

Greaves Cotton Ltd. (GCL) is a leading diversified engineering company manufacturing machinery and equipment. Greaves business is organised into Auto engines, Auxiliary Power Solutions, Farm Equipment Business and After-Market business. The company has 6 manufacturing facilities and 3,500+ customer touch points spread across India. Over the years, Greaves has increased its investments in R&D and the spending has averaged to the tune of ~1.5% of sales during FY08-17 peaking in the fiscals before CPCB norms came into force. In future, Greaves is committed to transform itself into fuel agnostic engineered solutions provider encompassing both manufacturing and service business lines.

GREAVESCOT: Technical View

Greaves Cotton Ltd: The stock is trading in broad range of Rs. 110-155 levels from couple of months. The stock has seen profits taking from all time high of Rs. 178.55 levels. This dragged the stock to the low of around Rs. 112 levels. The fall in the stock from the above said levels has seen supportive volume formation on daily charts. However, fall in stock got protected near Rs. 112 levels and wherein from it witnessed sharp bounce. The bounce in the stock has retraced 61.8% of retracement levels drawn from the life time high of Rs. 178.55 levels to the low of Rs. 112.35 levels. Thereafter, the price action in the stock has made bearish engulfing pattern of weekly time frame and reverse its up move. The historical price action in the stock suggests that the stock may attract market participants at low levels around Rs. 110-115 levels which helps stock to maintain it’s up move. The stock is trading near its support of Rs. 110 levels which is attractive price levels for investors. The immediate support for the stock is placed around Rs. 110 levels and below that is Rs. 90-95 zone. On the higher side, resistance is pegged around Rs. 140-145 zone and above it around Rs. 165-170 levels. On technical indicators, 14 period RSI is trading near 41 indicating comfortable placement of stock. The stock is trading near lower band of Bollinger on weekly charts and expected to bounce towards upper band of Bollinger band. The Parabolic SAR is trading above the price action indicating short term weakness in the stock which can be used for buying opportunity. The stock is trading below all its major moving averages near its support and historical price action in the stock suggests that any meaningful dip in the stock may attract buyers which will help the stock to maintain it’s up move.
Running High on Lignite Demand & Future Projects

**Reduced Tax Incidence and other factors to drive Lignite Demand:** Going forward, factors like sound financials, vast array of mineral products, several upcoming mines and power projects; and increasing commodity prices brighten the prospect for mining and power business. The company reported an impressive performance in Q3FY18, wherein top line grew by 33.1%, while bottom line grew by 68.8% on YoY basis, due to lignite becoming price competitive to coal following the fixation of GST rate of 5% for lignite and other minerals.

**Upcoming Projects to Boost Sales Performance:** GMDC has 6 operational lignite mines. The Ministry of Coal has allotted 3 lignite blocks, collectively these 3 mines have estimated 34 Mn tons of lignite reserves. Apart from lignite, the company is also into bauxite, fluor spar, manganese, silica sand, limestone and betonies mining. The company is in process of setting up of Fluorspar Benefication Plant, setting up a Silica Sans Benefication Plant and Lignite based 500 MW Power Plant.

**Valuation and Risks:** Strengthening of commodity prices and increased demand for power, following implementation of schemes like, UDAY, Deen Dayal Yojana and Saubhagya augur very well for the company. Furthermore, the company enjoyed robust financials in FY17 with zero debt, EBITDA margin of 26.4%, PAT margin of 20.5%, BV/share of Rs. 126 and cash & cash equivalent of Rs. 500 Mn make this stock a value buy. We value the stock on 1yr forward PE 8x of FY20E EPS, which is inching towards MSCI Energy India Index average PE of 8.9 with TP of Rs. 170 with potential upside of 39%. However, likely auctioning of coal mines for commercial use is a risk.

