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Money through wisdom

SAMVAT REPORT 2074

NIFTY HEADED TO 11000

9100-8970 MAJOR SUPPORT ZONE

- In our SAMVAT 2073 report titled **"10460 ABOVE 9119; USE CORRECTIONS TO ACCUMULATE"**, we had said that **"From the larger perspective, Nifty continues to be in an overall bull market and any dip should be used to add to investments."**
- We had also said that upon crossover of 9119, 10460 would be the next major target to eye.
- Nifty, after touching a low of 7894 in December 2016, reversed and touched a high of 10192 recently, coming within a kissing distance of 10460 target and vindicating our view.
- This year in March, when Nifty took out the 9119 hurdle, we released a special report, projecting a target of 11000 in 12-18 months.
- We reiterate the target of 11000. Above 11000, 11300, 11600 and 11900 would be subsequent fibonacci extension levels and hence upside targets to eye.
- On the way down, 9685, the bottom made in August, is the immediate support, below which 9100-8970, where previous tops made in March 2015 and September 2016 are placed, would be important support zone to eye.

SAMVAT 2074 PICKS

FINOLEX CABLES	
585 CMP	700 TARGET (20% upside)
509 STOP LOSS	

KOLTE-PATIL DEVELOPERS	
225 CMP	310 TARGET (38% upside)
170 STOP LOSS	

INDIAN METALS & FERRO ALLOYS	
737 CMP	975 TARGET (32% upside)
580 STOP LOSS	

HIKAL LIMITED	
249 CMP	310 TARGET (24% upside)
211 STOP LOSS	

FINOLEX CABLES LIMITED

Industry | **Electrical Cables & Wires**

CMP	585 (₹)
Target Price	700 (₹)
52 Week H / L	612 / 362 (₹)
Market Cap	8955 (₹ Cr)
Book Value	139.98 (₹)
Dividend (FY17)	3 (₹)
NSE Code	FINCABLES
BSE Code	500144
BSE Group	A

Background & Business

Finolex Cables Ltd, a flagship company of the Finolex Group, established in 1958, is India's largest and leading manufacturer of electrical and telecommunication cables with a turnover in excess of ₹ 26 Billion. The company has a wide range of products comprises of Electrical & Telecommunication cables, LT & HT Power & Control Cables, Electrical Switches, Compact Fluorescent Lamps (CFL's), PVC Sheets & Copper Rods.

The company has four manufacturing plants located in Pimpri (Pune), Urse (Pune), Goa and Roorkee (Uttarakhand).

KEY RATIOS	
P/E TTM	28.3
Price/Book Value	4.2
MC/ TTM Sales	3.6
Debt / Equity	0
ROCE (%)	24.04
ROE (%)	18.19

Shareholding Pattern (%) (as on June 2017)	
Promoters	35.86
FII	6.23
DII	18.97
Others	38.94

Investment Rationale

- The fiber penetration in India is likely to improve significantly on back of Government initiatives such as Bharat Net and Digital India along with consumer increased demand for mobile data services and e-commerce. Demand for better quality and feature rich products is on the increase and the company **JV – Corning Finolex Optical Fibre Pvt Ltd** expects to capitalize on the same.
- The power ministry thrust of restructuring of state utilities and make India power surplus by the year 2020, along with Metro projects and Smart city project would result in substantial increase in demand for evacuation, transmission of electricity and hence demand for Extra High Voltage cables in cities and emerging cities.
- A strong brand image and value – for long Finolex has been able to hold the Super Brand status; the brand has also enabled the Company to market its products in overseas markets.
- Backward integration in respect of its major materials – CCC Rods, PVC compounds, Optical Fibre and FRP rods, which allow the Company a certain technical superiority over its competitors while providing a cost advantage as well.
- Diversified into newer product segments that are complementary to the electrical cable market i.e. Lamps, Switches and recently into Switchgear, Fans and Water Heaters – this move will over a period of time bring in additional market coverage as well as de-risk the Company from being over dependent on one product line.
- The key risks factor for the company is the competition from the unorganized sector and volatility in copper prices which constitute 80% of the total raw material cost.
- Looking into the growth prospect for the sector, strong brand image poised by Finolex, healthy ROCE and ROE of the company, we recommend buying the stock at current level for a price target of ₹ 700.

