INVESTOR'S EYE

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Index

Marico

Reco: Buy

Stock Update

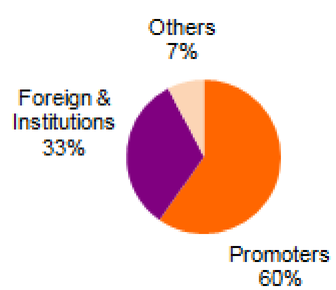
Enhanced focus to improve volume growth; maintain Buy

CMP: Rs399

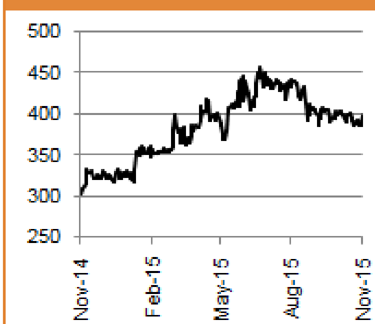
Company details

Price target:	Rs460
Market cap:	Rs25,735 cr
52 week high/low:	Rs466/299
NSE volume: (no. of shares)	8.0 lakh
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float: (no. of shares)	26.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.3	-9.7	-2.8	26.7
Relative to Sensex	-3.8	-4.5	-2.4	30.9

Key points

- **Mixed operating performance:** During Q2FY2016, Marico's revenue grew by 4% to Rs1,485.4 crore, entirely driven by a 4% volume growth (domestic business' volume growth stood at 5.5%). The gross profit margin (GPM) improved by almost 500BPS to 49.3% on the back of ~30% decline in the copra prices and 33% decline in the prices of liquid paraffin. The higher advertisement spends (increased by 30% YoY) resulted in a 182-BPS improvement in operating profit margin (OPM). The operating profit grew by ~18% and lower interest expenses (declined by 31%) led to 27.4% increase in the reported PAT.
- **Domestic business did well, international business disappoints:** Marico's domestic business volume growth stood at 5.5% driven by a strong volume growth of 11% in *Parachute* rigid packs and 9% volume growth in value-added hair oil. The OPM of the domestic business stood at 17.9%. The international business continues to disappoint with a revenue growth of 2%, while OPM stood at 17.3% (improved by 50BPS on a Y-o-Y basis).
- **Outlook-Volume growth trajectory likely to improve in H2FY2016:** The company has taken adequate measures to revive its volume growth (both in the domestic and international markets). *Parachute* rigid pack volume growth is expected to remain in the range of 6-8% (supported by price-cuts), while *Saffola* edible oil volume growth is expected to improve on the back of various initiatives undertaken. In the international business, Bangladesh is expected to see an improvement in the performance on the back of price reduction undertaken in the *Parachute* portfolio. The Middle East region is clocking good growth, while Egypt is expected to get back in the positive revenue growth trajectory in the coming quarters.
- **Buy maintained:** We have reduced our earnings estimates for FY2017 by 3% to factor in slower growth in revenues (and introduced FY2018E earnings in this note). The stock has corrected from its high by ~15% and is trading at 30x its FY2017E earnings. In view of long-term growth prospects and decent upside from the current level, we have maintained our Buy recommendation on the stock with an unchanged price target of Rs460.

Results (consolidated) Rs cr

Particulars	Q2FY16	Q2FY15	YoY %	Q1FY16	QoQ %
Net sales	**1,485.4**	**1,431.2**	**3.8**	**1,783.2**	**-16.7**
Expenditure	1,255.7	1,235.9	1.6	1,457.9	-13.9
Operating profit	**229.7**	**195.3**	**17.6**	**325.3**	**-29.4**
Other income	14.2	11.7	21.6	22.1	-35.6
Interest expenses	3.6	5.1	-30.5	4.4	-19.1
Depreciation	23.9	20.5	16.6	21.0	13.9
PBT	**216.4**	**181.3**	**19.4**	**322.0**	**-32.8**
Tax	62.4	59.9	4.1	88.5	-29.6
Adjusted PAT (before MI)	154.1	121.4	26.9	233.5	-34.0
Minority interest (MI)	3.3	3.1	-	3.7	
Adjusted PAT (after MI)	150.7	118.3	27.4	229.8	-34.4
Extraordinary items	0.0	0.0	-	-7.7	-
Reported PAT	**150.7**	**118.3**	**27.4**	**237.5**	**-36.5**
Adjusted EPS	**2.3**	**1.8**	**27.4**	**3.6**	**-34.4**
GPM (%)	49.3	44.3	499BPS	46.2	307BPS
OPM (%)	15.5	13.6	182BPS	18.2	-278BPS

Domestic business—Volume-led revenue growth of 4%

Marico's fast-moving consumer goods (FMCG) business in India grew by 4% to Rs1,127 crore in Q2FY2016. The volume growth in the domestic consumer business stood at 5.5% in line with 6% volume growth in Q1FY2016. The price cuts and price-offs given in the *Parachute* coconut oil and *Saffola* edible oil led to a lower revenue growth. The OPM of the domestic business stood at 17.9% in Q2FY2016 and the company expects it to sustain in the range of 17-18% in the near to medium term due to stable copra prices and lower prices of the other inputs.

Parachute coconut oil: Volume growth remained strong at 11%

- In Q2FY2016, *Parachute's* rigid pack registered a decent value growth of 9%, driven by volume growth of 11%. The company took a price cut of 6% across SKUs after stable copra prices over the past few months. Its price deflation stood at 2% during the quarter.
- *Parachute* along with *Nihar* enjoys a market share of 57% in the domestic branded coconut oil market.
- The copra prices are down by 30% from its peak and have remained stabled for the past two months. In view of this, the company has taken an average price decline of 6% in its *Parachute* portfolio to pass on the commodity price benefit.
- We expect *Parachute's* (rigid pack) volume growth to remain in the range of 6-8% in the near to medium term. This will be driven by the conversion from loose oil (commands 35-40% of coconut oil market) to branded coconut oil and share gains in the rural market.

Saffola edible oil: Volume growth remains flat sequentially

- The *Saffola* edible oil's sales volume growth stood at 4% in Q2FY2016 affected by an increase in the pricing premium over loose edible oil due to the recent fall in the edible oil prices.
- The company has undertaken a slew of actions to improve the sales volume of *Saffola* edible oil: (1) maintained acceptable pricing premium over the other oils; (2) price-offs/extra volumes were given in *Saffola Gold* and *Saffola Active* brands; and (3) media support on active brands to target a new consumer segment. Also the edible oil brand is likely to benefit from imposition of duty on imports of edible oil.
- Despite lower rate of growth, the brand continues to command leadership positioning in the branded edible oil with a 59% market share.