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### Gujarat Mineral Dev. Corp. Ltd

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<tr>
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<th>FY20E</th>
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<td>Net Sales</td>
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<td>EBITDA Margin (%)</td>
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<td>Adj. Net Profit</td>
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<td>5601</td>
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<td>EPS (Rs.)</td>
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<td>10.2</td>
<td>13.9</td>
<td>17.6</td>
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<tr>
<td>RoE (%)</td>
<td>6.0</td>
<td>8.4</td>
<td>10.6</td>
<td>12.2</td>
<td>13.3</td>
</tr>
<tr>
<td>PE (x)*</td>
<td>9.2</td>
<td>12</td>
<td>9.8</td>
<td>7.8</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Source: Company, Karvy Research, *Represents multiples for FY16 & FY17 are based on historic market price
Company Background

Gujarat Mineral Development Corporation (GMDC) was incorporated in 1963 and is engaged in business of mining and power. The company started its operations with a small sand crushing facility which is majorly used by sodium silicate and glass manufacturers. Then it entered into beneficiation of fluorspar which is a rare mineral and has applications in industries like steel, aluminum, hydrochloric acid, foundry flux and welding electrodes. In 1970, the company commissioned mining of lignite which is a cheaper substitute of coal to supply it to textile industries. Since then GMDC has emerged as one of the largest merchant sellers of lignite in the country. Apart from lignite, the company also mines bauxite and has power divisions consisting of Thermal Power, Wind Power and Solar Power plants. The company is also into exploration activities. The company first implemented ISO-9001 at corporate office in 2010 and aims at obtaining it for all the mines in operation with Occupational Health and Safety Systems (OHS-18000) along with Environmental Management Systems (ISO-14000).

GMDCLTD: Technical View

Gujarat Mineral Development Corporation Ltd: The stock price made an all time high of 316 in Nov’07, post which it witnessed significant price correction towards 25 levels made in Dec’08. After placing a low of 25 stock rebounded, but eventually it entered into a long consolidation mode. The stock price after placing a swing low of 52.30 in Feb’16 witnessed smart recovery, gains of 246% in span of last two years time frame, which indicates that possibly long consolidation mode is over and fresh leg of rally has been started and going forward after completion of intermediate price correction, bulls will take the charge of the counter. The stock price made a 52-week high of 180.90 in Oct’17 post which it witnessed profit booking from higher levels. In the month of Jan’18, stock attempted to retest its 52-week high, but failed by margin after making a lower swing high of 174 and tumbled in last couple of weeks. On projecting Fibonacci Retracement from swing low of 52 to high of 181, till date stock price has retraced more than 38.2% of move, while it’s 50% retracement lies near Rs. 116.60 levels and its Golden Fibonacci Ratio 61.8% lies near Rs. 101.50 levels going forward which should act as a strong support. Technically, stock is holding marginally above its 200-Weekly Exponential Moving Average (WEMA) which is currently placed near Rs. 122.50 levels. While, it is holding below its 200-DEMA & 50-DEMA (Daily Exponential Moving Average). On the momentum setup, 14-period weekly RSI managed to sustain above Rs. 35-levels during recent price correction, which indicates possibility of renewed buying in the counter can’t be overruled. On the downside, stock has a key support near Rs. 115 levels, followed by Rs. 90-95 levels. While on the higher side, immediate resistance is pegged around Rs. 155-160 levels, above which price could extend to retest its 52-week high near Rs. 180-185 levels.
Growth Story Continues…

Supportive global and domestic conditions for basmati rice:
KRBL Limited posted consolidated revenue of Rs. 7835 mn in Q3FY18 which is down by 1.8% as against Q3FY17 on YoY basis. The shift in preference for branded rice, increased restaurant cultures and rise in personal income contributed in domestic sales’ growth, while export growth remains subdued amidst volatile international price. However, basmati exports could rise in FY18E-19E due to steady global demand and strengthening of economies in Gulf region following rise in crude oil price. We believe that global and domestic conditions are supportive for basmati rice. Hence, we rate “BUY” on the stock with TP of Rs. 635 which gives a potential upside of 45%.

Domestic Demand getting stronger: India’s agri business in Q3FY18 registered a flattish growth. India’s agri business contributed 67% while rest of the world contributed 33% in total agri business in Q3FY18 on YoY basis. The company witnessed a good pickup in the domestic demand, while export demand did not pickup proportionately mainly because of volatile international price.

Energy business to stimulate on the back of Government’s thrust on Power:
Energy business is purely a domestic play which stood at Rs. 503 mn in Q3FY18 registering a growth of 74.7% on YoY basis. Further, government’s thrust on power is expected to stimulate demand for energy. The company has long term contract with state governments for Solar and Wind power.

