PORTFOLIO MANAGEMENT SERVICES
Aditya Birla Sun Life AMC Limited

ADITYA BIRLA CAPITAL
PROTECTING INVESTING FINANCING ADVISING

CORE EQUITY PORTFOLIO

Q2 FY18 UPDATE

CONTENTS

What is Core Equity Portfolio, Portfolio Allocation

Salient Features:

Core Equity Portfolio (CEP):

- A portfolio of 25-30 stocks
- Multi cap universe; companies with market cap >Rs 500 crores
- Benchmark and sector agnostic; A mix of top-down, bottom-up approach
- Investment horizon of 3-5 years

Four pillars of our investment approach – A blend of top down and bottom up factors:

1. **Focus on those segments of economy which are growing faster than overall GDP**
2. **Focus on Industries with Strong Operating Dynamics** – Invests in companies across proven "Recurring Winner Industries" that create superior and sustained value across market cycles. For eg. Financials, Consumer Discretionary etc.
3. **Strong screening process backed by fundamental research** –To segregate winners from losers:
   a. **Piotroski Score (P-score) –** Companies with P-score >6; companies with superior financial parameters and strong growth visibility
   b. **Return on Equity (ROE) –** Companies with minimum ROE > 15%; i.e. identifies high quality companies that can deliver consistent returns and avoids companies with lower returns on capital
   c. **Debt to Equity (D/E) –** Eliminate companies with D/E > 1.5 to avoid highly levered companies as these companies don't have the capacity to withstand stress during adverse market/business cycles
   d. **In-depth fundamental research process** including management meetings, plant visit, dealer checks, with focus on corporate governance and good management.
4. **Buy quality growth stocks at a significant discount to their intrinsic value:** Endeavour to invest in companies which can double in the next 3 to 4 years on the back of high earnings growth while having lower downside on account of reasonable valuations.

Current Portfolio Allocation: Basis the above investment framework the current portfolio is invested as:

Industry Allocation	%
Automobiles & Components	17.3
Banks	16.0
NBFC	13.6
Construction	12.2
Building Materials	10.1
Lubricants	6.5
Textiles	5.1
Media	4.2
Pharmaceuticals	3.8
Others	11.1

Top 10 Portfolio Holdings	% to Net Assets
Yes Bank	6.8
Maruti Suzuki	5.9
RBL Bank	5.8
Century Plyboard	5.2
Cera Sanitary	4.9
K.P.R. Mill	4.5
Gulf Oil	4.2
Zee Entertainment	4.2
NBCC	4.1
Cholamandalam	4.0

Market Cap Bias	Weight (%)
Large Cap	41.6
Mid Cap	52.1
Small Cap	3.5
Cash	2.8

Data as on 21 Nov, 2017.

3 year Risk Return Ratios	CEP	Nifty 500
Standard Deviation	16.34%	13.77%
Sharpe Ratio	0.94	0.37
Beta	1.01	-
Jensen Alpha	10.21%	
Upside Capture Ratio	1.22	
Downside Capture Ratio	0.68	

As of Oct. 31, 2017.

Portfolio vs. Benchmark – Higher Growth/ROEs at lower valuations -

PE (x)	FY16	FY17	FY18E	FY19E	Prem/Disc to benchmark
CEP	35.7	25.9	21.6	17.6	-20.80%
NIFTY 500	30.7	30.2	25.9	22.2	
NIFTY	27	25.7	21.8	18.7	

ROE (%)	FY16	FY17	FY18E	FY19E	Prem/Disc to benchmark
CEP	20.10%	22.10%	21.80%	22.40%	64.80%
NIFTY 500	11.10%	11.00%	11.90%	13.60%	
NIFTY	13.40%	13.40%	12.60%	14.10%	

EPS growth (%)	FY16	FY17	FY18E	FY19E	Prem/Disc to benchmark
CEP	22.10%	37.70%	20.20%	22.70%	38.30%
NIFTY 500	-4.50%	5.40%	16.90%	16.40%	
NIFTY	-3.90%	8.80%	17.80%	16.80%	

Net Debt to Equity (%)	FY16	FY 17	Prem/Disc to benchmark
CEP	23.00%	13.10%	-86.50%
NIFTY 500	80.90%	96.70%	
NIFTY	30.00%	32.90%	

Financials excluded in calculation of D/E. As on 31 Oct. 2017

Source: All ratios are based on Bloomberg consensus estimates. Aditya Birla Sun Life AMC Limited (ABSLAMC) (formerly known as Birla Sun Life Asset Management Company Limited) Research

Note: Premium/Discount to benchmark Nifty 500 is listed for the period FY18E.

About Piotroski Model

Piotroski Model is an effective screener as it measures the overall strength of the firm's financial position and the improvement in the financial position of the firm. It is a 9 point indicator, based on 9 financial parameters. Companies with P-score greater than 6 are considered to be High P-score companies.

No.	Ratio	Description	Scoring Criteria
Quality of Financials (Helps in Capital Preservation)			
1.	Return on Assets (ROA)	ROA indicates how efficient the management is, at using its assets to generate earnings; calculated as Net Income/Total Assets	Score of 1 if ROA > 0
2.	Cash Flow from Operations (CFO)	CFO refers to amount of cash a company generates from its operating activities, excluding costs associated with long term investment of capital items; calculated as Cash Flow from Operations/Total Assets	Score of 1 if CFO > 0
3.	Accrual	Net profit might not reflect the true picture due to taxation or depreciation policy, whereas cash flows are more credible in any financial statement	CFO - NI > 0
4.	Issuance of Common Equity in last year	Raising external capital indicates that internally generated cash flows are not sufficient to fund future growth	Score of 1 if Equity is not raised last year
Change in Quality of Financials (Helps In Capital Appreciation)			
5.	Change in ROA	Current year ROA - Previous Year ROA	Score of 1 if change in ROA > 0
6.	Change in Margin	TThe factor signifies that the company has the bargaining power to raise prices, or is efficient to cut costs, resulting in margin expansion, Gross Margins(EBITDA)/Total Sales (Current Year)- Gross Margins(EBITDA)/Total Sales (Previous Year)-	Score of 1 if the Change in Margin > 0
7.	Change in Asset Turnover	The factor signifies that the productivity from the asset base is increasing. It is calculated as Total Sales/Total Assets (Current Year) - Total Sales/Total Assets (Previous Year) -	Score of 1 if the Change in Asset Turnover > 0
8.	Change in Leverage	Total Long Term Debt/Average Total Assets (Current Year) - Total Long Term Debt/Average Total Assets (Previous Year)	Score of 1 if the Change in Leverage < 0
9.	Change in Liquidity	Change in Current Ratio between current and previous year	Score of 1 if the Change in Liquidity > 0

EBITDA- Earnings Before Interest, Tax, Depreciation & Amortization

Top Portfolio Performers & Laggards

Top performers in the Portfolio in the last 1 year - An analysis of the fund performance reveals that Housing Finance and consumer discretionary companies delivered exceptional returns.

1. For HFCs the government's renewed focus on promoting low income housing proved to be a catalyst for growth.
2. The Personal Vehicles segment continued to witness robust traction in demand led by favourable monsoons and higher disposable income especially in the mass affluent segment
3. Building Materials also witnessed a rerating owing to the expected shift from unorganised to organised gaining momentum post GST. This alongwith govt. thrust on housing for all will ensure strong revenue growth and market share gains for all organised players
4. The top 5 stocks contributed 4.8% to the overall portfolio return.

Security (Based on Contribution to Return)	Avg. Weight(%) as of 09.11.17	Contr. to Return (%)	Absolute returns (%)	Reasons for performance
	Portfolio	Portfolio	Portfolio	
Total	**20.1**	**4.8**	**47.7 (Avg. returns)**	
NBCC Ltd.	3.2	1.6	87.6	NBCC is on a strong wicket with robust revenue visibility, cash-rich balance sheet, healthy return ratios (25% plus RoE) and strong order book visibility (One lac Cr in FY20 from 76000 Cr currently. Near monopoly in redevelopment space and increasing share of redevelopment projects will improve margin trajectory going ahead.
Maruti Suzuki	4.6	0.8	52.1	Premiumisation of Portfolio alongwith strong market share gains have led to strong earnings growth and multiple rerating.
Century Ply	4.7	0.7	40.8	Implementation of GST to be a positive trigger. Govt's initiatives to promote housing for all is positive
Canfin Homes	5.1	1.2	37.2	Strong visibility of AUM growth led by Govt's thrust on housing for all.
Cholamandalam Investment	4.0	0.5	21.0	AUM growth driven by increase in ticket sizes (due to increase in price of BS IV) & demand offtake especially in commercial vehicle aided robust disbursement growth & improvement in the fundamentals have led to stock uptick.