Saffola Oats-Well-poised to achieve Rs125 crore revenue in FY2016

Saffola Oats has maintained its No. 2 position in the oats category with a value market share of 24% (improved from 22% in Q1FY2016). The various distribution initiatives undertaken by the company resulted in *Saffola Oats* being distributed 1.4 times more than the market leader. *Saffola*'s flavoured oats are gaining good acceptance and now command 66% of the value market share. The management has reiterated of achieving revenue of over Rs125 crore in FY2016.

Value-added hair oil—Volume growth stood at 8%

- Value-added hair oil portfolio registered a value growth of 9% (volume growth of 8%) in Q2FY2016. The moderation in the volume growth to single digit can be attributed to base effect of corresponding quarter last year (as festive season fell in Q2FY2015). The company had further strengthened its market leadership position by 180 basis points (BPS) to 30% volume share and continued to premiumise with value share gain of 238BPS to 23%.
- *Parachute Advansed Ayurvedic* oil witnessed a rapid distribution scale-up in four southern states and grew at a compounded annual growth rate (CAGR) of 48% from the launch. The brand is well-poised to achieve revenue of Rs60-65 crore by the end of FY2016. The company is currently prototyping *Parachute Advansed Aloe Vera* hair oil in Maharashtra and has extended the reach of *Nihar Naturals Sarson Kesh Tel* to the states in north and east in Q3FY2016.
- We expect the volume growth of the hair oil portfolio to sustain in the range of 14-15% in the near to medium term.

Youth portfolio-Adequate measures undertaken to revamp performance

- The youth brand portfolio (*Set Wet*, *Zatak* and *Livon*) declined by 18% during the quarter.
- *Set Wet Gel* brand continued to grow in double digits riding on new packaging and expanded distribution reach. The deodorant portfolio continues to be under pressure due to hyper-competitiveness in the category. However, the company is planning for renovation in the portfolio to improve performance in the medium term.
- The *Livon Hair Gain* franchisee has been affected by counterfeits and hence registered a decline in revenue in Q2FY2016. The company has introduced new anti-counterfeit measures on every pack to improve performance in the coming quarters.

- Overall, the company expects gradual improvement in the performance of the youth portfolio in the coming quarters.

International business' performance-Muted performance sustains

The revenue of Marico's international business grew by 2% in Q2FY2016 to Rs359 crore. The core markets, the Middle East and North Africa (MENA), Southeast Asia and South Africa registered a growth of 10%, 9% and 8% respectively on a constant-currency basis. On the flip side, revenue from Bangladesh (45% of international sales) declined by 11% on a constant-currency basis affecting the overall performance of Marico's international business. The OPM of its international business stood at 17.3% (improved by 50BPS on a year-on-year [Y-o-Y] basis). The performance of Bangladesh was affected by decline in the sales of *Parachute* coconut oil, which was affected by pricing premium over loose coconut oil. The company has undertaken weighted average price correction of 8% to consumers. This is likely to yield desired results from Q3FY2016 onwards. The MENA region registered a growth of 10% on a constant-currency basis on the back of 29% growth in the Middle East business (which maintained strong growth for the past two quarters). This trend of improvement is expected to sustain in the coming quarters and the MENA region profit is expected to improve in the coming quarters. The company has undertaken distribution transition in Egypt in H2FY2015 and positive effect of the same could be seen in the coming years (likely to get back in positive growth trajectory in H2FY2016). Going ahead, the company is focusing on entering six countries in the sub-Saharan Africa with primary focus on East Africa (already entered in the Kenyan market). The company is planning to sell ethnic hair care products in this region and would also look to introduce some of the products from the Middle Eastern portfolio. In Southeast Asia, the company expects the performance to improve in the coming quarters through reviving macro indicators and a robust new product pipeline.

Outlook and valuation

The company has taken adequate measures to revive its volume growth (both in the domestic and international markets). *Parachute* rigid pack volume growth is expected to remain in the range of 6-8%, while *Saffola* edible oil volume growth is expected to improve on the back of initiatives undertaken. In the international business, Bangladesh is expected to see improvement in the performance on the back of price decline undertaken in the *Parachute* portfolio. The Middle East region is clocking good growth, while Egypt is expected to get back in the positive revenue growth trajectory in the coming quarters.

We have reduced our earnings estimate for FY2017 by 3% to factor in slower growth in revenues (and introduced FY2018E earnings in this note). The stock has corrected from its high by ~15% and is trading at 30x its FY2017E earnings. In view of long-term growth prospects and decent upside from the current level, we have maintained our Buy recommendation on the stock with an unchanged price target of Rs460.

Gabriel India

Reco: Buy

Stock Update

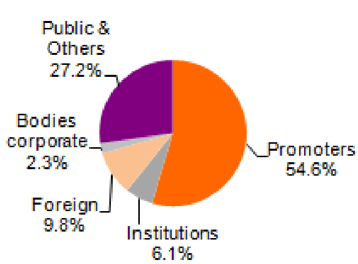
Maintain Buy with a revised price target of Rs105

CMP: Rs86

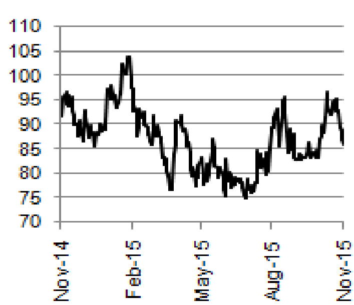
Company details

Price target:	Rs105
Market cap:	Rs1,237 cr
52 week high/low:	Rs107/72
NSE volume: (no. of shares)	8.5 lakh
BSE code:	505714
NSE code:	GABRIEL
Sharekhan code:	GABRIEL
Free float: (no. of shares)	65.16 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.9	-2.5	7.7	5.4
Relative to Sensex	2.3	3.1	8.1	8.9

Key points

- **Revenue decline continues in Q2FY2016; compensated by a strong margin performance:** Gabriel India (Gabriel) had another disappointing quarter as its revenue declined by 2.4% YoY to Rs375 crore, in line with our expectation. The weakness in the domestic motorcycle and passenger vehicle (PV) segments led to a fall in revenues. However, the company benefitted from the softer commodity prices and favourable product mix which led to a 73-BPS Y-o-Y operating profit margin (OPM) expansion to 8.8% vis-à-vis our estimate of 8.5%. Gabriel posted a net profit of Rs19.4 crore (higher by 10.6% YoY) as against our expectation of Rs18.1 crore.

- **Revenue growth expected to be muted in FY2016 and a revival in FY2017:** The two-wheeler industry which is the biggest revenue driver for Gabriel (60% of the overall sales) is going through difficult times. Although the scooter segment has been growing, the motorcycle demand remains muted due to the slowdown in rural India and thus affecting revenues for Gabriel. In the PV segment, unfortunately Gabriel has limited presence in the fast growing models. The company's revenues in the segment are expected to pick-up with the start of production on two models with Maruti Suzuki India Ltd (MSIL) and a platform with Mahindra & Mahindra (M&M). While the commercial vehicle (CV) segment sales are expected to continue to grow in double digits the contribution from this segment remains low. We expect revenue growth in FY2016 to be muted in low single digits and the company to return to double-digit growth in FY2017 as the motorcycle segment recovers and production for new models with key customers commences.