Valuation and Risks: With growing demand amidst lower harvest, value added products, extensive distribution channel and sound financials, likely export order from Iran and improving gulf economies - the key basmati rice consuming region price realization for the company will further improve. The stock is currently trading at P/E 24.3 which is at discount to industry P/E of 35. Seeing business potential, we value the stock at 1 Yr Forward P/E 24x of FY20E EPS which gives TP of Rs. 635 with potential upside of 45% and rate “BUY” on stock for next 9-12 months. However, already high basmati rice price may prove to be deterrent to the overall demand.
**Company Background**

Founded in 1889 in Faisalabad, Pakistan and incorporated in 1993, KRBL is the world’s largest Basmati rice exporting company with multi-brand presence both in domestic as well as overseas markets. Over the years, the company has developed rice brands such as India Gate, Nur Jahan, Telephone, Train, Unity and Bawabat Al-hind to meet the requirements of different categories of consumers. Being an integrated player, the company also deals in value added by-products like Bran Oil and De-oiled Cakes. It has got Energy business vertical as well, wherein it uses rice husks for captive power plant. Its energy portfolio comprises of Bio-Mass, Solar and Wind energy. KRBL has a strong presence in export markets with 51% market share of Basmati Rice market of U.S.A, dominant presence in Middle East and expanding its export base to Africa and Europe. The KRBL is ISO 9002, HACCP (Hazard Analysis and Critical Control Points), KOSHER (approved by Jewish Dietary Law) and FDA (Food and Drug Administration) certified.

**KRBL: Technical View**

KRBL: On the monthly charts, the stock is in the cycle of making higher high and higher low which suggests bullish bias on the stock from a medium to long term perspective. The stock after facing a resistance placed around Rs. 650 levels has witnessed selling pressure on the charts and has fallen to the levels of Rs. 440 levels which is a 30% fall from the higher levels and is a decent correction for the stock, which makes the stock a good one to buy at current levels. The stock started its upward journey after giving a breakout from Rs. 29.06 levels in 2013 since then the stock has been given a stellar rally. On the monthly charts, the stock is trading above all the long term moving averages which suggest that the stock has some inherent strength in it. From the short term perspective on the daily charts, the stock has once again tested the consolidation zone, from which the stock had started rallying, the zone had a range of around 40 points from Rs. 437-477 levels. Any breakout on the charts, the stock might see some rally towards 505 levels and the next resistance is placed around Rs. 517 levels. If we see the downside then the stock has a support placed around Rs. 418 levels and the next support is placed around Rs. 397 levels which would be good level to accumulate the stock from a medium term perspective. The volumes on the charts from the past several months have not seen a significant upsurge. Currently, the 14-day RSI is trading below the 9-DEMA which suggests that the downward trend is likely to continue, but if the stock is able to breach Rs. 520-550 levels in the medium term then one might see the scenario changing. On the weekly charts if we see the trend of the past 3-week fall in the stock, then the previous trading week managed to close above the levels of Rs. 439 with decent amount of volume on the charts and during the previous trading week it also tried to move upwards above Rs. 480 levels which it failed to do so. From a medium term perspective the support is placed around Rs. 366 levels below which the stock might test Rs. 300 levels, on the higher side if we see the stock has a resistance placed around Rs. 550 levels above which the stock might test Rs. 650 levels.
Strategic Synergies in FMCG Sector to Augur Revenue

Manpasand-Parle Tie up- a formidable synergy in the FMCG Sector: Under the partnership, Manpasand Beverages will have access to Parle’s 4.5 Mn outlets across India for its flagship brand ‘Mango Sip’ juice which will be sold under the brand name Mango Sip Gold. The company has planned to target 1000 distributors and 5 Lakh outlets by March ‘18. Thereafter, the company plans to focus on UP, Gujarat and Maharashtra where Parle has 15 lakh outlets.

Increased capacity utilization to strengthen margins: The company has set up four new plants which will double its production capacity from 1.70 lakh cases per day. Further, the company is expected to launch a new health-based product in FY18 to aid utilization. With increasing distribution network, it is estimated that the company will be able to increase its capacity utilization and operate at 55% by the end of FY19 which will help the company to reduce its per unit cost and increase its margins.