Financial Performance (Rs. in crores)

Particulars	Standalone 1QFY18	Standalone 1QFY17	Consolidated FY17	Consolidated FY16
Revenue	743.52	596.57	2,670.75	2,574.73
PBDIT (Excl Other Income)	110.02	90.42	395.93	358.34
PAT	101.90	67.18	299.52	260.00
EPS (Annualized)	26.65	17.57	20.65	16.27
PBIDTM (%)	19.01	17.48	17.05	16.10
PATM (%)	13.71	11.26	11.21	10.10

FINOLEX CABLES

CMP - **585**

- As shown in the chart below, **FINOLEX CABLES** has broken out on its weekly chart after a consolidation phase of nearly six months.
- The stock should be bought at current level for a price target of ₹ **700**. Stop-loss should be placed at ₹ **509** on weekly closing basis.

KOLTE-PATIL DEVELOPERS LTD

Industry | **Construction – Real Estate**

CMP	225 (₹)
Target Price	310 (₹)
52 Week H / L	233 / 79 (₹)
Market Cap	1706 (₹ Cr)
Book Value	117.30 (₹)
Dividend (FY17)	1.60 (₹)
NSE Code	KOLTEPATIL
BSE Code	532924
BSE Group	B

Background & Business

Kotle-Patil Developers Limited, incorporated in 1991, is a leading real estate company with dominant presence in the Pune residential market along with Bengaluru and Mumbai. The company has developed and constructed over 50 projects including residential complexes, commercial complexes and IT Parks covering a saleable area of ~15 million square feet.

Kolte-Patil markets its projects under two brands: 'Kolte-Patil' (addressing the mid-income segment) and '24K' (addressing the premium luxury segment). Several of the company's projects have been certified by the Indian Green Building Council (IGBC).

Consolidating its leadership position in Pune, the company forayed into the Mumbai market in 2013 focusing on low capital intensive society redevelopment projects.

KEY RATIOS	
P/E TTM	28.3
Price/Book Value	1.9
Interest Coverage	2.50
Debt / Equity	0.88
ROCE (%)	15.35
ROE (%)	10.32

Shareholding Pattern (%) (as on June 2017)	
Promoters	74.54
FII	9.62
DII	0.08
Others	15.76

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Investment Rationale

- The country's real estate markets are definitely poised for growth in the medium-to-long term on the back of structural reforms, liberalization of the foreign direct investment (FDI) policy, higher transparency and consolidation. Further, with banks cutting down home loan interest rates and an up tick in buyer sentiment would lead to strong demand and increase sales volumes.
- The Union Budget 2017-18 provided strong impetus to the real estate sector with the most notable announcement being the award of Infrastructure Status to Affordable housing, which is expected to drive a recovery in the residential sector and is aligned with the government's agenda of 'Housing for All by 2022'. This will allow easier access to capital for developers, at a much lower rate with a longer amortization period. In addition, it will allow developers access to viability gap funding and tax incentives.
- The Company is looking to consolidate its dominant presence in Pune, leveraging its strong brand name, through the execution of ongoing projects and launch of subsequent phases of existing projects. In addition to Pune, the Company has a strong pipeline of projects in Mumbai of over 1.2 msf, which will facilitate PAT and ROCE expansion for the Company going forward, while providing synergies to the existing Pune operations.
- Bengaluru is expected to be an additional growth engine with the launch of the Kormangala project in H2 FY18, in addition to the launch of Exente, Hosur Road in Q1 FY18.
- The Company's long-term bank debt and non-convertible debentures have been rated 'A+ / Stable' by CRISIL, the highest rating accorded by CRISIL to any publicly listed residential real estate player in India.
- Looking into the sound financial performance, low debt-equity ratio and strong credit rating, we recommend buying the stock at current level for a price target of ₹ 310.