- **Maintain Buy with a revised price target of Rs105:** We have cut our earnings estimates for FY2016 and FY2017 by about 10% each to factor in a lower revenue growth. We have also introduced FY2018 earnings estimate in this note. While the demand scenario is expected to remain muted in FY2016, we expect a robust growth in FY2017 on the back of a ramp-up in supplies to Honda Motorcycle and Scooter's new plant in Gujarat and to the new models of both MSIL and M&M. We have shifted the target multiple to an average of FY2017 and FY2018 and reiterated our Buy rating on the stock with a revised price target of Rs105 (earlier Rs100).

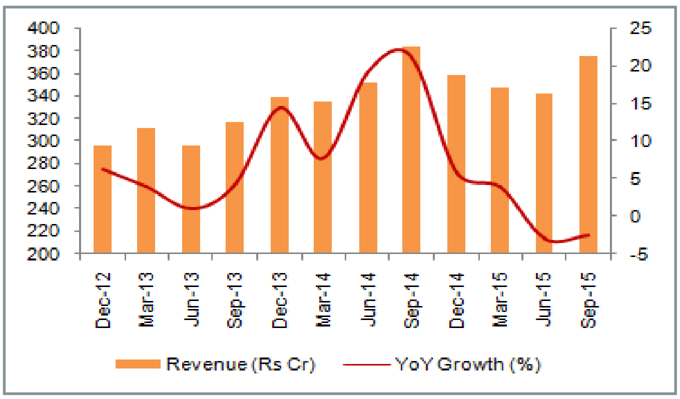
Results Rs cr

Particulars	Q2FY16	Q2FY15	YoY %	Q1FY16	QoQ %
Revenues	375.2	384.5	-2.4	341.9	9.7
EBITDA	32.9	30.9	6.5	28.3	16.4
EBITDA margin (%)	8.8	8.0		8.3	
Depreciation	8.3	7.9	5.0	8.2	0.7
Interest	0.6	0.8	-26.0	0.7	-19.4
Other income	1.2	2.1		1.3	
PBT	25.2	24.4	3.5	20.7	22.0
Tax	5.8	6.8		5.2	
Adjusted PAT	19.4	17.6	10.6	15.5	25.4
Reported PAT	19.4	17.4	11.5	17.5	11.4
Adjusted EPS (Rs)	1.35	1.22		1.08	

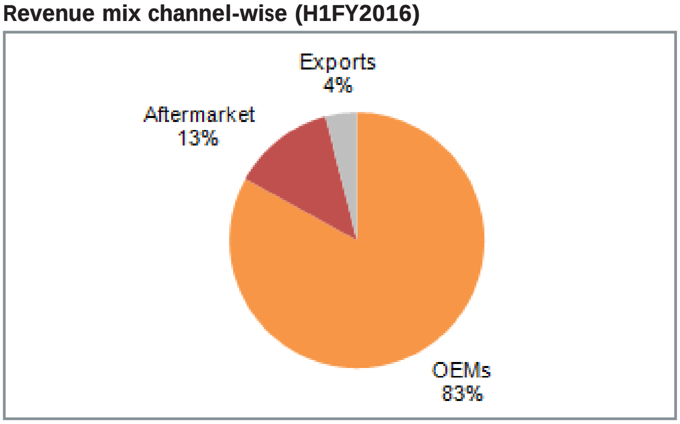
2.4% fall in revenue on expected lines

Gabriel continued to be affected by the slowdown in the domestic two-wheeler industry and reported a 2.4% fall in revenue for Q2FY2016. The revenue for the quarter was at Rs375.2 crore which was in line with our expectation. The revenue from the two-wheeler segment, which contributes to 60% of the overall sales, was down year on year (YoY) due to the slowdown in the motorcycle segment. The commercial vehicle (CV) and aftermarket segment continued to deliver growth for the company for the second quarter in a row.

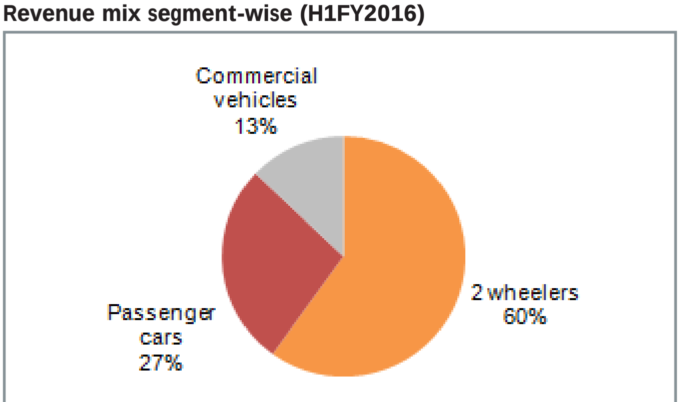
Revenue trend



Revenue mix channel-wise (H1FY2016)

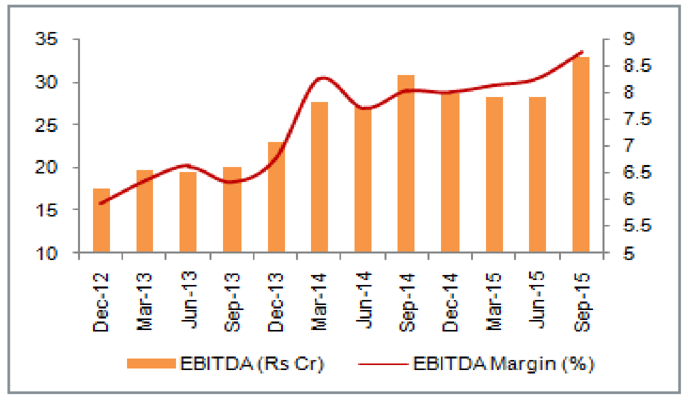


Revenue mix segment-wise (H1FY2016)



Margins beat estimates: In Q2FY2016, Gabriel once again delivered a strong margin performance with OPM expanding by 73 basis points (BPS) year on year (YoY; 50-BPS sequentially) to a three-year high of 8.8% as against our estimate of 8.5%. The margin expansion was largely on the raw material front and the company benefitted from the softer commodity prices. The operating profit rose by 6.5% YoY to Rs32.9 crore.