Tie up with Havmor Ice Cream Ltd: With this foray, the company’s flagship brand Mango Sip, which is mainly available in rural and semi-rural regions, will now be available in urban areas through 210 food outlets of Havmor. This tie-up will also give a boost to ‘Fruits Up’ brand, which consists of a range of carbonated fruit drinks and premium fruit drinks in different flavours, that is primarily targeted at urban markets.

Valuation and Risks: Manpasand Beverages has continuously been growing by increasing its capacity and is on track with its plan of doubling its capacities. Currently, the stock is trading at a P/E of 18.2x FY20EPS. Seeing the stellar performance and expecting the revenue to grow at a CAGR of 36.5% over 2 years, we value the stock at 25x (3 years’ average) FY20EPS with a “BUY” rating arriving at a target price of Rs. 507 with an upside of 38%. Competition from MNCs and 20% of the company’s revenue coming from IRCTC are the key risks to the call.

<table>
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<tr>
<th>YE Mar (Rs. Mn)</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18E</th>
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<td>PE (x)*</td>
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<td>27.7</td>
<td>33.7</td>
<td>25.2</td>
<td>18.2</td>
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</table>

Source: Company, Karvy Research, *Represents multiples for FY16 & FY17 are based on historic market price
Company Background

Manpasand Beverages Limited is an India-based company engaged in the business of manufacturing of fruit juices in the beverages segment. The company’s flagship brand is ‘Mango Sip’, a mango based fruit drink which is strategically focused towards customers primarily based in semi urban and rural markets. Its other brands include Fruits Up and Manpasand ORS. Under the Fruits Up brand, the company offers differentiated carbonated fruit drinks with real fruit content and fruit drink with relatively higher fruit content of pulp. Carbonated fruit drinks are available in grape, orange and lemon flavors while fruit drinks are available in mango, apple, guava, litchi, orange and mixed fruits flavors. Manpasand ORS is a fruit drink with energy replenishing qualities with a primary focus on North East India containing rehydration salts and fruit contents, and is available in two flavors, apple and orange. The company offers fruit drinks in mango and other flavours and carbonated fruit drinks, in different packaging types and sizes.

**MANPASAND: Technical View**

Manpasand Beverages Ltd: Since its listing date, stock price has witnessed steady rally, with intermittent price correction in between bullish trend remain intact. At the time of listing, stock price made an all time low of 142.85, wherein from stock made a high of 388.50, gain of more than 170% in span of fifteen months. Post that stock retraced 50% of move projected from all time low to swing high of 388.50, in span of just three months; after placing a swing low of 253 made in end of Dec’16 stock reversed back and resumed its northward journey. From the swing low of 253 stock price made an all time high of 512 in the mid of Sept’17, gain of more than 100% in span of nine months. After placing all time high, stock price retraced its golden ratio 61.8% in less than four months time by making a swing low of 349 in end of Dec’17. Noticeably, prices after making a swing low of 349 rebounded in last couple of weeks, attempted to retest its all time high, but failed by margin by making a lower swing high of 499 in the start of Jan’18, post that stock price witnessed profit booking from higher levels and tumbled. Currently, stock price is hovering above its previous swing low 349. Technically, stock price is trading below its major and medium term moving averages. On the momentum setup, 14-period weekly RSI managed to sustain above Rs. 40-levels during recent price correction, which indicates that bulls are in control and price correction in the stock is being utilized as a buying opportunity by long term investors in the counter. On the downside, stock has a key support near Rs. 348-350 levels, followed by Rs. 300-310 levels. While on the higher side, immediate resistance is pegged around Rs. 435-440 levels, above which price could extend gains to retest it’s all time high near Rs. 512 levels.
Expansion Plans to Complement Higher Demand

**Improved demand scenario:** Board has given a nod for a fresh investment of Rs. 220 Mn in engine bearing & bushes plant which is expected to be completed by FY19E. The facility will enhance the capacity by 40% to cater to the increased order book from bimetal parts. Also, capex of Rs. 400 Mn is invested in aluminum division & the facility is expected to be ready by FY20E. It will enhance the capacity in higher tonnage to cater to increased customer demand. We expect revenue from engine bearing & bushes plant from FY20E & the aluminum division from FY21E onwards.