Financial Performance (Rs. in crores)

Particulars	Consolidated 1QFY18	Consolidated 1QFY17	Consolidated FY17	Consolidated FY16
Revenue	246.56	179.82	965.61	753.75
PBDIT (Excl Other Income)	59.07	59.14	252.19	213.25
PAT	25.38	18.97	84.88	62.66
EPS (Annualized)	12.24	9.62	11.51	7.77
PBIDTM (%)	24.78	34.86	26.97	30.48
PATM (%)	10.26	10.55	8.79	8.26

KOLTE PATIL

CMP - **225**

- **KOLTE PATIL** has broken out of an upward sloping trendline adjoining major tops on weekly chart after a consolidation of nearly five months.
- The stock should be bought at current level for a price target of ₹ **310**. Stop-loss should be placed at ₹ **167** on weekly closing basis.

INDIAN METALS & FERRO ALLOYS

Industry | **Minerals & Mining**

CMP	737 (₹)
Target Price	975 (₹)
52 Week H / L	827 / 235 (₹)
Market Cap	1991 (₹ Cr)
Book Value	394.22 (₹)
Dividend (FY17)	20 (₹)
NSE Code	IMFA
BSE Code	533047
BSE Group	B

Background & Business

Indian Metals & Ferro Alloys (IMFA), established in 1961, is India's largest fully integrated producer of ferro alloys with 187 MVA installed furnace capacity backed up by 258 MW captive power generations. Over the last 50 years, the Company has created a strong foundation through constant innovation leading to sustainable productivity. Today, IMFA has access to over 18 million tonnes of total ore reserves with mines at Sukinda, Mahagiri and Nuasahi in Odisha.

The Company is a globally recognized brand among ferro chrome producers and primarily exports to the Far East – China, Japan, Taiwan and South Korea. IMFA is trusted by multinationals like POSCO in South Korea, Marubeni Corporation and Nisshin Steel in Japan for its commitment to quality. Among Indian Players, Jindal Stainless, AIA Engineering and Shah Alloys are its esteemed clients.

KEY RATIOS	
P/E TTM	8.0
Price/Book Value	1.9
MC/ TTM Sales	1.2
Debt / Equity	0.92
ROCE (%)	22.67
ROE (%)	26.23

Shareholding Pattern (%) (as on June 2017)	
Promoters	58.88
FII	0.23
DII	8.02
Others	32.87

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Investment Rationale

- The ferro chrome industry is expected to remain stable in the near future with robust demand. Stability in the Chinese economy and the new US regime proposing massive infrastructure projects are expected to raise demand for stainless steel and, thereby, ferro chrome.
- The government's focus on increasing domestic productions with programmes like 'Make in India' is likely to change the domestic demand scenario. Further, a focus on infrastructure and proposed smart cities will drive demand higher for stainless steel and eventually ferro chrome. Moreover, growing urbanization and disposable income will enhance demand for white goods which is mostly made of stainless steel.
- In 2016-17 IMFA set records in every single operational front with the highest ever production & export of ferro chrome, highest ever power generation crossing 1000 MU mark for the first time and chrome ore raising.
- The company is part of highly cyclical industry and the key risk includes volatility in exchange risk, regulatory intervention, volatility in Ferro Chrome prices and a slow down in Chinese economy.
- Looking into the growth prospect for the sector, strong global clientele and improving financial performance, we recommend buying the stock at current level for a price target of ₹ **975**.

Financial Performance (Rs. in crores)

Particulars	Standalone 1QFY18	Standalone 1QFY17	Consolidated FY17	Consolidated FY16
Revenue	426.31	253.29	1,720.47	1,226.98
PBDIT (Excl Other Income)	175.88	-0.18	561.61	138.70
PAT	99.92	-30.35	248.70	-43.67
EPS (Annualized)	148.14	-46.73	92.27	-16.95
PBIDTM (%)	41.26	-0.07	33.09	11.31
PATM (%)	23.44	-11.98	14.65	-3.56

INDIAN METALS & FERRO ALLOYS

CMP - **737**

- **IMFA** has broken out of a trendline adjoining tops made in March and September 2017 as shown in the chart below.
- The stock should be bought at current level for a price target of ₹ **975**. The stop-loss should be placed at ₹ **580** on weekly closing basis.