Laggards in the Portfolio in the last 1 year

1. FY17 proved to be a challenging year for Pharma companies owing to multiple headwinds such as steep price erosion in generics, increased stringency in USFDA inspections and appreciating rupee
2. Demonetisation related challenges were felt across several domestic businesses. Microfinance business continues to face asset quality challenges.
3. The bottom 5 performers contributed to a 3.8% decline in overall portfolio returns

Security (Based on Contribution to Return)	Avg. Weight(%) as of 09.11.17	Contr. to Return (%)	Absolute returns (%)	Reasons for performance
	Portfolio	Portfolio	Portfolio	
Total	**5.4**	**-3.8**	**-14.5 (Avg. returns)**	
DIVI'S LAB	1.0	-2.4	-19.3	USFDA issued import alert for Divis Unit 2. We've completely exited the stock.
SUN PHARMA	0.9	-0.1	-19.2	Delay in resolution of Halol plant issue and of strong pricing erosion for generic players led by Buyer consolidation has impacted the stock price performance negatively. We have completely exited the stock.
EQUITAS HOLDINGS	0.9	-0.4	-16.9	Costs of transforming into SFB alongwith higher provisions on the MFI book have impacted profitability and return metrics in FY17. Growth for Fy18 is also expected to be moderate 20% versus the earlier envisaged 30% considering the faster ramp down of MFI book. We've completely exited the stock.
ATUL AUTO	0.3	-0.1	-8.5	Volume growth was impacted after Demonetisation for the 3W industry. Export market volume ramp up was also muted versus expectations. We have completely exited the stock.
TORRENT PHARMA	2.4	-0.8	-8.4	Torrent's recent performance has been impacted by slower than expected pace of new launches in US, heightened price erosion and sharp pick in Torrent's R&D spends. We've completely exited the stock.

Recent Portfolio decisions

✓ The following companies were added to the portfolio in the past six months -

Company name	Portfolio weight (%)	Returns since date of Purchase	Rationale
CHOLAMANDALAM INVESTMENT	3.6	27.7	25% growth in CV Financing business expected in FY18 which should aid overall 18-20% AUM growth. We expect CIFC to deliver robust 20%+ earnings CAGR over FY17-19E; expect RoA to increase to 2.5%+ and RoAE of 19%+ over FY17-19E
RBL BANK	6.1	-2.7	Strong 35% AUM growth expected over FY17-20 and a shift towards Retail book will lead to a gradual improvement in RoEs to 14%
DCB BANK	3.4	4.3	Niche positioning in mortgage/SME segment backed by aggressive branch expansion and high capital adequacy, we believe DCB is well placed to benefit from expected revival in overall economy, we estimate AUM to grow at 20-22% over FY17-19
EVEREADY INDUSTRIES	2.5	30.5	Strategy of leveraging the Eveready brand to enter Consumer durables business which will drive growth. Expected to report PAT growth of 22% over FY17-19
SHREE CEMENT	2.2	-6.9	Shree cement has done consistent capacity addition providing volume growth visibility; volume growth is expected to be higher than industry, leading to consistent market share gain in coming years. This will make SRCM the largest beneficiary of expected sector upturn.
Average returns		**10.6**	

✓ The following companies were sold in the past six months -

Company name	Portfolio weight (%)	Returns since date of Sale	Rationale
INDO COUNT	3.5	-45.4	Depreciation of rupee alongwith higher cotton prices will impact margins negatively in FY18
SUN PHARMA	2	-7.3	Higher than earlier envisaged price erosion in the US business and delay in Halol plant resolution
EQUITAS HOLDINGS	1.6	-10.1	MFI business facing asset quality challenges and AUM growth to be slower than earlier expected. Conversion to SFB to impact return ratios in the near term
TORRENT PHARMA	2.0	-1.5	Torrent's recent performance has been impacted by slower than expected pace of new launches in US, heightened price erosion and sharp pick in Torrent's R&D spends.
HCL TECH	2.0	1.2	Depreciation of rupee to impact margins, redeployment of funds into other lucrative opportunities
PERSISTENT SYSTEMS	2.0	-1.6	The shift of business mix away from Traditional business is expected to continue to weigh on margins for FY18 as well. We have hence exited from the stock to redeploy into other lucrative opportunities.
POWER GRID CORP.	1.7	-0.6	Deployment into other Higher growth prospects. Power grid was expected to deliver a steady 17% Earnings CAGR over FY17-19
DEWAN HOUSING	0.7	9.9	Dewan has rising proportion of builder & LAP portfolio in its overall loan book which are more risky assets. Hence, to de-risk the portfolio, we have exited the stock.
ATUL AUTO	0.8	-0.03	Muted volume growth owing to high competitive pressure and outlook for FY18 remains subdued
Average returns		**-6.2**	

Sectorwise exposure & Outlook

Sectors	Oct-16	Oct-17	View	Rationale
Consumer Discretionary	23.6	23.1	+	Overweight. Retain positive stance with a favourable bias for rural consumption plays and beneficiaries of premiumisation
Consumer Staples	3.8	6.2	+	We believe Rural pickup of demand in the segment will be gradual, moreover companies now gradually adopting direct model of distribution which will take time to stabilise. However a good monsoon bodes well for the sectoral demand
NBFC	19.8	12.2	+	Overweight on rural lending NBFCs with strong control on asset quality. Retain positive stance on Retail lenders, SME lenders and Gold Financers.
Banks	7.1	16.3	+	Positive on Private sector banks with high exposure to retail lending. We are currently Underweight PSBs
Health Care	12.2	4.2	-	Cautious view owing to multiple risk related to pricing erosion, appreciation of rupee and rigorous USFDA scrutiny.
Industrials	15.8	20.8	+	Within the industrial space we are positive on Urban Infrastructure, Logistics and the T&D space. Government`s focus on improving connectivity and improving availability of power bodes well for the portfolio companies.
Information Technology	5.8	0.5	-	Negative on Large cap IT due to political and currency related headwinds
Materials	8.5	12.3	+	Positive on building materials led by thrust on rural housing and spurt in farm income. Also expected beneficiaries of GST implementation as a shift to organized sector will level the playing field for many of these companies.
Energy	0.0	2.4	+	Positive on IOCL on account of production ramp up at Paradip & increased profitability
Cash	3.6	1.9		

All data as on 31 Oct 2017

Top 10 Holdings in portfolio

- Our top 10 ten holdings have delivered about 40% earnings growth in FY17.
- 6 of Top 10 holdings have outperformed Nifty 500 Index in the last one year/date of purchase. Avg. Outperformance of ~10.7%.

Company name	Portfolio weight	Returns in the last one year or Date of Purchase	Outperformance vs Nifty 500	PAT growth (%) FY17A	PAT growth (%) FY18E	FY18 Rationale
YES BANK	6.9	30.7	-0.2	30.1	19.9	Strong AUM growth of 25-30% expected in FY18. Strong control on credit costs due to good underwriting skills
MARUTI SUZUKI	5.8	67.6	36.7	36.8	21.0	Sustained market share at 47%. Expected to deliver 15% volume growth with improvement in margins led by premiumization
KPR MILL	5.0	36.0	5.1	173.9	21.2	The forward integration through increase in garmenting capacity will help to improve the profitability and return ratios on a sustainable basis.
CENTURY PLYBOARD	5.0	59.2	28.3	12.7	1.4	Implementation of GST to be a positive trigger. Govt's initiatives to promote housing for all is positive
CERA SANITARYWARE	4.5	78.8	48.0	21.4	15.5	Implementation of GST to be a positive trigger. Govt's initiatives to promote housing for all is positive
AUROBINDO PHARMA	4.2	-4.4	-35.3	13.4	21.2	Strong long term product pipeline to drive growth along with higher presence in Europe to drive margins and growth
ZEE ENTERTAINMENT	4.3	19.5	-11.3	48.2	19.4	Expect strong 25% PAT CAGR over FY17-19 led by revival in Ad growth for industry post demonetisation led challenges
RBL BANK	6.0	-2.7	-33.6	31.1	23.0	Over the past five years, RBL has significantly strengthened its senior management team, which gives greater comfort and corroborates the strong growth reported in recent years & is expected to grow at 38% earnings CAGR FY17-19
EICHER MOTORS	4.0	48.4	17.5	24.3	31.9	Given the strong demand (RE/VECV) and other potential revenue streams (exports, Polaris JV, accessories), we think that the earnings CAGR would be more than 25-30%
NBCC	4.0	82.2	51.3	12.7	39.6	We believe NBCC is on a strong wicket with robust revenue visibility, cash-rich balance sheet, healthy return ratios (25% plus RoE) and strong order book visibility (One lac Cr in FY20 from 76000 Cr currently. Near monopoly in redevelopment space and increasing share of redevelopment projects will improve margin trajectory going ahead.
Average		**41.5**	**10.7**	**40.5**	**21.4**	