**Top line growth & improved margins:** Menon enjoys a marquee list of clientele like TATA, VOLVO, Mahindra, Greaves & Piaggio and boasts about its superior manufacturing capabilities. Menon undertakes designing, testing, validation & manufacturing of bearings, bushes & thrust washers for a wide range of applications. On account of new client addition together with incremental revenue from its investments made for expansions along with the shift in market dynamics in favor of BS IV, we expect the margins to stabilize by FY20E with EBITDAM reaching 27.0% levels coupled with PATM reaching 14.0% levels.

**Robust balance sheet to aid gain market share & profitability:** Net debt to equity of 0.1x, zero debt levels, net working capital to sales at less than 25%, cash per share of Rs. 3.0 and interest coverage multiple of 24.6x indicate Menon’s balance sheet strength to remain debt free in near future while maintaining operational superiority in gaining market share. The company is expected to meet its capex through internal accruals & debt. Historically, Menon Bearings has been consistently recording a healthy profitability & return ratios; we expect the trend to continue in future with RoE reaching 24.0% & RoCE of 29.0% levels by FY20E.

**Valuation and Risks:** At CMP of Rs. 93, Menon Bearings is trading at 18.1x to FY20E EPS. We ascribe a multiple of 29.0x which is a 3 year average of one year forward PE to FY20E EPS and recommend a “BUY” rating for a target price of Rs. 150 representing an upside of 61%. Threat of counterfeit products which mainly cater to aftermarket segment along with a slowdown in industrial & automotive segments may pose risk to the call.

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### Valuation Summary

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<th>FY20E</th>
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<tr>
<td>Net Sales</td>
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<td>EBITDA Margin (%)</td>
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<td>Adj. Net Profit</td>
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<td>EPS (Rs.)</td>
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<tr>
<td>RoE (%)</td>
<td>28.7</td>
<td>30.0</td>
<td>26.3</td>
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<td>24.0</td>
</tr>
<tr>
<td>PE (x)*</td>
<td>15.5</td>
<td>21.3</td>
<td>25.2</td>
<td>21.9</td>
<td>18.1</td>
</tr>
</tbody>
</table>

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Source: Company, Karvy Research, *Represents multiples for FY16 & FY17 are based on historic market price
Company Background

Incorporated in 1991 & headquartered at MIDC in 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 in various specifications. Different varieties of bearings supplied by the company include flanged bearings, tri-metal bearings and copper-bronze & aluminum-tin bearings for cranks. 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 to OEMs, replacement market and the export market. Its products are exported to countries across the globe such as USA, UK and Middle East.

MENONBE: Technical View

MENONBE: MENON BEARINGS LTD has been in a secular uptrend forming higher highs and higher lows since the day of its listing indicating the underlying strength in the stock. The stock has rallied from a low of Rs. 20.05 on March 24, 2015 to an all time high of Rs.126.50 on January 29, 2018 which is 517% and has corrected to Rs. 96.55 levels i.e nearly 30% from its all time high and settled around Rs. 105 levels. The stock is trading above all of its 21/50/100/200 period exponential moving averages in weekly chart as well as in daily chart suggesting the overall strength in this counter. As far as the technical setup of this stock is concerned, 14 period RSI (relative strength index) is trading above the 9 period averages in daily chart (51.71, 48.51) suggesting positive momentum in the counter. The overall long term chart structure of the stock is positive and looks good at current levels for long term investment. Leading indicator Heiken candlesticks suggest beginning of a afresh leg of rally in weekly chart. Another leading indicator Parabolic SAR (stop and reverse) suggests positive trend in daily chart. The stock has outperformed the broader indices in the current quarter showing its bullishness despite a broad based selling across the indices. On the Bollinger bands, the stock took support near mean and moving towards upper band and the bands are expanding in weekly chart and suggesting a fresh leg of rally towards its all time high levels. On monthly chart, the stock has witnessed consolidation for nearly one year followed by breakout with good volume. In the past, it has also been observed that every time the stock has made a cycle of higher low preceded by a higher high, it has always seen value buying from such levels, which gives investors with a longer term horizon a brilliant opportunity to go long in the counter at current levels for the above mentioned target levels in about a year’s time. The stock has immediate supports pegged around Rs. 90 - Rs. 92 levels below which the next meaningful support zone for the stock lies around Rs. 74-78 levels. On the upside, the stock has its immediate supply zone around Rs. 125-127.
Red Tape Ladies’ and Domestic Branded Segment to take the Growth Story Forward