Margin trend



Net profit rises by 10.6% YoY to Rs19.4 crore

The interest expense for the quarter fell by 26% YoY to Rs0.6 crore as the company continues to de-leverage its balance sheet. The tax rate for the quarter too was lower at 23% vis-à-vis 28% in FY2015. As a result, the adjusted net profit after tax (PAT) was up 10.6% YoY to Rs19.4 crore as against our expectation of Rs18.1 crore.

Valuation

We have cut our earnings estimates for FY2016 and FY2017 by about 10% each to factor in the lower revenue growth. We have also introduced FY2018 earnings estimate in this note. While the demand scenario is expected to remain muted in FY2016, we expect a robust growth in FY2017 on the back of a ramp-up in supplies to Honda Motorcycle and Scooter's new plant in Gujarat and to the new models of both MSIL and M&M. We have shifted the target multiple to an average of FY2017 and FY2018 and reiterated our Buy rating on the stock with a revised price target of Rs105 (earlier Rs100).

Valuations

Particulars	FY2014	FY2015	FY16E	FY17E	FY18E
Net sales (Rs cr)	1,286.6	1,444.1	1,489.6	1,745.5	1,995.6
Growth (%)	6.7	12.2	3.2	17.2	14.3
EBITDA (Rs cr)	90.7	117.7	128.9	159.7	187.6
OPM (%)	7.0	8.2	8.7	9.2	9.4
PAT (Rs cr)	46.8	60.6	78.7	104.6	129.1
Growth (%)	6.2	29.5	29.8	32.9	23.4
FD EPS (Rs)	3.3	4.2	5.5	7.3	9.0
P/E (x)	26.2	20.2	15.6	11.7	9.5
P/B (x)	4.3	3.8	3.2	2.6	2.2
EV/EBITDA (x)	14.2	10.5	9.2	7.0	5.5
RoE (%)	17.3	19.9	22.2	24.7	25.2
RoCE (%)	18.9	24.4	26.7	30.4	31.4

PTC India

Reco: Buy

Stock Update

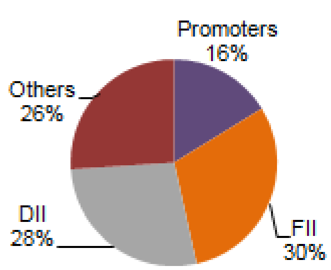
In-line earnings performance; reiterate Buy on attractive valuation

CMP: Rs65

Company details

Price target:	Rs90
Market cap:	Rs1,930 cr
52 week high/low:	Rs105/50
NSE volume: (no. of shares)	21.3 lakh
BSE code:	532524
NSE code:	PTC
Sharekhan code:	PTC
Free float: (no. of shares)	24.8 cr

Shareholding pattern



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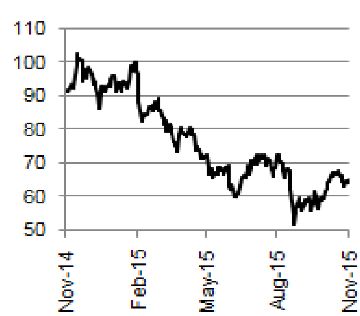


Price performance

(%)	1m	3m	6m	12m
Absolute	7.8	-7.5	-7.5	-28.4
Relative to Sensex	6.1	-2.3	-7.1	-26.0

Key points

- **Flat earnings supported by higher other income:** During Q2FY2016, the adjusted earnings of PTC India (PTC) were flat YoY at Rs76 crore, largely in line with our estimate. The revenue declined by 16% in this quarter YoY, as the average realisation of power traded declined by 14% and softer volume (down 3%). The weak lower volume influenced operating profit; down by 11% YoY to Rs56 crore. However, higher other income compensated the drop in operating level performance; hence, PTC reported a flat adjusted PAT. One needs to consider that the reported PAT includes a net surcharge of Rs24 crore in Q2FY2016 against Rs19 crore in Q2FY2015.
- **Trading volume outlook remains soft:** The short-term power trading volume remained flat YoY in Q2FY2016, which could remain subdued for some time given the current environment where off-take from state utilities is lower. However, the company maintains its leadership position in the power trading market with 43% market share. Further, the medium- and long-term volumes are likely to improve which would effectively enrich blended margin in future. PTC has recently started supply of 361MW of power to UP Power Corporation under long-term arrangements and got a contract from DVC to sell its surplus power for FY2016.
- **View and valuation; reiterate Buy on attractive valuation:** We believe, while the short-term power trading volume scenario is likely to remain subdued for some time now (which is reflecting in the stock price), the government's efforts to restructure and reform SEBs could improve volume outlook and ease receivable concerns. Thus, it could lead to potential re-rating of the valuation multiples in future. Nevertheless, we find the stock attractive at the current market price as the debt-free company is available at ~Rs1,900 crore while value of its investments is around Rs1,685 crore (after 30% holding discount of listed subsidiary and liquid investment at par). This implies at current price, market values the core business at around Rs240 crore, which can generate PAT of Rs200 crore and free cash flow of Rs100 per annum for the next two to three years. Further, the current dividend yield stands at 3.4%, which gives us more comfort. Therefore, we have reiterated our Buy rating on the stock and retained our price target at Rs90 (based on SOTP valuation).

Results Rs cr

Particulars	Q2FY16	Q2FY15	YoY %	Q1FY16	QoQ %
Units traded (mn units)	12,546	12,724	-1	10,265	22
Blended realisation in Rs/unit	2.8	3.3	-16	3.2	-14
Total income	**3,521**	**4,212**	**-16**	**3,296**	**7**
Operating profit	**82**	**82**	**-1**	**60**	**37**
Adjusted operating profit	**56**	**63**	**-11**	**57**	**-1**
Other income	48.9	44.2	11	11.4	329
Interest	0.3	0.3	10	0.1	162
Depreciation	0.9	1.1	-17	0.9	1
PBT	129	125	3	70	84
Tax	29	29	-2	22	29
Adjusted PAT	**76**	**77**	**-1**	**48**	**59**
Extraordinary items	24	18.9	NA	-	NA
Reported PAT	**101**	**96**	**5**	**48**	**110**
Adj EPS	3	3	-1	2	59
Rep. EPS	3	3	5	2	110
Ratios (%)			**BPS**		**BPS**
Operating margin (%)	1.6	1.5	10	1.7	(12)
PAT margin (%)	2.2	1.8	33	1.5	71
Tax rate (%)	22.1	23.4	(122)	31.7	(958)