All data as on 14 Nov 2017

Portfolio Companies: Q2FY18 Financial Performance & Future Estimates

	Q2FY18 Growth			FY18E			FY19E		
Company	**Revenue/ NII (%)**	**EBITDA/ Op. Profit (%)**	**PAT Gr. (%)**	**ROE (%)**	**P/E**	**PAT Gr (%)**	**ROE (%)**	**P/E**	**PAT Gr. (%)**
Ashok Leyland	30.8	14.0	17.1	20.2	24.0	11.2	22.8	18.7	28.9
Aurobindo Pharma	17.5	20.2	31.9	24.1	13.9	21.2	21.5	12.0	16.0
Can Fin Homes	26.2	34.4	36.1	23.5	4.4	26.6	22.7	3.5	43.8
Capital First	47.9	50.0	35.9	13.0	2.9	27.5	15.0	2.5	32.7
Century Plyboards	2.6	-1.1	-18.7	23.0	34.0	1.4	25.9	25.7	32.1
Cera Sanitaryware	18.1	8.2	3.8	19.6	38.9	15.5	20.6	30.7	26.9
Cholamandalam Investment	24.7	26.4	33.0	19.2	3.6	26.3	19.8	3.0	22.0
Dcb Bank	30.4	23.3	21.4	11.1	2.1	22.0	12.0	1.9	26.8
Eicher Motors	23.5	25.9	25.4	36.5	37.7	31.9	34.4	30.0	25.5
Eveready Industries	8.6	10.6	42.2	24.4	24.9	14.9	24.8	19.4	28.9
Gulf Oil Lubricants	22.5	43.3	37.9	37.0	32.1	23.8	33.5	27.8	15.6
Hero Motocorp	7.3	6.3	0.6	34.1	19.5	11.5	32.1	16.8	16.2
Himatsingka Seide	10.0	9.9	9.8	17.5	14.6	19.0	20.6	10.3	41.9
Indian Oil Corp	12.7	27.6	19.4	18.6	8.9	8.4	17.8	8.4	6.1
J.Kumar Infraprojects	2.4	9.1	0.0	8.9	13.8	28.5	10.8	10.7	29.3
Jyothy Laboratories	4.3	9.7	44.0	16.5	31.1	0.5	18.6	24.4	27.5
Kpr Mill	-1.6	-8.3	-9.5	22.0	15.7	21.2	21.3	12.6	25.1
Manappuram Finance	7.4	-9.8	-5.3	20.7	2.2	11.2	20.6	1.9	19.2
Maruti Suzuki	21.8	21.1	3.4	21.5	27.7	21.0	22.2	22.9	20.5
Minda Corp	19.0	-9.2	-9.7	19.6	24.4	49.2	22.7	18.0	35.9
Nbcc	7.7	82.9	13.6	24.0	48.7	39.6	30.6	38.9	25.0
RBL Bank	21.0	38.4	67.5	11.9	3.4	23.0	13.3	3.1	33.9
Shree Cement	4.1	-20.1	-27.4	18.4	41.1	15.5	20.3	31.3	31.3
Techno Electric & Engineering	-30.8	-31.1	-14.9	19.4	18.4	21.3	19.4	15.4	20.0
Yes Bank	30.3	37.6	25.1	17.7	2.6	19.9	19.1	2.2	26.1
Zee Entertainment	-6.7	0.4	46.6	18.9	35.6	19.4	19.7	29.3	21.7
Average	**13.91**	**16.15**	**16.51**	**20.82**	**20.24**	**20.44**	**21.63**	**16.20**	**26.11**

For financials, P/B ratio is mentioned in the P/E column

Data as on 31st October 2017. Source: Bloomberg & ABSLAMC internal research

- Q2 FY18 Profit growth for portfolio companies has been at 16.2% YoY, while the benchmark (Nifty 500) PAT growth was flat.
- FY18 & FY19 PAT growth estimates are at a healthy 20% & 26.1%, with the benchmark expected to give 16 - 18% profit growth.
- ROE estimates are also predicted to be a healthy 20.8% & 21.6% for FY18 & FY19 resp. with the benchmark expected to give around 14% ROE.

Portfolio Companies Financial and Quality Parameters:

Companies	P-score FY19	ROE % FY19	Whether RWP?	Debt/ Equity
Ashok Leyland	8.5	22.8	Yes	1.4
Aurobindo Pharma	6.5	21.5	Yes	0.2
Capital First	0.0	15.0	Yes	NA
Can Fin Homes	NA	22.7	Yes	NA
Cholamandalam Investment	0.0	19.8	Yes	NA
Century Plyboards India	7.5	25.9	Yes	0.7
Cera Sanitaryware	8.5	20.6	Yes	-0.1
DCB Bank	NA	15.0	Yes	NA
Eicher Motors	6.5	34.4	Yes	-0.2
Eveready Industries	8.3	24.8	Yes	0.6
Gulf Oil Lubricants	7.0	33.5	Yes	-0.3
Hero MotoCorp	5.7	32.1	Yes	-0.4
Himatsingka Seide	8.5	20.6	No	1.1
Indian Oil Corp	6.8	17.8	No	0.5
J Kumar Infraprojects	7.0	13.0	Yes	0.2
Jyothy Laboratories	7.6	18.6	Yes	0.3
KPR Mill	8.0	21.3	No	0.5
Minda Corp	9.0	22.7	Yes	0.7
Manappuram Finance	NA	20.6	Yes	NA
Maruti Suzuki India	7.9	22.2	Yes	-0.1
NBCC India	7.2	30.6	Yes	-1.0
RBL Bank	NA	14.0	Yes	NA
Shree Cement	8.4	20.3	Yes	0.1
Techno Electric	7.0	19.4	Yes	-0.2
Yes Bank	NA	19.1	Yes	NA
Zee Entertainment	7.1	19.7	Yes	-0.3

- Endeavour is to ensure that most companies meet our internal financial and quality parameters and keep the deviation below 20% for each parameter.
- Deviation is generally accepted when the financial and quality parameters show improvement with a lag effect – viz. cyclical and turnaround companies.

Portfolio Companies: Investment Rationale & Financial Update

Ashok Leyland Ltd.

Industry: Automobile

Current Market Cap: Rs.33,423 cr.

- Ashok Leyland is an India automobile manufacturing company headquartered in Chennai, India. It is owned by the Hinduja Group. Founded in 1948, it is the 2nd largest commercial vehicle manufacturer in India, 4th largest manufacturer of buses in the world and 12th largest manufacturer of trucks globally.

Our Investment Rationale

- Ashok Leyland (AL) would continue to benefit from its focus on enhancing market share gains led by improving reach and new product introductions
- With increase in number of highways and proliferation of hub-and-spoke models, demand for LCVs should increase going forward
- We expect market share gains to sustain led by expanding product portfolio in small and intermediate ICV segment and expansion of dealership network across non-South regions.
- Management believes GST-led higher GDP growth and higher infra spending will lead to 10% growth in domestic M&HCV volumes during FY18 and 25% yoy growth in exports led by new products & markets & increase in project order shipments in Ivory Coast.
- **Financials and Valuation:** AL is valued at 24x FY18 & 19x FY19 P/E & is expected to compound earnings at 19.7% CAGR over FY17-19.

Q2 FY18 financials update:

- Revenue growth was strong at 31% yoy to 6046 cr. & volume growth was 23% yoy.
- The new i-EGR technology has started gaining acceptance in the market. While competition is engaging in heavy discounting to gain market share, AL has stayed away from heavy discounting to maintain profitability.
- EBITDA for the quarter stood at Rs.611.8 cr., a rise of 17% yoy & PAT growth was recorded at 17% yoy to Rs.336.9 cr. from 287.8 cr. in Q2FY17.

Aurobindo Pharma Ltd.

Industry: Pharmaceuticals

Current Market Cap: Rs.40,781 cr.

- Aurobindo Pharma is among the larger Indian pharma companies in regulated markets and now appears well set to transition from plain vanilla generics to more complex segments.
- Aurobindo exports to over 125 countries across the globe with more than 70% of its revenues derived out of international operations.

Our Investment Rationale

- Aurobindo's USP is its vertically integrated model with huge capacity, unmatched by most peers. The company owns 22 manufacturing facilities, including eight key formulations facilities in India and abroad
- Despite near term pricing pressure in the US market we expect Aurobindo's launch momentum to continue, especially in the injectable space to neutralize the threat and Europe is likely to fetch better margins on the back of product transfers to India and a focused approach.
- Its growth outlook remains robust driven by- ramp up in new launches; likely 30-50% CAGR in the injectable business in US; improving profitability in EU; likely margin expansion on account of better mix, and; deleveraging of balance sheet post the end of capex cycle.
- **Financials and Valuation:** Aurobindo is expected to compound earnings at 18.6% CAGR in FY17-19 and trades at a valuation of 13.9x FY 18 & 12x FY 19 P/E.

Q2FY18 financials update:

- Net sales grew 17.5% YoY to Rs.4435 cr. The US business sales grew 25% yoy to USD 327 mn. The strong sequential growth is attributed to Renvela ramp up (USD 50-55 mn.) growth in injectables business (up USD11m QoQ on the back of launches and benefits from shortage of few drugs), ramp-up of other key launches including Nexium OTC, Strattera, Meropenem, Mucinex, and Ebzicom.
- EBITDA increased by almost 20% to Rs.1117 cr. & EBITDA margin expanded 60 bps yoy to 25.2%.
- During the quarter company filed 21 ANDAs including 11 in orals and 10 in injectable. Company launched 8 products including 2 injectable and received 2 final approvals and 3 tentative approvals.
- PAT for the quarter stood at 780 cr., a robust growth of 32% yoy.

Canfin Homes Ltd.

Industry: Financials

Current Market Cap: Rs.6,018 cr.

- CanFin Homes Ltd, set up under the sponsorship of Canara Bank, was incorporated in the year 1987 & is one of the top players in the housing finance sector, in the country today.
- It has 132 Branches, 12 Affordable Housing Loan Centres (AHLCs) & 33 Satellite Offices spread across the country.

Our Investment Rationale

- Strong Fundamentals to Support Growth : Strong credit growth, stable Net Interest Margins (NIM) coupled with healthy asset quality has led to robust return ratios with sustainable ROE & ROA's at ~19%+ & ~1.5% over the last couple of years.
- Asset Quality & Margins expected to remain stable Going Forward: Secured retail lending, lower ticket size coupled with prudent risk management has enabled CHL to maintain healthy asset quality over the past couple of years.
- Its loan book guidance is Rs.17,000 cr. for FY18 & the company vision is to reach 35,000 cr. of loan book by FY20.
- **Financials and Valuation:** Can Fin Homes trades at 4.4x FY18 & 3.5x FY19 P/B and is expected to compound earnings at 34.7% CAGR over FY17-19.