HIKAL LIMITED

Industry | **Chemicals & Pharmaceuticals**

CMP	249 (₹)
Target Price	310 (₹)
52 Week H / L	256 / 181 (₹)
Market Cap	2044 (₹ Cr)
Book Value	65.31 (₹)
Dividend (FY17)	1.20 (₹)
NSE Code	HIKAL
BSE Code	524735
BSE Group	B

Background & Business

Hikal Limited established in 1988, a reliable long term partner to companies in the Pharmaceuticals, Biotech, Agrochemicals and Specialty Chemicals industries. The company is in the business of supplying research services, active ingredients and intermediates. The company is one of very few global and only Indian Companies to provide APIs for both Pharmaceuticals and Agrochemicals– Hybrid Model.

Hikal's Crop protection facilities are located at Taloja and Mahad (Maharashtra), R&D facilities is located at Pune and the Pharmaceutical manufacturing facilities are situated in Jigani (Bengaluru) and Panoli (Gujarat). The company's manufacturing facilities have been inspected and approved by leading multinational companies in the Crop protection and Pharmaceutical sectors.

KEY RATIOS	
P/E TTM	32.0
Price/Book Value	3.8
MC/ TTM Sales	2.0
Debt / Equity	0.94
ROCE (%)	12.95
ROE (%)	12.84

Shareholding Pattern (%) (as on June 2017)	
Promoters	68.77
FII	3.64
DII	8.80
Others	18.79

Investment Rationale

- The government aims to develop India as a global healthcare hub with policy support in the form of reduced excise and custom duty and exemption in service tax.
- India is the largest exporter of formulations with 14% market share and ranks 12th in the world in terms of export value. Investment in healthcare infrastructure is set to rise, benefiting both hard (hospitals) and soft (R&D, Education) infrastructure.
- The sector witnessed increased scrutiny from the US FDA in 2016 with the regulatory body issuing warning letters and import alerts to several large Indian firms. This is emerging as one of the key challenges at it can potentially delay approvals and product launches in the US and other countries globally. Hikal continues to maintain its strong regulatory track record and the same were reflected our sixth US FDA audit from November 14-18, 2016, with the inspection closed successfully with zero 483 observations.
- The company plans to invest further in the intermediate facility (Panoli) and convert this facility into an API plant that will cater to both the generic API and CDMO business. This will de-risk the Bangalore plant for manufacturing final APIs and add on flexibility to meet delivery requirements of the growing client base.
- Hikal has developed four specific APIs in animal health business and plans to file a veterinary DMF in 2017-18. It also plan to develop one or two new APIs each year and have own portfolio of animal health products.
- Despite a challenging market, increasing price pressures and regulatory hurdles, the company is placed to maintain its course of sustainable growth in the coming years. We recommend buy on the stock at current level for a price target of ₹ 310.

Financial Performance (Rs. in crores)

Particulars	Standalone 1QFY18	Standalone 1QFY17	Consolidated FY17	Consolidated FY16
Revenue	266.70	225.96	1,017.37	927.49
PBDIT (Excl Other Income)	49.67	43.59	203.23	182.68
PAT	13.32	11.54	63.88	41.20
EPS (Annualized)	6.48	5.62	7.77	5.01
PBIDTM (%)	19.22	19.70	19.66	19.53
PATM (%)	4.99	5.11	6.18	4.40

HIKAL

CMP - **249**

- **HIKAL,** after a consolidation of nearly a year has broken out on its weekly chart as shown below.
- The stock should be bought at current level for a price target of ₹ **310**. The stop-loss should be placed at ₹ **211** on weekly closing basis.

Disclosure:

Disclaimer:

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