Valuations

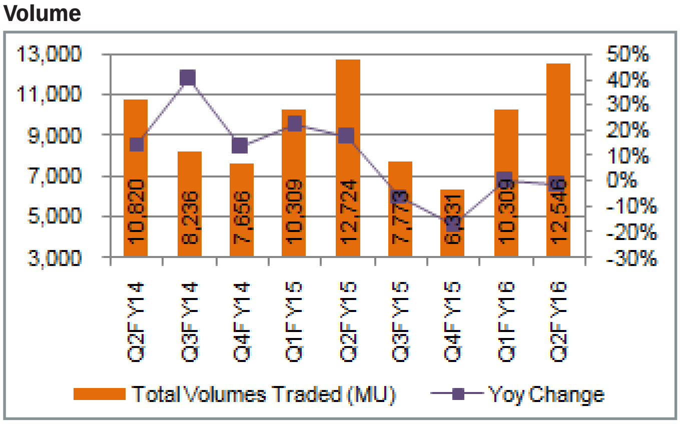
Particulars	FY13	FY14	FY15	FY16E	FY17E
Net sales (Rs cr)	8,856	11,511	13,082	13,561	14,080
Operating profit (Rs cr)	169	313	271	241	247
Adj PAT (Rs cr)	129	165	189	207	216
Adj EPS (Rs)	4.3	5.6	6.4	7.0	7.3
Y-o-Y growth (%)	7	28	15	9	4
PER (x)	14.9	11.7	10.2	9.3	8.9
P/BV (x)	0.8	0.8	0.7	0.7	0.7
EV/EBIDTA (x)	8.6	3.8	4.9	5.1	4.8
RoCE (%)	7.8	9.3	12.1	11.4	11.4
RoE (%)	5.5	6.6	7.2	7.5	7.4
Core RoE (%)	11.4	7.8	14.8	15.6	15.3
Dividend yield (%)	2.5	3.1	3.4	3.4	3.4

SOTP valuation

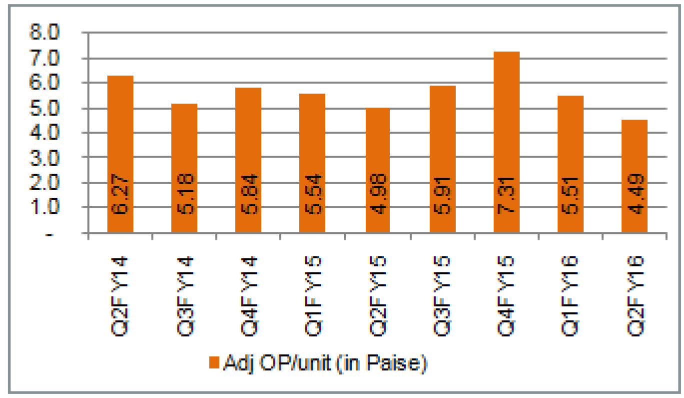
Price parget of PTC India	Rs
Core EPS on FY17 (Rs)	5.5
PE (x)	5
Core business value (Rs/share)	**27**
Embedded value (Rs/share)	**62**
Stake in PFS (30% holding discount)	33
Liquid investments	19
Cash on books	9
Total price target (Rs/share)	**90**

In-line profits supported by higher other income: During Q2FY2016, PTC reported flat earnings in line with our expectations supported by higher other income. However, the revenue declined by 16.4% year on year (YoY) to Rs3,521 crore, primarily on account of lower realisation per unit (down 14%) of power traded. The realisations are a pass through for the company, volume and operating profit per unit are true indicators of the performance. The volume was fairly stable at around 12 billion units while the adjusted operating profit per unit was slightly softer at 4.49 paisa in Q2FY2016 against 4.98 paisa in Q2FY2015. As a result, the operating profit declined to Rs56 crore in Q2FY2016 as compared with Rs63 crore in Q2FY2015.

Volume



Operating profit per unit



The decline in operating profit was more than compensated by higher other income and higher surcharges received, as a result the reported profit for the company grew by 5% to Rs101 crore. The amount overdue on sale of power from debtors is classified as surcharge. The net surcharge received for Q2FY2016 was Rs24 crore while for Q2FY2015 it was Rs19 crore. Since, it is not a consistent inflow it has to be adjusted for and the adjusted profit for the company stands at Rs76 crore in Q2FY2016 as compared with Rs77 in Q2FY2015.

View and valuation

We believe while the short-term power trading volume scenario is likely to remain subdued for some time now (which is reflecting in the stock price), the government's efforts to restructure and reform state electricity boards (SEBs) could improve volume outlook and ease receivable concerns. Thus, it could lead to a potential re-rating of the valuation multiples in future. Nevertheless, we find the stock attractive at the current market price as the debt-free company is available at ~Rs1,900 crore while the value of its investments is around Rs1,685 crore (after 30% holding discount of listed subsidiary and liquid investment at par). This implies at current price, market values the core business at around Rs240 crore, which can generate a profit after tax (PAT) of Rs200 crore and free cash flow of Rs100 per annum for the next two to three years. Further, the current dividend yield stands at 3.4%, which gives us more comfort. Therefore, we have reiterated our Buy rating on the stock and retained our price target at Rs90 (based on sum-of-the-parts [SOTP] valuation).

Ipca Laboratories

Reco: Hold

Stock Update

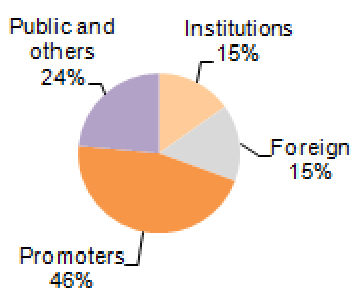
Weak operating performance on account of USFDA ban; PT revised to Rs779

CMP: Rs749

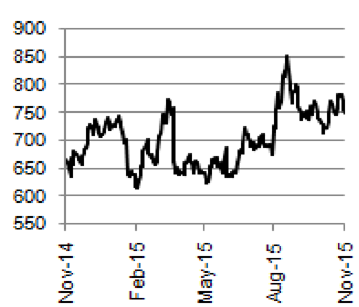
Company details

Price target:	Rs779
Market cap:	Rs9,452 cr
52 week high/low:	Rs888/591
NSE volume: (no. of shares)	1.84 lakh
BSE code:	524494
NSE code:	IPCALAB
Sharekhan code:	IPCALAB
Free float: (no. of shares)	6.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.0	4.3	17.4	0.9
Relative to Sensex	0.4	10.3	17.9	4.3

Key points

- **Subdued performance, earnings decline sharply:** For Q2FY2016, Ipca Laboratories (Ipca Labs) posted a poor performance due to a ban by the USFDA on three of its India-based facilities and adverse currency movements in the key emerging markets. During the quarter, the company reported a 3% decline in sales to Rs749 crore, while OPM got squeezed to 11.9% (vs 16.6% in Q2FY2015). In terms of earnings, the company reported a decline of 49.6% YoY to Rs35.6 crore.

- **USFDA ban remains a key overhang:** While the overhang related to the USFDA ban is unlikely to ease in near term (post December 2015), a respite is that the company is able to ship two products to the US market, namely *Hydroxychloroquine Sulfate* and *Propranolol Hydrochloride* (exempted from the import ban) and a clearance on its Ratlam facility by the WHO-Geneva (clearance certificate received) which will help the company to resume a significant portion of institutional business.