Foray into Ladies Footwear & steadily increasing Domestic branded Segment to give a fresh breath of air: Women’s shoes under MIL will offer both formal and sportswear for women probably under the same brand. Given its experience in successfully building the ‘Red Tape franchise’, the entry into women’s footwear is expected to be value accretive to the company. The management is targeting around 5 lakh pairs of women’s shoes to be sold in 2 years post launch. For Q3FY18 domestic footwear revenue was up 70% to Rs. 900 Mn on the back of 92% growth in online sales while wholesale channel sales were up 87%. The new products of Bond Street and Sports ‘Athleisure’ Shoes contributed to bulk of the growth for period ended 9MFY18 and they are on track to achieve sales of Rs. 1.5 Bn for FY18.

Topline to be Driven by Online/Offline Stores: MIL has opened its first such ‘Online Store’ outside Ambala city and plans to recreate the format in few more cities. The initial response to the first store outside Ambala city has been encouraging. The company has set up 2 warehouses one each in Bangalore and Mumbai to meet the rising e-commerce demand. 5 such stores had already been opened by Q3FY17 and have been a huge hit. The count should go upto 20 by end of FY18E. The target is 180 by FY19 end. Capex should be Rs. 3.5-5 Mn per store and another Rs. 35-50 Mn on inventory. Management is focusing on the online-offline store which they plan to scale up to 70-100 stores. These stores would be 3-5K sqft and are expected to achieve average sales of Rs. 5 Mn/Month/Store with capex of mere Rs. 3 Mn/store.

Valuation and Risks: We take into account slowdown in unbranded footwear and exports segment along with the re-attempt to foray in Ladies’ fashion segment including a capex of Rs. 300 Mn on online-offline stores for increasing demand from the domestic segment. We maintain a “BUY” recommendation, valuing at 14.6x FY20E EPS with an upwardly revised target price of Rs.154 representing an upside potential of 42%.
Company Background

Mirza International was established in 1979 (promoted by Mr. Irshad Mirza, Chairman and Mr. Rashid Ahmed Mirza, Managing Director) is spread across 30 countries. The in-house design development team manufactures high quality products, which are stylish and comfortable, in the integrated facilities assuring Mirza as a reliable supplier to leading international brands. Mirza International is the leading Indian supplier of leather footwear to global brands since last 15 years. Approximately 75% of total revenue generated is derived from exports. 85% of the total overseas sales are private label goods supplied to leading international footwear companies. These international labels come to Mirza due to the ability to have quick deliveries, offer great build quality and maintain economic prices. At present, the company operations span across 30 countries around the globe. The main overseas markets are UK, France, Germany and USA. In UK, the company has garnered a 25% share in the men’s leather footwear in the mid-segment category, due to the high market penetration underlining the strong acceptance for its products.

MIRZAINT: Technical View

MIRZAINT is in an uptrend on the monthly, quarterly and yearly charts. The stock has given a negative return during the month so far, where it has slipped more than 17%. The stock began its rally from the levels of around 6.50 levels in the month of March, 2009. The stock gradually continued to trade higher and ultimately clocked life high of Rs. 183.65 levels in the month of September, 2017. The stock has grown 30x to what it was in the year 2009 in a span of 8 years. Post clocking life highs, the stock has been gradually slipping lower and has already corrected around 38% from its all time high levels. The trend on the daily and weekly charts is negative but on the higher time frame, the trend of the stock remains intact. Retracement when drawn from the low of 6.70 and the high of 183.65 on the monthly charts, the 50% retracement for the stock comes around Rs. 90-95 levels and 61.80% retracement levels are seen around Rs. 74 levels. The stock is likely to find support around the said retracement levels and stage a bounce. The immediate resistance in the stock is seen to be around Rs. 130 levels, above which Rs. 145-150 would act as the next meaningful one. Any sustenance above 150 levels may take the stock once again towards its all time high levels of around 180 in the longer time frame. Adding to it, it has also been noticed, that the stock is falling with decreasing volumes on the monthly charts, suggesting strong hands are holding the stock and are not willing to exit at the current levels and waiting for reversal to happen in the counter.
Specialty Generics in U.S Market to Deliver Profits