Q2 FY18 financials update:

- With improvement in margins (up 20bps YoY) led by fall in cost of funds, NII grew by 26% YoY to Rs.142.6 cr.
- Loan growth declined to 21% in Q2 FY18 as against 24% sequentially although healthy disbursement growth at 17% QoQ due to higher prepayments.
- Asset quality remains stable during the quarter; management remain confident of recovery and decline in NPA by end FY18. GNPA stable at 0.40% as against 0.38% QoQ.
- Pat for the quarter was Rs.75 cr., a healthy growth of 36.1% yoy.

Capital First Ltd

Industry: Financials

Current Market Cap: Rs.6,828 cr.

- Capital First Limited is a leading Indian financial institution, specializing in providing debt financing to MSMEs and Consumers in India.

Our Investment Rationale

- Capital First Ltd's.(CAFL) earnings are poised to post ~30% CAGR over FY17-19E riding on healthy AUM CAGR, prudent product shift strategy, operating leverage benefits, controlled credit cost and higher cross-sell opportunities.
- Presence in greatly underpenetrated segments aids growth. Loan growth is expected to remain strong at 25% CAGR over FY17-20E.
- Combination of factors like focus on the high-yield segment, rating upgrade and the shift from bank loans to other instruments should lead to further improvement in NIMs.
- **Financials and Valuation:** CAFL trades at 2.9x FY18 & 2.5x FY19 P/B & is expected to compound earnings CAGR is 30.2% FY17-19.

Q2 FY18 financials update:

- The overall AUM grew by 28% yoy to Rs.22,973 cr. It was driven by consumer durable loan growth of 64%, two-wheeler loan growth of 40% and medium, small and micro enterprise or MSME/mortgage segment loan growth of 22%.
- Net Interest Income (NII) was 792.8 cr. which grew by 29.7% yoy. Net interest margin or NIM (calculated) expanded 144bps YoY to 9.6%, which can be attributed to higher growth in high-yield consumer durable and two-wheeler loan segments.
- PAT grew by a healthy 35.9% to Rs.78.3 cr. from Rs.57.6 cr. in the previous quarter.

Century Plyboards Ltd.

Industry: Materials

Current Market Cap: Rs.6,312 cr.

- Century Plyboards (CPBI) is the largest seller of multi-use plywood and decorative veneers in the organised Indian plywood market.

Our Investment Rationale

- Levered to Economic Recovery: Recovery in India's housing segment should drive demand for the wood panel industry.
- Capacity expansions in plywood and laminates segment and distribution to drive 20% revenue growth.
- In the recently announced GST rates, laminates will fall in the 18% tax bracket vs. the earlier tax bracket of 27-29%. This is expected to result in a significant reduction in price differential between organized & unorganized laminate players.
- Management continues to expect 20% volume growth in FY18 for its plywood business, along with a revival in laminates volumes after the GST hiccup.
- **Financials and Valuation:** Century Plyboards trades at 34x FY18 & 25.7x FY19 P/E & is expected to compound earnings at 16% CAGR over FY17-19.

Q2 FY18 financials update:

- CPBI reported Q2FY18 revenue growth of 2.6% yoy to Rs 474.6 cr. Revenue growth was affected by plywood segment due to temporary disruptions on account of raw material unavailability at Assam unit. Laminates segment did exceedingly well as favourable GST rate helped gain market share from unorganized players.
- EBITDA declined by 2.2% yoy to Rs.74 cr. and EBITDA margins contracted by 80bps yoy to 15.6%, partially due to higher personnel expenses. Plywood EBIT margins corrected by 190bps yoy to 13.2% due to unfavorable mix, while Laminates EBIT margins improved by 20bps yoy to 16.9%.
- APAT stood at Rs 40.1 cr., down 18.6% yoy due to higher tax rate for the quarter which was a result of lower profitability at exempted Assam unit.

Cera Sanitaryware Ltd.

Industry: Industrials

Current Market Cap: Rs.4,545 cr.

- CERA is a leading complete home solutions provider in India. Its products include sanitaryware (wash basins, urinals, cisterns, bath accessories), faucets, tiles, sinks etc.

Our Investment Rationale

- We remain positive on the demand prospects of sanitary ware and faucets industry over a three year outlook. Demand will be led by continued increase in urbanization, nuclear families, and rising aspirations. Increase in penetration, especially in Rural India
- CERA has expanded into Faucets and Tiles capacity over the last couple of years. As a result we expect increasing contribution from faucets and tiles in the revenue mix. Faucets and Tiles segments will increase Cera's addressable market.
- Higher contribution from new products & Premium product mix is expected to drive growth.
- **Financials and Valuation:** Cera's earnings is expected to compound earnings at 21.8% CAGR over FY17-19 & trades at 38.9x FY18 P/E & 30.7x FY19.

Q2 FY18 financials update:

- CERA's 2QFY18 revenue grew 18% to Rs.295 cr. led by higher sales in the tiles (58% yoy) and faucet (24% yoy) segments, while sanitary-ware grew 8% yoy.
- Tiles (via JV)/faucet-ware segments contributed nearly 20%/22% to 2QFY18 topline. The company's tiles sales have been gaining traction in southern India due to its competitive pricing versus other players in the region.
- EBITDA grew by 8% yoy to Rs. 46.1 cr. & EBITDA margin was 15.6%.
- PAT grew by a modest 3.8% to Rs.27 cr. on the back of higher outsourcing & other expenses.
- Fuel costs declined 5% yoy during the quarter & are expected to remain stable going forward.

Cholamandalam Investment and Finance Ltd.

Industry: Financials

Current Market Cap: Rs.19,574 cr.

- Cholamandalam Investment & Finance Company Ltd. (CIFC) commenced business as an equipment financing company and has today emerged as a comprehensive financial services provider offering vehicle finance, home loans, home equity loans and a host of other services
- CIFC operates from 703 branches across India with assets under management above INR 35,000 Crores

Our Investment Rationale

- With robust capitalization (Tier I capital at ~13.6%) and transition to 90 DPD (Days Past Due) NPL (Non Performing Loans) recognition largely behind, Cholamandalam Investment & Finance (CIFC) is well poised to take advantage of any economic turnaround that may follow GST implementation and good monsoons.
- High share of fixed rate loans (~70% of total loans) in a declining interest rate scenario, improvement in funding mix, benefit of bi-yearly MCLR rate reset and rating upgrade are likely to cumulatively benefit cost of funds.
- We believe CIFC is well poised to reap further benefits of operating leverage due to better employee productivity, enhanced use of technology for loan sourcing and moderation in recovery expenses.
- **Financials and Valuation:** Cholamandalam is valued at 3.6x FY18 & 3.0x FY19 P/B & earnings CAGR is expected to compound earnings at 24.1% over FY17-19.

Q2 FY18 financials update:

- The total AUM grew by 14.4% yoy to Rs.36,490 cr., driven by increase in ticket sizes (due to increase in price of BS IV) & demand offtake especially in commercial vehicle aided robust disbursement growth of 24% yoy.
- NIMs expanded ~80 bps largely due to lower borrowings (CIFC continues to mobilise resources via assignment) and lower funding costs, leading to NII growth of 25% YoY to Rs 739.2 cr. NIMs in vehicle finance improved 70 bps YoY to 8.8%, while remained at 4.4% (YoY) versus 4% in 1QFY18.
- GNPA in vehicles reduced 39 bps sequentially to 3.78% and 5 bps to 5.98% in home equity, respectively, aiding overall asset quality improvement by 27 bps to 4.46%.
- PAT grew by a robust 32.9% to 227.3 cr. in the quarter.

DCB Bank Ltd.

Industry: Financials

Current Market Cap: Rs.5,414 cr.

- DCB Bank Ltd. is a private sector scheduled commercial bank in India. It has a network of 293 branches and 515 ATMs in the country. It offers products to individuals, small and medium businesses, rural banking and mid corporates across the branch network.

Our Investment Rationale

- Stable NIM, low impairments and impressive loan growth (22% YoY) give comfort on the execution skills of the current management.
- With aggressive branch expansion and focus on growing the loan book, the management has guided at doubling the balance sheet of the bank in three to four years.
- With restructuring process behind, niche positioning in mortgage/SME segment backed by aggressive branch expansion and high capital adequacy, we believe DCB is well placed to benefit from expected revival in overall economy
- **Financials and Valuation:** DCB Bank is valued at 2.1x FY18 & 1.9x FY19 P/B and is expected to compound earnings at 24% CAGR over FY 17-19.

Q2 FY18 financials update:

- Loan growth moderated (20%), owing to a tepid performance (+17%) in the mortgage book However, strong growth in Corp (+28%) and SME loans (+31%) cushioned growth.
- NII (Net Interest Income) grew 30.4% to 248 cr. NIMs (4.2%) remain the best in class, despite intense competition in 42% of the book, and relatively lower CASA proportion. A sharp drop in cost of funds and the fund raise have supported superior NIMs.
- Even as pain in the mortgage book (~42% of loans) continued to rise, overall stress remains under control with G/NNPA at 1.8/0.9%.
- PAT grew by a healthy 21.5% yoy to 58.9 cr. during the quarter.

Eicher Motors Ltd.

Industry: Automobiles

Current Market Cap: Rs.82,983 cr.