- **Management maintains guidance:** The management maintained its revenue guidance of 7% without factoring the US business, while EBIDTA margin should be near 16% for FY2016. We have introduced FY2018E earnings. Also, we have revised our price target to Rs779 (implies 16x average earnings of FY2017E and FY2018E EPS) and maintained our Hold rating on the stock.

Results Rs cr

Particulars	Q2FY16	Q2FY15	YoY %	Q1FY16	QoQ %
Net sales	749.2	774.9	-3.3	751.0	-0.2
Expenditure	660.1	645.8	2.2	663.9	-0.6
Operating profit	89.2	129.0	-30.9	87.1	2.3
Other income	5.3	14.4	-63.5	11.1	-52.6
EBIDTA	94.4	143.5	-34.2	98.3	-3.9
Interest	7.0	5.7	22.0	5.5	28.4
Depreciation	43.7	39.6	10.2	42.0	3.9
PBT	43.8	98.1	-55.4	50.8	-13.8
Tax	8.2	27.5	-70.1	8.2	0.1
Adjusted PAT (ex-forex)	35.6	70.7	-49.7	42.6	-16.5
Foex loss/(gains)	23.9	9.4	155.1	23.6	1.1
Net profit (reported)	11.7	61.3	-80.9	19.0	-38.3
EPS (Rs)	0.9	4.9	-81.0	1.5	-38.4
			BPS		**BPS**
OPM (%)	11.9	16.7	-475.3	11.6	29.8
EBIDTA margin (%)	12.6	18.5	-591.3	13.1	-47.9
Net profit margin (%)	1.6	7.9	-635.1	2.5	-96.4
Tax rate (%)	18.8	28.0	-924.1	16.1	260.8

Performances continue to remain subdued: The Q2FY2016 performance was affected by the ban on three of its manufacturing facilities by key regulatory agencies and follow-up remedial measures disrupting the supplies. Besides, a sharp depreciation in currency in key markets like Russia and neighbouring nations aggravated the adverse conditions for the company. During the quarter, the exports of formulations declined by 26% to Rs227 crore and exports of active pharmaceutical ingredients (APIs) increased by 53% to Rs147 crore. The exports of formulations included Rs47 crore from tender-based institutional business during the fiscal.

Expect an improvement in export performance subsequently: Although, the overhang related to the lifting of import alert by the US Food and Drug Administration (USFDA) continues and is unlikely to ease in near term, however, resumption of supplies of two of its key products to the US market will help the company to achieve growth in exports. Besides, the company will shortly receive physical form of clearance certificate from World Health Organization (WHO)-Geneva for its Ratlam facility, which will help normalise the institutional business.

Update on USFDA issues: The management is ready with the remedial measures on affected facilities and has invited USFDA officials to listen to the management's side of preparedness. In any case, the resolution of USFDA's concerns on three of its facilities and lifting of import alert is unlikely in near future, only by December 2015. However, the USFDA has allowed supplying of two products in the US market and the company is in process to resume the supply of these products.

Outlook and valuation: We expect the export performance to improve on the back of commencement of shipments of *Hydroxychloroquine Sulfate* and *Propranolol Hydrochloride* to the US market (these two products are exempted from the import alert issued by the USFDA and contributed a significant portion of the US revenue before the ban was imposed by the USFDA). Besides, the tender-based institutional business will also see a boost, as the company receives clearance certificate from WHO Geneva shortly. The growth guidance given by the management excludes the upside from the US market.

Maintain Hold with revised PT of Rs779: We have introduced FY2018E earnings. Also, we have revised our price target to Rs779 (implies 16x average earnings of FY2017E and FY2018E earnings per share [EPS]) and maintained our Hold rating on the stock.

Valuations

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Net sales (Rs cr)	3,282	3,142	3,274	3,870	4,605
PAT (Rs cr)	406	254	179	521	707
Shares in issue (cr)	12.6	12.6	12.6	12.6	12.6
EPS (Rs)	37.9	19.8	18.1	41.3	56.0
Y-o-Y change (%)	21.2	-47.7	-8.6	127.9	35.7
PER (x)	19.7	37.8	41.3	18.1	13.4
Cash EPS (Rs)	46.1	34.4	31.9	57.2	74.1
Cash PER (x)	16.3	21.8	23.5	13.1	10.1
EV/EBIDTA (x)	12.1	19.2	22.1	11.8	8.9
Book value (Rs/share)	157.0	175.0	188.4	225.0	276.3
P/BV (x)	4.8	4.3	4.0	3.3	2.7
Mcap/sales	2.9	3.0	2.9	2.4	2.1
RoCE (%)	27.5	13.3	9.8	19.7	23.1
RoNW (%)	26.9	12.2	10.0	20.0	22.3

Skipper

Reco: Buy

Stock Update

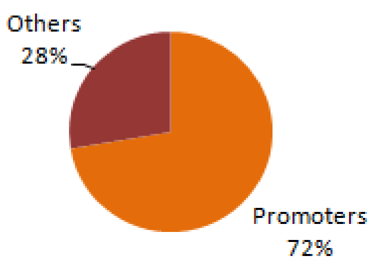
Earnings growth momentum continues; retain Buy

CMP: Rs156

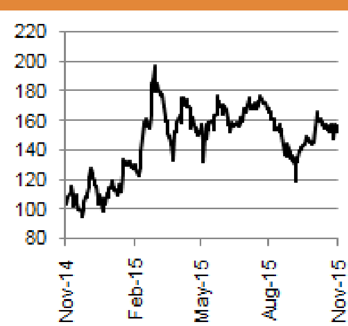
Company details

Price target:	Rs210
Market cap:	Rs1,596 cr
52-week high/low:	Rs200/93
BSE volume: (No of shares)	19,114
BSE code:	538562
Sharekhan code:	SKIPPER
Free float: (No of shares)	2.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.7	-8.4	3.0	57.5
Relative to Sensex	4.1	-3.2	3.4	62.7