gCopaxone and gTamiflu to Drive Large Cash Flows: Mylan (Natco’s marketing partner) is the first to launch a generic of Copaxone 40 mg in Oct 2017 and is expected to capture a significant market share of the US$ 800 Mn (quarterly sales) drug. Sandoz launched gCopaxone 40mg in Feb 2018. There are only 2 generics of both Copaxone 20mg and 40mg in the US market. Our estimates indicate that Natco could generate Rs. 6,667 Mn and Rs.9,742 Mn in profit share from both 20mg and 40mg during FY18E and FY19E respectively.

gFosrenol and gDoxil to Generate Substantial Profits: Natco’s partner Lupin became the first to launch gFosrenol in Q2 FY18 & is expected to be the sole generic in the foreseeable future. According to our estimates, Natco is expected to make Rs. 444 Mn and Rs. 761 Mn in profit share for FY18E and FY19E respectively. Natco’s partner Dr.Reddy’s is the second generic in the difficult-to-manufacture gDoxil. Our estimates indicate that Natco could make Rs. 1168 Mn and Rs. 1123 Mn in profit share for FY18E and FY19E respectively.

Valuation & Outlook:
We reiterate a “BUY” recommendation with Rs. 1107 target price based on 18x FY19E EPS of Rs. 49 and cash flow per share of Rs. 224 for FTF/Para IV opportunities (primarily gRevlimid).The target of Rs.1107 represents a potential upside of 41%.

Key Risks:
- U.S Court’s ruling against Mylan on any of the 5 Copaxone patents.
- Early approvals and launch of both gCopaxone 20 mg and 40 mg in U.S by Reddy’s and Synthon/Pfizer.
- Form 483 with major observations on any of the Natco’s facility upon inspection by U.S FDA.
Company Background
Founded in 1981 and headquartered in Hyderabad, Natco is a specialty generics pharma manufacturer. It is the market leader in India in Oncology and Hepatitis C therapeutic areas. In Indian market, Natco offers 28 oncology medicines (11 for blood cancers + 17 for solid tumors) and 5 medicines in the hepatitis therapeutic area. Six brands in the oncology segment have INR 100 mn+ sales. Natco typically pursues a pipeline of niche and complex generics products in U.S with Para IV and Para III filings and has over 20 approved ANDAs. Natco has 5 finished dosages facilities one each in Kothur, Nagarjuna Sagar, Guwahati and two in Dehradun. There are 2 API facilities in Mekaguda and Chennai.

NATCOPHARM: Technical View
NATCOPHARM has witnessed stellar rally from the low of Rs. 500 levels till it clocked its life time high of Rs. 1090 levels on June 09, 2017. Thereafter, the rally took pause, on account of profit taking; price corrected and made a 52 week low of Rs. 671 levels on August 10, 2017. Post which the stock has rallied more than 56% in a very short span of 2 months and made a high of Rs. 1050 levels. The stock faced resistance twice around Rs. 1050 levels and corrected again more than 33%, made a low of Rs. 697 levels on March 07, 2018. Among the indicators and oscillators front, 14 period RSI is pointing northwards and poised with bullish bias, clearly indicating the bullish trend in the stock is likely to continue and the counter is expected to head higher in the near term. The Parabolic SAR (Stop & Reverse) is comfortably trading below the price on daily chart, which reflects buying will remain intact in the counter. On the weekly Bollinger Band (20,2) stock price has pierced its lower band in the earlier week and witnessed smart rebound during the week passed by, and formed strong Bullish reversal candle, which indicates stock price is likely to revert back to its mean in the weeks to come. The MACD has given positive crossover in negative territory and inching towards equilibrium line, reflecting strength in the up move. The immediate support for the stock is placed around its 52 week low of Rs. 670 levels followed by Rs. 600-610 levels, while the higher side the stock may face resistance near Rs. 1050 levels followed by its all time high of Rs. 1090 levels, breach above the said levels may take the stock towards Rs. 1130-1135 levels in the medium term. From the above observations, it is evident that stock is likely to surge higher and outperform its peers in the near to medium term perspective.
Robust Manufacturing Capacity; Focusing on Increasing Asset Utilization

Margins are likely to improve on back of higher utilization levels in home textile segment: The current utilizations between 40-50% for Bath & Bed Linen are expected to break-even in FY19E and the utilization levels would increase to optimum level of ~85% by FY20E-21E. EBITDA margins could be in a range of ~18-22% in FY19E & FY20E which could be possible by rising captive consumption of yarn, rising share of high-margin home textiles. However, cheaper raw material and stronger realizations have led to margins improving to 39% in FY18E.