- Eicher is the flagship company of the Eicher Group in India and a leading player in the Indian motorcycle and commercial vehicle (CV) segments.
- Eicher Motors owns the iconic Royal Enfield motorcycle business, which leads the premium motorcycle segment in India.

Our Investment Rationale

- The company is operating in a niche that's insulated from the competitive intensity assailing the 2W space. The company enjoys a monopoly in the space it operates.
- RE's (Royal Enfield) demand is less prone to fluctuations in macro variables like interest rates, fuel prices, inflation etc. This is reflected in the 1-4 months' waitlist period for Royal Enfield bikes even as other 2W OEMs face with dealer inventory issues.
- The commercial vehicle arm VE commercial vehicles (VECV) have historically been a strong player in the medium-duty truck market. The new Pro series should boost market share in higher tonnage segments.
- Given the strong demand (RE/VECV) and other potential revenue streams (exports, Polaris JV, accessories), we think that the earnings CAGR would be more than 25-30%.
- The Interceptor & Continental 650cc bikes are expected to be launched by mid-2018 & will help in increasing the market share in the premium category. It will be priced relatively cheaper than the competition viz. Harley Davidson & Triumph.

- **Financials and Valuation:** Eicher trades at 37x FY18 & 30x FY19 P/E & is expected to compound earnings at 28.6% CAGR over FY17-19.

Q2 FY18 financials update:

- Revenue grew by 23.5% to Rs.2167.3 cr. Royal Enfield volumes grew by 21.5% YoY with domestic segment which accounts for 97% of sales volumes increased by 20.2% YoY while exports grew by 10.4% (export volumes at 3,445 units). VECV volumes grew by 12% YoY to 15k units with domestic segment which accounted for 84% of volumes grew by 12% YoY and exports grew by 14.2% YoY.
- EBITDA for the quarter grew by 26% yoy to Rs.682 cr., led by lower raw material cost despite commodity pressures.
- PAT grew by a robust 25.4% yoy to Rs.518 cr.

Eveready industries India Ltd

Industry: Consumption

Current Market Cap: Rs.2,682 cr.

- Eveready is a leading flashlight and dry cell battery manufacturer with a market share of ~52% in batteries and ~70% in flashlights.

Our Investment Rationale

- Lighting to drive growth: Eveready India Ltd. (EIL) is expected to become a major player in the Rs 6000 cr. LED business and is projected to post a CAGR of 20% during 2017-21.
- Foray into Home Appliances: EIL's range of products in small appliances segment (value for money positioning) clocked revenue of Rs 40 Cr in FY17. The response for kitchen and heating appliances was good. We believe Eveready has significant opportunity to grow this business, with access to 6,000 retail outlets (200 distributors).
- We believe that new categories and LED business will drive growth for EIL, leveraging upon its strong brand.
- **Financials and Valuation:** Eveready is trading at 24.9x FY18 & 19.4x FY19 P/E & is expected to compound earnings at 21.7% CAGR over FY17-19.

Q2 FY18 financials update:

- The total revenue for Q2FY18 was reported at 398 cr., a growth of 8.6% yoy. LED products turnover was Rs.70 cr., a growth of 40% yoy. Home appliances turnover was Rs.20 cr. compared to Rs. 5.5 cr. in Q2FY17.
- The company reported an EBITDA growth of 11% YoY as margin expanded by 20 bps to 11.8%. EIIL witnessed strong margins from the lighting segment of 16% as more than 80% of the business came from the higher margin LED products.
- PAT grew at a robust 41.9% to Rs.36.4 cr. from Rs.25.6 cr. in the previous year.

Gulf Oil Lubricants Ltd.

Industry: Chemicals

Current Market Cap: Rs.4,712cr.

- Gulf oil Ltd. is a part of the Hinduja group and its offerings include engine oils for all CVs, railway locomotives, passenger vehicles, Industrial purposes etc.

Our Investment Rationale

- Falling crude prices and improving product mix to bolster margins: Collapse in base oil (key Raw Material) prices, alongside structural improvement in sales mix towards personal mobility will drive operating margins up from 15% to 17% over FY17-19.
- Gulf Oil Lubricants Ltd. (GOL) is at inflection point and expected to continue outperformance to the industry led by increasing share in personal mobility and maintaining share in CV segment.
- The lubricant industry is likely to benefit from the revival in GDP growth (as per GOL's management, lube volumes grow 0.5x GDP). GOL is confident that it will continue to outpace industry volume growth by 2x.
- **Financials and Valuation:** Gulf Oil trades at 32 xFY18 & 28x P/E FY19 & is expected to compound earnings at 19.6% CAGR FY17-19.

Q2 FY18 financials update:

- GOLI reported revenue growth of 22.6% to Rs.322.9 cr. led by 13% YoY volume growth (at 22,500KL), outperforming the market. Retail channel clocked double digit growth, recovering from GST related disruption, while PCMO segment grew 20% plus. OEM dealerships and industrial lubricants also grew strongly.
- EBITDA margin expanded 280bps YoY to 19.2%, leading to EBITDA jumping 43% to Rs.61.9 cr.
- Chennai plant will be operational by Q3FY18 as all major work has been completed and production will ramp up in Q4FY18. Key machinery and equipments are in advance stage of installation.
- PAT grew by a robust 38% Rs.40.4 cr. from Rs.29.3 cr. in the previous year.

Hero Motocorp Ltd.

Industry: Automobiles

Current Market Cap: Rs.73,325 cr.

- Hero Motocorp Ltd. (HMCL) is the world's largest two-wheeler company (in volume terms). It has a production capacity of 7.65 mn. two wheelers with three manufacturing facilities.
- The company offers motorcycles in all the three major segments-Commuter, scooter & Premium sports.

Our Investment Rationale

- The company expects FY18 to see double digit growth driven by good monsoon, higher infra spend and rural recovery post demonetization.
- HMCL volume growth would be driven by - a) strong comeback in fastest growing scooters category b) Slew of launches/ refreshes supported by renewed thrust on in-house R&D and c) deep network penetration, way ahead of its peers.
- The management expects high single digit growth for the industry, with double digit growth in scooters.
- Financials and Valuation: Hero is valued at 19.5x FY18 & 17.3x FY19 P/E & is expected to compound earnings at 13.8% CAGR over FY17-19.

Q2 FY18 financials update:

- Revenue grew by 7.3% yoy to Rs.8362 cr., led by volume growth of 11% yoy in the quarter.
- 2QFY18 margins were better than expected with the company reporting 17.4% EBITDA margin. The company went for a price hike in 1QFY18, which along with operating leverage benefits and cost savings resulted in strong margins.
- Inventory level is back to the normal four to six weeks and the company is looking at market share gains in the coming quarters on the back of new launches.
- PAT growth was flat at 0.6% which came in at Rs.1010.5 cr. for the quarter.

Himatsingka Seide Ltd.

Industry: Textiles, Apparel & Luxury Goods

Current Market Cap: Rs.3,229 cr.

- The Himatsingka Group is a vertically integrated Home Textile major with a global footprint. The Group focuses on the manufacturing, retailing and distribution of Home Textile products.

Our Investment Rationale

- The enhanced integration and increase in the manufacturing capacities synchronize with the strong foothold the company has on the global retail and distribution front.
- The backward integration process is expected to be margin accretive with improving operational flexibility, execution consistency and quality standards.
- Himatsingka Seide Ltd. (HSL) supply products to 19 out of the Top 20 Retailing Giants in US. The company continues to explore ways to strengthen its brand portfolio further and drive its global presence.
- We remain positive on the sector and on HSS specifically because of the healthy manufacturing business performance, increasing vertical integration and focus on branded business. Also, the nature of new investment in terms of higher backward integration attracts moderate risk from the capacity utilisation perspective.
- **Financials and Valuation:** Himatsingka Seide trades at 14.6x FY17 & 10.4x FY18 P/E & expected to compound earnings at 30% CAGR over FY17-19.

Q2 FY18 financials update:

- HSL reported consolidated revenue of Rs 578.5 cr., a growth of 10% YoY driven by higher manufacturing revenue. Manufacturing revenue grew 45.8% YoY to reach Rs 430 cr.
- HSS's consolidated EBITDA grew 9.9% YoY to reach at Rs 99.5 cr. EBITDA margin was flat at 17.2% YoY. Manufacturing margin continued to remain under pressure (19.5%, decline of 430 bps YoY) due to high raw material cost, impact of GST implementation (additional taxes paid) and slight change in product mix.
- Adjusted PAT grew 9.7% YoY to Rs 50.6 cr. PAT margin was flat on YoY basis at 8.7%. Higher other income supported PAT margin, which was largely led by forex gain during the quarter.

Indian Oil Corporation Ltd

Industry: Petroleum

Current Market Cap: Rs.1,89,138 cr.

- Indian Oil Corporation Ltd. (IOCL) is the largest public sector oil refining and marketing company in India. It has 10 refineries across India with a capacity of 70 mtpa and sells over 75 mtpa (50% market share) of Oil products.

Our Investment Rationale

- With the revival seen in GRMs due to improved operational efficiency of the Paradip refinery, GRMs are expected to be $6.6/bbl and $7/bbl for FY18E and FY19E, respectively.
- Profitability of Indian Oil Corporation Ltd.'s (IOCL) petrochemicals segment is expected to improve due to falling naphtha prices, in line with crude prices.
- IOCL has the most balanced portfolio among peers (HPCL, BPCL) with Pipeline and Petchem contributing ~55% to EBITDA, which are steady and highly profitable. Pipeline has steady and superior cash flows (75% EBITDA margin) as tariff is set as 75% railway freight against cost of mere 25% rail freight.