Key points

- **Strong earnings growth backed by revenue traction:** For Q2FY2016, though reported earnings of Skipper looks flattish, the adjusted earnings jumped sharply from Rs6 crore in Q2FY2015 to Rs17.6 crore in Q2FY2016. The reported earnings include extra-ordinary income from forward contract on both the comparable quarters; hence, one should look at the adjusted earnings. The strong earnings growth was mainly driven by a very healthy revenue growth of 18% YoY, as polyvinyl chloride (PVC) business witnessed a substantial growth (new capacity added recently) apart from a healthy growth in engineering products revenue. Consequently, the operating profit grew by 23% YoY to Rs37 crore. Further, owing to a hefty rise in other income, the bottom line improved substantially in Q2FY2016.
- **Healthy growth outlook; PVC expansion in driving seat:** The engineering products division is having an order book of Rs2,200 crore (~2x its FY2015 revenue) and the company has participated in the bidding of around Rs2,000-crore-worth of orders in H1FY2016. Given the healthy domestic visibility of T&D pipeline, the management aims to achieve an order inflow of around Rs800-1,000 crore in H2FY2016. On the PVC segment, the capacity addition plan is largely on track to achieve 40,000 tonne by the end of FY2016. Currently, ramp-up in the newly added capacity at Ahmedabad is going on and three new capacities are lined up to come in H2FY2016. Skipper is going to expand its PVC portfolio by entering into chlorinated PVC (CPVC) pipes and polybutylene (PB) pipes. Recently, it has tied up with a Japanese firm, Sekisui, to source CPVC compounds to make CPVC pipes and the Netherland-based, Wavin, to market PB pipes in India.
- **Management maintained guidance; reiterate Buy:** The management maintained its strong revenue growth guidance of around 20-25% for FY2016E and FY2017E in view of a strong order backlog of Rs2,200 crore, widening its T&D opportunities in India and substantial capacity augmentation in the PVC pipe business with a sustained margin. We believe, on the back of improved capacity and wider geographical presence, PVC business would continue to grow substantially. Moreover, the improvement in credit rating will help the company to reduce effective cost of debt and benefit the bottom line. We have kept our earnings estimate unchanged with a Buy rating on the stock and retained our price target of Rs210.

Results Rs cr

Particulars	Q2FY16	Q2FY15	YoY %	Q1FY16	QoQ %
Net sales	361.8	306.9	18	234.4	54
Net raw material	228.9	178.2	28	146.0	57
Employee cost	12.4	8.9	38	10.2	21
Other expenses	65.7	48.1	37	45.1	46
Operating profit	36.6	29.7	23	30.9	19
Other income	8.9	0.1	NA	2.9	211
Interest	11.4	12.9	-11	14.7	-22
Depreciation	5.8	5.1	15	5.9	-1
PBT	46.4	53.8	-14	15.3	202
Tax	16.1	18.5	-13	5.3	202
PAT	30.3	35.3	-14	10.0	202
EO	12.7	29.4	-57	1.6	710
Adj PAT	17.6	5.9	198	8.5	108
Adj EPS	1.7	0.6	198	0.8	108
Margins (%)			**BPS**		**BPS**
OPM	10.6	11.2	-54.9	13.3	-264.3
NPM	4.9	1.9	294.1	3.6	125.6
Tax rate	34.7	34.4	31.3	34.7	-0.6

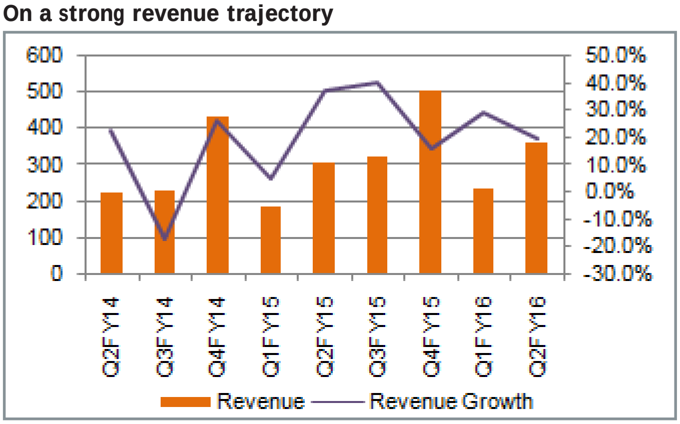
Valuations

Particulars	FY13	FY14	FY15	FY16E	FY17E
Net sales (Rs cr)	928.2	1,073.1	1,312.8	1,601.7	1,935.8
Growth (YoY) %	21.7	15.6	22.3	22.0	20.9
Operating profit (Rs cr)	90.3	118.2	215.1	234.6	283.6
OPM (%)	9.7	11.0	16.4	14.7	14.7
Reported PAT (Rs cr)	18.7	26.9	89.2	98.7	124.1
Adj. PAT (Rs cr)	18.7	26.9	61.4	88.9	124.1
Adjusted EPS (Rs)	1.8	2.6	6.0	8.7	12.1
Growth (YoY) %	91.7	43.7	128.1	44.9	39.5
PER (x)	85.2	59.3	26.0	17.9	12.9
P/B (x)	7.7	6.9	5.2	4.0	3.0
EV/EBIDTA	21.6	16.4	8.7	8.2	6.8
DE (x)	1.9	1.8	1.1	1.0	0.8
RoCE (%)	13.89	16.43	29.22	27.97	27.98
RoE (%)	10.13	12.31	22.92	25.20	26.83
RoIC (%)	13.89	16.43	29.22	27.97	27.98

Q2FY2016 results-Growth momentum continues

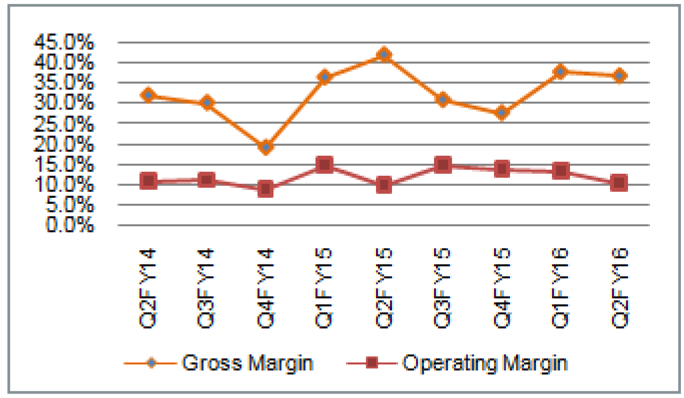
For Q2FY2016, Skipper reported a strong earnings growth, ahead of our estimate. The adjusted profit after tax (PAT) catapulted from Rs6 crore in Q2FY2015 to Rs17.6 crore. The reported PAT for both the comparable quarters includes income from forward contracts. The earnings growth was mainly driven by a healthy (up 18% year on year [YoY]) increase in revenue which was supported by a spectacular growth in PVC segment and stable performance in the engineering products segment.

On a strong revenue trajectory



The operating leverage played in favour of the company and fixed overheads were fairly stable as a result the operating profit margin (OPM) stood at 10.6% in Q2FY2016. Driven by an 18% year-on-year (Y-o-Y) revenue growth, the operating profit increased by 23% YoY to Rs36.6 crore and resulted into a sharp jump in adjusted PAT, which stood at Rs17.6 crore in this quarter.