Muted performance from home textiles due to multiple headwinds: Due to uneven procurement cycle & destocking by some of large customers in US, the industry saw pressure in volumes in FY18E, due to which terry towel utilization fell further in this year from 50% in FY17 to 45%. In case of Yarn, utilization increased further to 95% with lower captive consumption leading to higher yarn sales which also impacted margins negatively. Apart from de-stocking, stronger rupee and higher cotton price continue to remain key headwinds for the textile industry.

Expecting Sustainable Profitability: Challenges like uneven vendor procurement cycle, higher commodity price are expected to overcome in FY19E and anticipating sustainable profitability through higher utilization levels in home textile segment and margin expansion through value added products. Considering limited capex of Rs. 1000 Mn each year, the cash generated by the operations is to be used to deleverage the balance sheet, management expecting a reduction of debt by Rs. 4000Mn every year for FY19E-20E.

Valuation and Risks: Considering risks of INR appreciation, rough cotton season is expected to be overcome in FY19E. At the current inexpensive valuation of 5.9x FY20E P/E, we have given “BUY” rating with a target price of Rs. 98, based on 9.5x P/E FY20E, representing an upside potential of 61%.

### Valuation Summary

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<tr>
<th>Ye (Rs. Mn)</th>
<th>FY17</th>
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</table>

Source: Company, Karvy Reseach, *Represents multiples for FY18 & FY17 are based on historic market price
Company Background

Headquartered in Ludhiana (Punjab), the company operates in two major business segments of home textiles and paper; with manufacturing facilities located in Punjab and Madhya Pradesh. Keeping in view the increasing requirements of continuously expanding operations, the company has manufacturing capacities of Terry towels with 688 looms, bed sheets with an operating capacity of 500 looms, yarn capacity of ~0.56 Mn spindles and 5504 rotors. Trident is generating captive power to meet the demands of the industry with the production capacity of 50 MW. The company has a customer presence in more than 75 countries spread across six continents. The company’s prominent international customers include nine of ten largest American retailers, six leading European retailers and five of the seven largest Australia and New Zealand-based retailers.

TRIDENT: Technical View

Trident Ltd is in a strong uptrend in the longer time frame say, monthly, Quarterly and Yearly charts. The stock is down around 8% for the month as on date. The stock has been part of a massive rally where it has moved from the levels of around 6 towards Rs. 110 levels. The rally began sometime in July 2013 and it took just a tad more than 4 years to clock its life time highs of Rs. 109.50 levels in the month of September’2017. The stock has witnessed a stellar rally and has been a multi bagger, growing more than 18 times in a span of just 4 years. Since the beginning of its rally in 2013, the stock has been continuously heading higher with minor corrections. The stock has a tendency to resume its fresh up move once the minor correction is over in the counter. The stock after clocking fresh highs in September, 2017 has been under correction mode, slipping more than 40% from its highs. The immediate supports for the stock is seen to be around Rs. 60 levels, sustaining below which it may extend its downward journey towards 52-53 levels in the near term. Though the stock is looking weak on the daily and weekly charts, the upward trend is intact in the longer time frames. Retracement when drawn from the low of 6 and the high of 109.50 on the monthly charts, the 50% retracement for the stock comes around Rs. 55 levels and 61.80% retracement levels are seen around Rs. 45-46 levels. The stock is likely to find support around the said retracement levels and stage a bounce. The immediate resistance in the stock is seen to be around Rs. 75 levels, sustaining above which it may rally towards 82-83 in the short to medium term. Any sustenance above Rs. 84 levels, will take the stock towards Rs. 93-95 levels in the longer time frame.
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