- Financials and Valuation: Indian oil is trading at 8.9x FY18 & 8.4x FY19 P/E

Q2 FY18 financials update:

- Reported GRM stood at USD 8.0/bbl. Core GRM stood at USD0.8/bbl premium to Singapore benchmark at USD 9.1/bbl (excluding inventory impact and normalised for refinery transfer pricing (RTP) anomalies).
- Refinery throughput, at 16.1MMT, fell 8% QoQ due to planned maintenance shutdowns at 4 refineries (Panipat, Mathura, Barauni, Koyali), which also led to higher operating costs.
- Paradip performance: Q2FY18 net profit stood at Rs.400 cr. and utilisation stood at 97%. IOCL expects to touch 100% utilisation shortly and will progressively use heavier crude, which will add a delta of USD1-2/bbl to normalised GRM. Paradip reported GRM of USD 7.44/bbl (excluding inventory impact: USD7.85/bbl). The Paradip-Raipur pipeline has been fully commissioned in Q2.
- PAT during the quarter was 3700 cr., a growth of 18% yoy.

J Kumar Infraprojects Ltd

Industry: Industrials

Current Market Cap: Rs.1,871 cr.

- J Kumar Infra is an urban infrastructure company, engaged in transport engineering works including roads, flyovers, bridges, monorail, Metrorail and skywalks.

Our Investment Rationale

- Strong order book: JKIL's current order book (Rs 9300 Cr) book to-bill at >6x-provides robust revenue visibility. JKIL has signed the agreement for the Mumbai Metro Line 2A project post which work has started on all the 3 metro lines in Mumbai (77% of order book). A bulging order book along with a healthy balance sheet renders us bullish on JKIL.
- Focus on margins: J Kumar Infraprojects Ltd. (JKIL) is expected to enjoy the superior EBITDA margin of 18% in FY18E driven by its large fleet of owned plant and machinery, minimal subcontracting and suitable product mix.
- With utility shifting issues in JNPT projects expected to be resolved over the next couple of months and work picking up pace on Mumbai Metro projects, management has guided for revenue of INR19bn/23bn in FY18/ FY19.
- **Financials and Valuation:** JKIL trades at 14x FY18 & 11x FY19 P/E & earnings are expected to post 27.9% CAGR over FY17-19.

Q2 FY18 financials update:

- JKIL Q2FY18 revenue, at Rs.317 cr., rose 2% YoY; execution was impacted by raw material shortage post closure of quarries and heavy monsoon.
- EBITDA for the quarter was reported at Rs.61.4 cr., a rise of 9.1% yoy. EBITDA margin was higher by 120 bps yoy due to higher share of excavation work during the quarter.
- PAT during the quarter was Rs.23 cr., flat yoy due to higher depreciation charges.

Jyothy Laboratories Ltd.

Industry: Personal Products

Current Market Cap: Rs.6,017 cr.

- Jyothy Labs (JLL) is a FMCG company having 6 business divisions namely Fabric Care, Household Insecticide, Utensil Cleaners, Fragrances, Personal Care and Fabric Care Service.
- JLL has been a leader in the fabric whitener category with its brand Ujala (77.6% market share).

Our Investment Rationale

- Acquisition of Henkel India has expanded Jyothy Laboratories Ltd.'s (JYL) product portfolio from being a mass single product player in the Home care segment to a meaningful player in the Home and Personal Care segment (market opportunity has multiplied ~5x to USD5b).
- With the first leg of Henkel India's turnaround complete, JYL has a portfolio of power brands (Ujala, Exo, Pril, Henko, Maxo and Margo) operating in categories with low penetration and low per capita consumption.
- We expect revenue growth to be mainly driven by higher growth in dishwashing (~30% of sales) & fabric care (~43% of sales) at revenue CAGR of 12% over FY17-19E.
- **Financials and Valuation:** JYL trades at 31.9x FY18 & 24.2x FY19 P/E & earnings CAGR is projected to be 14% over FY17-19.

Q2 FY18 financials update:

- Revenues grew 4% yoy to Rs.429 cr. (not strictly comparable yoy/versus our estimates due to GST-led changes; underlying revenues grew 9.6% yoy).
- JYL witnessed sequential recovery across segments, led by personal wash (underlying revenues up 47% yoy led by 58% yoy growth in Margo due to successful brand relaunch) and dishwashing (up 12.4% yoy). Growth in dishwashing was led by Exo (up 15%, Pril posted 9% revenue growth).
- EBITDA grew by 10% yoy to Rs.77.2 cr. & PAT grew by 49% to Rs.55.8 cr.
- Henkel has decided not to exercise their option to acquire 26% stake in the company.

KPR Mill Ltd.

Industry: Textile

Current Market Cap: Rs.5,472 cr.

- K.P.R Mill is one of the largest vertically integrated textile players, with presence in spinning (353,568 spindles), weaving (216 knitting machines), processing (9,000 MT) and garmenting (95 mn. pieces by 2017).

Our Investment Rationale

- The company has expanded its garment capacity to meet increasing demand and better its profitability. Garment capacity is around 95 mn. pieces.
- Close proximity to Tirupur (largest apparel manufacturing cluster in India therefore close proximity to buyers' market) makes the company extremely competitive as compared to players from western/northern Indian mills.
- Vertical integration benefit and conversion of conventional yarn to value added yarn will aid margin expansion and we expect margins to improve to 21.7% in FY19E from 18.1% FY16. Steady growth, improving return ratios and free cash flow generation, makes KPR a compelling investment story.
- **Financials and Valuation:** KPR Mill is available at 15.7x FY 18 & 12.6x FY19 P/E & expected to post earnings CAGR of 23.1% for FY 17-19.

Q2 FY18 financials update:

- KPR Mill reported revenue of Rs 742.8 cr. (down 1.6%/YoY). Textile segment revenue grew 12.1% YoY while sugar business disappointed (Rs 54.5 cr. in 2QFY18). Textile segment sales reached Rs 665 cr. supported by strong revenue growth in garment business (up 45% YoY with volume growth of 39% YoY). Garments sales stood at Rs 235 cr. with sales volume of 17.6 mn pieces. Sugar segment sales stood at Rs 54 cr.in 2QFY18 with volume sales of 18,000 tonnes.
- EBITDA for the quarter stood at Rs 142 cr. which fell 8.2% YoY. EBITDA margin contracted 140 bps YoY to 19.1% in 2QFY18 due to pressure in textiles segment. Textile EBIT margin of 15.8% is higher than our expectations aided by higher share of high margin garments business.
- Despite the difficult market conditions KPR is able to maintain operating profit margin above 18% mainly because of vertical integration, competitive advantage and value-added product mix.
- PAT for the quarter stood at 73.5 cr. which was down 9.5% yoy.

Manappuram Finance Ltd

Industry: Financials

Current Market Cap: Rs.8,021 cr.

- Manappuram Finance, Manappuram Group's flagship company, is the leading gold loan providing NBFC based out of Kerala, with ~Rs.13,000 cr. assets under management. As a pioneer, Manappuram Finance Ltd. has always been an innovator par excellence innovations that enabled it to lead the way and stay ahead in the game.

Our Investment Rationale

- De-risking of gold loan portfolio: Manappuram Finance Ltd. (MFL) changed its strategy by introducing shorter tenure products of 3-9 months which constitute 90% of its portfolio now, as against 12 months tenure earlier, with a maximum LTV (Loan to Value) of 75%, thus protecting itself from the fluctuation in gold prices.
- Diversification: MFL diversified into microfinance, home loan, commercial vehicle (CV) financing and loan against property (LAP). Non gold portfolio forms 18.5% of AUM in FY17 against 4% in FY15.
- Management expects to take the proportion of non-gold AUM to 25% by FY18 (both in form of AUM and income) and 50% by FY20, thus supporting 20% overall loan growth CAGR. This, along with NIMs support, will sustain revenue traction.
- **Financials and Valuation:** MFL's earnings are expected to grow at 15.1% CAGR over FY 17-19 & is valued at 2.2x FY18 & 1.9x FY19 P/B.

Q2 FY18 financials update:

- Q2FY18 saw trend reversal in growth in non-gold businesses—consolidated AUM came in at Rs.13,723 cr. (down 5.3% yoy). Management remains focused on diversifying its book by driving growth in new business segments—target is to take the proportion of non-gold businesses to 25% (21.6% currently).
- MFI AUM came in at Rs.1,964 cr. (up 25% yoy). The MFI book now constitutes ~14.3% of overall portfolio (~13.7% in Q1FY18). Housing Finance AUM came in at 326 cr., showing good progress (up 53% yoy) & Commercial Vehicles AUM 419 cr. up 97% yoy.
- While asset quality in the gold loan business was steady—GNPAs came in at 1.2% versus 1.1% in Q1FY18—MFI book continued to be under pressure—provisioning of Rs.38.2 cr. (over & above Rs.72.2 cr. in Q1FY18).
- Despite the soft trends and higher opex (staff cost up >10% QoQ on higher security charge), profitability at Rs.170 cr. was aided by funding cost benefits (borrowing cost fell for ninth consecutive quarter).

Maruti Suzuki India Ltd.

Industry: Automobiles

Current Market Cap: Rs.2,45,611 cr.

- MSIL is India's largest passenger vehicle manufacturer with more than 45% market share. It is a key player in the mini and compact car segment with a dominant market share.