Operating margins score



Segmental highlights

On a segmental basis, the engineering (primarily the transmission and distribution [T&D] product) witnessed a stable growth while PVC segment grew substantially on the back of commissioning of new capacity at Ahmedabad. However, its infrastructure business (engineering, procurement and construction [EPC] projects in the T&D segment) remained subdued with Rs4 crore of revenue.

Segmental performance

Particulars	Q2 FY16	Q2 FY15	YoY %	Q1 FY16	QoQ %
Revenue (Rs cr)					
Engineering products	337.74	286.63	18	195.11	73
Infrastructure projects	3.94	10.98	-64	8.28	-52
PVC products	26.36	9.28	184	33.27	-21
Total revenue	368.05	306.89	20	236.66	56
PBIT (Rs cr)					
Engineering products	61.16	65.30	-6	29.51	107
PBIT margin (%)	18	23		15	
Infrastructure projects	0.49	2.84	-83	1.93	-75
PBIT margin (%)	12	26		23	
PVC products	3.22	1.75	84	4.02	-20
PBIT margin (%)	12	19		12	
Total PBIT	64.87	69.88	-7	35.46	83
Unallocated (%)	0	318		539	
PBIT	64.87	66.70	-3	30.07	116
Blended PBITM (%)	18	22		13	

Key conference call highlights

- The current order book of Skipper stands at around Rs2,200 crore which mostly comprises of engineering products orders. The orders are fairly spread between domestic (55%) and export (45%). Out of the total domestic orders, around Rs1,000 crore is from Power Grid Corporation of India Ltd (PGCIL). Skipper has participated in the bidding of around Rs2,000-crore-worth of orders in H1FY2016 which could be awarded in H2FY2016. We believe the overall capital expenditure (capex) momentum in T&D segment is likely to remain healthy over the next few years and Skipper being the largest supplier of towers to PGCIL is favourably placed. The management is optimistic about the potential inflow of Rs800-1,000 crore in FY2016 and aims to have an order book of Rs3,000 crore by the end of this financial year, 25% higher than last year.

- The PVC segment of the company is going to be the fastest growing segment for the next couple of years. During Q1FY2016, the company commissioned 10,000 metric tonne (MT) PVC plant near Ahmedabad, while in Q2FY2016, the company expanded its capacity in Kolkata to 15,000MT from 12,000MT. The company is on the verge of commissioning two more capacities in Q3FY2016 at Sikandrabad and Guwahati. Further, it plans to commission Hyderabad in Q4FY2016 which will eventually take the total capacity of the company to 40,000MT. We believe these facilities will take some time to stabilise and reach market, hence the benefit of the new capacities will start reflecting fully in FY2017. Skipper has tied up with Sekisui, to source CPVC compounds to make CPVC pipes and the Netherland-based firm, Wavin, to market PB pipes in India. We believe this gives Skipper an edge over its competitors in terms of superior quality products.

- The CARE rating has upgraded the credit rating of the company two notches up to A+ this quarter. On this backdrop, we expect the effective cost of debt to come down in future and benefit to flow to bottom line in FY2017. The company is now eligible to raise commercial paper (plans to raise Rs50 crore) which will facilitate raising short-term debt at about 2% lower than current rate at which the company raises short-term finances. The management intends to reduce its long-term debt consistently through its internal cash flows.

View—management maintained guidance; reiterate Buy: The management maintained its strong revenue growth guidance of around 20-25% for FY2016E and FY2017E in view of a strong order backlog of Rs2,200 crore, widening its T&D opportunities in India and substantial capacity augmentation in the PVC pipe business with a sustained margin. We believe on the back of improved capacity and wider geographical presence, PVC business would continue to grow substantially. Moreover, the improvement in credit rating will help the company to reduce effective cost of debt and benefit the bottom line. We have kept our earnings estimates unchanged with a Buy rating on the stock and retained our price target of Rs210.

Lloyd Electric & Engineering

Viewpoint

Book profit for a gain of 42% in the last one month **CMP: Rs273**

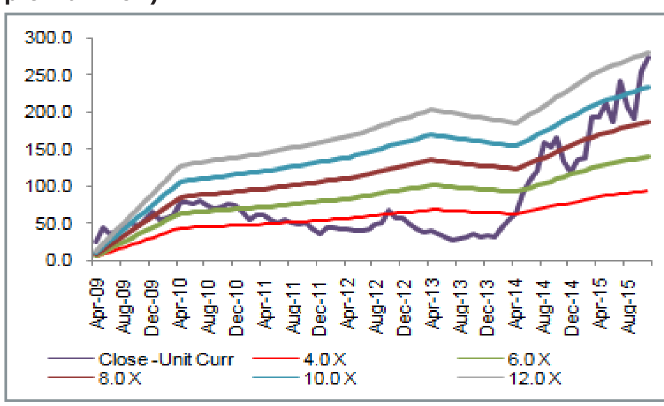
Key points

- **Posts absolute gains of 42%; limited scope for further re-rating in the near term:** We had recommended re-entering Lloyd Electric & Engineering Ltd (LEEL) in our Viewpoint report (dated October 1, 2015) as the risk-reward ratio had turned favourable post-correction. Since the release of our report, the stock has appreciated by 43% in a span of just over one month and narrowed the valuation gap with some of its peers like Voltas and Blue Star. Hence, we advise investors to Book profit.
- **Competitive intensity could lead to margin pressure:** In Q1FY2016, the company posted a strong 68% growth in consumer durable (CD) revenue, mainly led by volume growth. While we continue to remain positive on the company's growth prospects, competitive pricing pressure and inventory build-up in the industry (especially in the AC segment) amid slow demand environment could lead to some margin pressure in the coming few quarters. Its elongated working capital could also result in liquidity crunch in the near term. Hence, on a tactical basis, we recommend investors to Book profit, while we also advise them to re-enter the company in case of any declines.
- **Risk to our call:** A better-than-expected uptick in the urban discretionary demand; and if the company is able to show improvement in working capital cycle it could see further re-rating from the current level.

Valuations

Particulars	FY14	FY15	FY16E	FY17E	FY18E
Net sales (Rs cr)	1,776.0	2,172.7	2,600.2	3,161.0	3,796.1
Y-o-Y growth %	20.5	22.3	19.7	21.6	20.1
Net profit (Rs cr)	64.0	88.4	103.1	138.2	197.3
Adjusted EPS (Rs)	15.5	21.4	24.9	33.5	47.7
Y-o-Y growth %	-9.0	38.1	16.6	34.1	42.7
PER (x)	17.6	12.8	10.9	8.2	5.7
P/B (x)	1.5	1.3	1.3	1.1	0.9
EV/EBIDTA (x)	8.5	6.7	6.9	5.9	5.2
RoCE (%)	13.0	14.4	14.4	15.9	17.5
RoNW (%)	10.8	12.7	12.5	14.5	17.8

Forward PE multiple band (post sharp re-rating valuation at premium now)



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