Our Investment Rationale

- Premiumisation to drive growth: Maruti Suzuki India Ltd. (MSIL) has increased the share of premium hatchbacks-and-above segments to 51% in FY17 from 42% in FY13 led by increased product offerings and improved product design. Ramp up of Nexa touch points along with new products will further aid premiumisation.
- 37% of MSIL's portfolio (comprising Baleno, Brezza, Dzire, Ertiga and Ignis) command a waiting period ranging between 1-5 months. Ramp up of Gujarat capacity would enable MSIL to clock volume growth of 12.6% in FY2018 which is higher than the estimated industry growth of about 8-10%.
- We expect the company`s volumes to gain traction aided by spurt in demand led by 23% wage hike announced in the 7th pay commission.

- Financials and Valuation: MSIL is valued at 27.7x FY18 & 22.9x FY19 P/E & earnings are expected to grow at 20.7% CAGR over FY17-19.

Q2 FY18 financials update:

- Net sales grew 22% YoY to 21,768 cr. on the back of double-digit YoY volume growth and 4% YoY realisation growth.
- Realisation was robust on account of strong sales of models like Swift Dzire, Brezza and Baleno. It is noteworthy that Dzire has continued to remain the bestselling model for two consecutive months, clocking sales of over 30,000 units/month in August and September 2017, while Baleno and Brezza models are not being offered at a discount.
- MSIL received the benefit of rubber price reduction in 1QFY18 causing overall raw material prices to decline.
- EBITDA grew at 21% yoy to Rs.3677 cr. aided by improved product mix and lower discount which drove realisation growth.
- PAT growth was flat yoy (up 3.4%) at 2484 cr. but was up 59.6% qoq as the effects of demonitization & GST are fading.

Minda Corporation Ltd.

Industry: Consumer Discretionary

Current Market Cap: Rs.3,565 cr.

- Minda Corporation Limited is one of the largest suppliers of Electronic & Mechanical Security System to 2 wheelers, 3 wheelers and Off Road vehicles.
- It is a diversified company with a product portfolio encompassing from Mechanical & Electronic Security System and Electronic Controllers for Electric Vehicles for Auto OEMs across the Globe. It also manufactures Die Casting Part for auto and consumer durable industries.

Our Investment Rationale

- Deeper OEM penetration, new client additions: Well placed to outperform the industry riding deepening penetration in existing OEMs, new client wins and enhanced growth in new businesses.
- JVs with marquee global partners to widen product basket: JVs with global players like Furukawa, Stoneridge and VAST not only ensure access to technology, but also provide Minda Corporation Ltd. (MCL) opportunities to widen product offerings in the future.
- It remains well placed to outperform industry growth riding deepening penetration in existing OEMs, new client wins and enhanced growth in new businesses like wiring harness, sensor and steering roll connectors. Focus on margins and balance sheet to ensure that market share gains translate into robust earnings and return ratios.
- According to MCL, excluding the MFE impact, consolidated margin would have been ~9% for FY17. We expect margin improvement in FY18 led by turnaround of MFE business and rationalisation of staff costs.
- **Financials and Valuation:** Minda's earnings are expected to grow at 42.4% CAGR FY17-19 & valuations are 24x FY18 & 18x FY19 P/B.

Q2 FY18 financials update

- Consol revenue at Rs.6.5bn, up 11% YoY, came 13% above estimate led by strong revenue growth in businesses—Minda Corporation, Minda SAI, Minda Stoneridge, among others
- Minda Corporation's (MCL) Q2FY18 EBITDA at INR750mn (up 43% YoY)
- PAT for the quarter stood at 40.9 cr., was up 5% yoy.
- Operational improvement at Minda Furukawa (MFE) remains on track and the business was EBITDA and PAT positive during the quarter. We believe, ongoing cost saving initiatives will support margin and management remains confident that double digit margin is sustainable.

NBCC Ltd.

Industry: Construction

Current Market Cap: Rs.23,873 cr.

- NBCC is a 'Navratna' public sector undertaking (PSU) in the construction space, which mainly undertakes project management and consultancy (PMC) work for government organizations'.
- NBCC's experience in real estate development space (the only PSU PMC player with this capability) means it enjoys near monopoly position in redevelopment of government colonies/development of government land.

Our Investment Rationale

- Uniquely positioned: NBCC has a special nomination status for govt. orders, takes up low-risk, cost-plus contracts and is well-placed for large order flows in future. NBCC is the only PSU with a long track record and the skills to undertake Project management (PMC) / redevelopment works.
- Strong Order book visibility - We believe NBCC is on a strong wicket with robust revenue visibility, cash-rich balance sheet, healthy return ratios (25% plus RoE) and strong order book visibility (One lac Cr in FY20 from 76000 Cr currently. Near monopoly in redevelopment space and increasing share of redevelopment projects will improve margin trajectory going ahead.
- NBCC's experience in real estate development space (the only PSU PMC player with this capability) means it enjoys near monopoly position in redevelopment of government colonies/development of government land.
- **Financials and Valuation:** NBCC trades at 49x FY18 & 39x FY19 P/E & earnings CAGR is expected to be 32.1% over FY17-19.

Q2 FY18 financials update:

- NBCC's 2QFY18 consolidated revenue at Rs13.2bn fell 12% YoY as GST is not included in revenue (while 2QFY17 revenue had indirect taxes applicable then). Adjusting for 18% GST, revenue growth would have been ~4% YoY.

- EBITDA margin 5.8% expanded 320bps YoY due to fee on start of execution of large projects NBCC also managed to recover some past over-dues which added to margin. Per Mgmt. trend of higher margin will continue for some time
- PBT growth stood at 9% YoY .
- Marquee projects like Pragati Maidan/Nauroji is expected to hit the ground from Q3FY18, order inflow target of Rs.250-300 bn. in FY18 is expected to boost the revenue and earnings in FY18.

RBL Bank Ltd.

Sector: Financials

Current Market Cap: Rs.21,171 cr.

- RBL Bank is one of India's fastest growing private sector banks with an expanding presence across the country. It currently services over two million customers through a network of 237 branches and 375 ATMs spread across 16 Indian states and Union Territories.

Our Investment Rationale

- RBL stands out on impairment ratios as compared to industry trends with gross NPL at 1.4% and net NPL at 0.8% as of 2QFY18.
- Over the past five years, RBL has significantly strengthened its senior management team, which gives greater comfort and corroborates the strong growth reported in recent years.
- RBL has a reasonably good strategy around its loans mix that is less dependent on wholesale loans. The bank is building expertise in a few areas, especially in agriculture business banking, branch and business banking, development and financial inclusion.
- **Financials and Valuation:** RBL is expected to compound earnings at 28.5% CAGR in FY17-19 and trades at a valuation of 3.4x FY18 & 3.1x FY 19 P/B.

Q2 FY18 financials update:

- Net Interest Income grew by a healthy 38.7% YoY at Rs.420.2 cr. led by growth in advances.
- Bank reported 34 bps yoy improvement in margins to 3.7%. NIMs were aided by a) reduced leverage post QIP, and b) re-pricing of bulk deposits and c) healthy CASA inflows.
- CASA deposits increased 56% YoY led by robust 95% increase in SA deposits. CASA ratio increased 380bp YoY to 23.7% v/s 19.9% in 2QFY17. Loan growth was led by non-wholesale book growth of 41% YoY, increasing the share of non-wholesale to 40.4% from 38.8% a year ago.
- PAT increased by a robust 67.6% to Rs.150.6 cr. on the back of higher NII & NIM.

Shree Cement Ltd.

Sector: Materials

Current Market Cap: Rs.62,707 cr.

- Shree Cements Ltd. (SRCM) is the largest cement manufacturer in North India and among the top cement manufacturing groups in the country with annual capacity of 29.3 m.t. with manufacturing plants at Beawar, Ras, Khushkhera, Suratgarh, Raipur and Jaipur in Rajasthan and Laksar (Roorkee) in Uttarakhand.

Our Investment Rationale

- SRCM stands out for the following reasons:
- (a) consistent capacity addition providing volume growth visibility;
- (b) volume growth is expected to be higher than industry, leading to consistent market share gain in coming years. This will make SRCM the largest beneficiary of expected sector upturn;
- (c) industry leading RoE at ~22%;
- (d) strong balance sheet with net cash position, which is expected to sustain in the medium term
- **Financials and Valuation:** Shree Cement is expected to compound earnings at 23.2% CAGR in FY17-19 and trades at a valuation of 41xFY 18 & 31xFY19 P/E.

Q2 FY18 financials update:

- Revenues grew by 4.1% yoy to Rs.2136.8 cr. Pure cement sales volumes grew a robust 10.9% YoY (H1FY18 up 12.3%) and including clinker grew 7%.
- EBITDA for the quarter was Rs.560.5 cr., down 20% yoy as the repairs & maintenance work was taken up affecting production.
- PAT was reported at Rs.211 cr., down 27% as the Mat benefits were exhausted, leading to a higher tax rate of 47%.

Techno Electric & Engineering Ltd.

Industry: Construction

Current Market Cap: Rs.4,359 cr.

- Techno Electric & Engineering Company Ltd. is a leading provider of high quality engineering, procurement and construction services to India's core sector industries; both in the public and private domain.

Our Investment Rationale

- Competitive MOAT: A strong engineering expertise along with a selective approach with eye on RoE, cash flows is Techno Electric & Engineering's (TEEC) forte. Moreover, the company is extremely selective in project bidding given its focus on complex jobs which normally entail higher profitability and cash flows
- Rs. 2.6 tn opportunities in EPC across power, industrial segments: we envisage generation, transmission and distribution to throw up total EPC opportunity of INR2,602bn (INR520bn p.a.) over the next 5 years for TEEC given the government's sharpened focus on cutting AT&C losses and thrust on renewable.

- TEEC should benefit from the increasing ordering by SEBs (State Electricity Board) which should compensate for the flat ordering by PGCIL (Power Grid Corp. of India Ltd.)over the next few years TEEC's investments into wind power project and transmission BOOT (Build, Own, Operate, Transfer) projects generates steady stream of cashflows and would balance the cyclical nature of the EPC segment.
- Financials and Valuation: TEEC is valued at 18x FY 18 & 15x FY19 P/E & its earnings are expected to grow at 20.7% CAGR over FY17-19.

Q2 FY18 financials update:

- EPC segment sales were down 32% YoY, management highlighted that revenue booking had been deliberately slowed down after GST implementation.
- Operating margins in the EPC segment dropped due to Sales drop 200 bps YoY due to sales drop
- Net profit declined 16% to 72cr due to lower tax rate.
- Management guided that it intends to utilise cash flows towards the reduction of debt and is likely to initiate another buyback by end-FY18, while order intake should see a significant improvement in FY19-FY20, driving strong growth in its order book

Yes Bank Ltd.

Industry: Financials

Current Market Cap: Rs.69,041 cr.

- India's 4th largest private sector Bank with one of the best asset quality and highly competent Top management Team led by the founder Mr. Rana Kapoor.

Our Investment Rationale

- We expect CASA ratio to improve to 40% in FY19, aided by strong traction in saving deposits accretion and increased focus on improving retail liability franchise.
- Margin is in a sweet spot as compared to the rest of the sector on improving trend in low cost mobilisation and favourable asset liability mix. Overall, we expect margin to improve by 20bps over the next couple of years.
- The bank gave NIM target guidance of 4% by FY20 and aims to achieve this goal by undertaking a series of measures such as: reducing savings deposit costs by 20-30 bps in a gradual manner; raising infrastructure bonds ~Rs.3000-4000 cr. every year; aiming for priority sector (PSL) lending internally against buying PSL certificates.
- **Financials and Valuation:** Yes bank is available at 2.6x FY 18 & 2.2x FY 19 P/B & expected to compound earnings at 23% CAGR over FY17-19.

Q2 FY18 financials update:

- Net interest income or NII grew 30% to 1885.1 cr., driven by credit growth of 35% and net interest margin or NIM expansion of 30bps YoY to 3.7%.
- Loan book growth was across sectors with retail and corporate segments growing 34% and 37%, and SME & MSME growing 25% and 19%, respectively.
- Deposits grew 23% YoY, fuelled by current account or CA deposit growth of 52% and savings account or SA growth of 51%. CASA deposit ratio stood at 37% and is moving towards the management's target of 40% for the year 2020.
- Credit costs were slightly elevated at 29bps for the quarter (as against 18bps for the previous quarter) as GNPAs & NNPAs increased by 85 bps & 65 bps to 1.80% & 1.04% resp.

Zee entertainment Enterprises Ltd.

Industry: Media

Current Market Cap: Rs.51,885 cr.

- ZEE Entertainment Enterprises (ZEE) is one of the largest media companies in India. It owns and operates Zee TV and Zee Cinema, both leading channels in the Hindi GEC and movies segments, respectively.

Our Investment Rationale

- Content is critical for the media business: An extensive content library housing over 222,000+ hours of television content and rights to more than 3,818 movie titles from foremost studios.
- Long term growth drivers in place (i) increase in original programming hours, market share gain in regional markets, &TV and ad rate increase for Free to Air (FTA) channels; (ii) digitisation & deeper penetration of HD channels will boost subscription; and (iii) ability to monetise across media platforms.
- The company continues to grow ahead of industry on account of three factors: 1) improvement in network viewership and better monetization of regional channels; 2) launch of new channels and 3) increase in original programming hours. We believe these tailwinds are likely to continue for the next couple of years.
- **Financials and Valuation:** Zee trades at 35.6x FY18 & 29.3x FY19 P/E & earnings CAGR is expected to be 20.5% over FY 17-19.

Q2 FY18 financials update:

- Robust 5.8% YoY jump to Rs.936 cr. in comparable domestic ad revenue, despite pullback by advertisers due to GST implementation was a positive. Overall revenues fell by 6.7% yoy.
- Domestic subscription revenue increased 7.2% yoy tot 404 cr. Original programming on Zee TV increased from 23 hours to 27.5 hours, management expects it to rise to 30 hours by end-3Q.
- EBITDA margin was up 219 bps yoy despite high marketing spends. PAT grew by a robust 46% yoy to Rs.471 cr. from 321.3 cr. in the previous year.

Our Investment Team

A Balasubramanian, Chief Executive Officer

- A Balasubramanian has over 25 years' experience in the Capital Markets and has been with ABSLAMC since inception. He has played a key role in the business moving to the number four position in the industry. He began his tenure as a Chief Dealer / Trader and then was the Head of the Fixed Income group and Country Head for Sales and Distribution, before taking on the role of Chief Investment Officer and then CEO.
- He has done the DFM and AMP courses at IIM Bangalore in addition to a being a Bachelor of Science in Mathematics. He has been associated with the Association of Mutual Funds of India, as a member across committees like the Valuation Committee. He has also been part of the SEBI Committee (Indian Capital Market Regulator) on Review of Eligibility Norms.

Vishal Gajwani, Head – Alternate Investments (Equity)

- With over 9 years of experience in equity research and portfolio management, Vishal has extensive experience of researching companies across sectors and market capitalizations. Prior to this assignment he was a part of Reliance Portfolio Management Services (a part of Reliance Capital Asset Management Ltd), where he was designated as an Assistant Fund Manager and was responsible for managing equity portfolios
- He is a Gold Medalist Chartered Accountant (ICAI, India) and holds a Masters degree in Commerce from M. S. University of Baroda. Vishal received 4 Gold Medals, including the Chancellor's Gold Medal, for topping the Master of Commerce Exams. Vishal is also a CFA charter holder from the CFA Institute (The Global Association of Investment Professionals), USA.

Natasha Lulla, Portfolio Manager

- Over 8 years of experience in equity research and fund management. Prior to joining Aditya Birla Sun Life AMC Limited - Portfolio Managers, she was working with Goldman Sachs as an equity analyst covering India Materials sector. In her earlier stint at Goldman, she was doing Portfolio Strategy for ASEAN regions and also covered Singapore Real Estate.
- She holds a Masters in Business Administration (Finance Major) from Management Development Institute, Gurgaon and was the Gold Medallist for each of the two years. She was also awarded a Gold Medal for achieving 1st rank in the Finance stream. She has done her graduation in Economics from Lady Shri Ram College, New Delhi and graduated amongst the top 1% in Delhi University.

Dhrushil Jhaveri, Assistant Portfolio Manager

- Over 7 years of experience in equity research and fund management. Prior to joining Aditya Birla Sun Life AMC Limited - Portfolio Managers, he was working with Tata Asset Management as an Asst Fund Manager in their PMS, and as an equity analyst for the Commodities space (viz Oil & Gas, Metals, Cement & Logistics).
- He holds an MBA (Finance) from Welingkar Institute of Management (Mumbai), and has completed his graduation from DJ Sanghvi College of Engineering in Computer Science.

Damodaran Kutty, Analyst

- Over 3 years of experience in Equity research and Fund management. Before joining Birla Sunlife PMS, he was working with Edelweiss Institutional Research desk as an equity analyst covering the Midcaps and Agricultural Sector. He has cleared the chartered accountancy course in May-13.

Risk factors & Disclaimers:

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The portfolio proposes to invest in equity and equity related securities. Equity and Equity related securities by nature are volatile and prone to price fluctuations on a daily basis due to both macro and micro factors.

The value of the portfolio will fluctuate as the daily prices of the individual securities in which they invest fluctuate and may be worth more or less than its original cost, at a given point in time.

In respect of investments in equity and equity-related instruments, there may be risks associated with trading volumes, settlement periods and transfer procedures that may restrict liquidity of investments in equity and equity related securities.

The value of the portfolio may be affected generally by factors affecting securities markets, such as price and volume volatility in the capital markets, interest rates, currency exchange rates, changes in policies of the Government, taxation laws or policies of any appropriate authority and other political and economic developments and closure of stock exchanges which may have an adverse bearing on individual securities, a specific sector or all sectors including equity and debt markets.

Within the regulatory limits applicable at any point in time, the Portfolio Manager may choose to invest in unlisted securities that offer attractive yields. Securities, which are not quoted on the stock exchanges, are inherently illiquid in nature and carry a larger amount of liquidity risk, in comparison to securities that are listed on the exchanges or offer other exit options to the investor, including a put option. This may however increase the risk of the portfolio. The liquidity and valuation of the portfolio's investments due to their holdings of unlisted securities may be affected if they have to be sold prior to their target date of disinvestments

Investment made in unlisted equity or equity-related securities may only be realizable upon listing of these securities. Settlement problems could cause the portfolio to miss certain investment opportunities.

Investors may note that Portfolio Manager's investment decisions may not always be profitable, as actual market movements may be at variance with anticipated trends.

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