Weekly Wealth

BP WEALTH

21st April, 2017

Week Gone By

- ⇒ It is reported that China's iron ore and its concentrate imports totaled 95.56 million tons in March of this year, increased by 11.4% compared with the same period of last year.
- ⇒ Eurozone harmonized consumer price index rose 1.5 percent year-on-year after 2 percent increase in February, which was the highest since January 2013, latest data from Eurostat showed Wednesday.
- ⇒ China's gross domestic product (GDP) grew by 6.9%% compared with the same period of last year, increased by 1.3% compared with last month.
- ⇒ According to Nation Bureau of Statistics of China data statistics showed for first three months of this year, China's crude steel production reached 210.1 million tons, increased by 4.6% compared with the same period of last year
- ⇒ As per the latest figures the lead market was in deficit by 81 kt in January to February 2017 which follows a deficit of 154 kt recorded in the whole of 2016. As per the latest report from World Bureau of Metal Statistics (WBMS) zinc market was in surplus by 62 kt during January to February 2017 which compares with a deficit of 258kt recorded in the whole of the previous year. Refined Nickel markets were in deficit of 20000 tonnes in January- February 2017 as per the latest report from WBMS.

Week Ahead

- ⇒ The market may remain volatile as traders roll over positions in the futures & options (F&O) segment from the near month April 2017 series to May 2017 series. The near month April 2017 derivatives contract expire on Thursday, 27 April 2017.
- ⇒ State-run oil marketing companies (PSU OMCs) and auto stocks will be in focus as PSU oil marketing companies will undertake fuel price revision during the next weekend.
- ⇒ On the global front, the world is currently focused on France where voters are heading to the polls Sunday, 23 April 2017, to choose their next president. France is the second-largest economy in the euro zone and one of the seven biggest across the world.
- ⇒ The governing council of the European Central Bank (ECB) will announce monetary policy decision in Frankfurt on Thursday, 27 April 2017.

Technical View

Nifty closed with a loss of 0.57% at 9130. Index has continued its corrective move which started in the previous week. Price has earlier surpassed the down sloping trend line which is drawn connecting the previous peaks after consolidating around it which is a bullish signal for medium term trend. RSI has formed negative divergence with price which is a bearish signal and compliments the bearish view of price. Going ahead sustenance below 9090 will take the index initially towards 9030-8970 while resistance past 9190 comes at 9230-9290.

Source: Falcon, BP Equities Research

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DOMESTIC INDICES

	21-April-17	13-April-17	Weekly Chg (%)
Nifty	9,119	9,151	-0.3
CNX Nifty Junior	25,846	25,872	-0.1
Nifty 100	9,464	9,492	-0.3
Nifty 500	8,058	8,045	0.2
Nifty Midcap 100	17,800	17,550	1.4
Sensex	29,365	29,461	-0.3
BSE 100 Index	9,473	9,496	-0.2
BSE 200 Index	4,002	4,004	-0.1
BSE 500 Index	12,729	12,711	0.1
BSE Mid-Cap	14,488	14,351	1.0
BSE Small Cap	15,166	14,881	1.9

NIFTY TOP GAINERS (WEEKLY)

	21-April-17	13-April-17	Weekly Chg (%)
Grasim	1,129.8	1,050.7	7.5
GAIL	399.5	379.7	5.2
HDFC Bank	1,496.6	1,440.3	3.9
Indiabulls Hsg	989.9	956.8	3.5
Power Grid Corp	205.6	200.0	2.8

NIFTY TOP LOSERS (WEEKLY)

	21-April-17	13-April-17	Weekly Chg (%)
Sun Pharma	639.6	692.8	-7.7
Coal India	277.0	291.1	-4.8
ICICI Bank	269.2	282.8	-4.8
Yes Bank	1,544.2	1,616.4	-4.5
Axis Bank	486.3	507.6	-4.2

WORLD INDICES

	21-April-17	13-April-17	Weekly Chg (%)
Nikkei index	18,621	18,336	1.6
Hang Sang Index	24,042	24,262	-0.9
Kospi Index	2,165	2,135	1.4
Shanghai SE Comp	3,173	3,244	-2.2
Strait Times Index	3,140	3,169	-0.9
Dow Jones	20,615	20,528	0.4
NASDAQ	5,917	5,805	1.9
FTSE	7,125	7,328	-2.8

FOREX

	21-April-17	13-April-17	Weekly Chg (%)
USD/INR	64.6	64.4	0.3
GBP/INR	82.5	80.7	2.2
Euro (Rs.)	69.1	68.4	1.0
JPY/INR(100)	59.2	59.3	-0.2

FII - ACTIVITY (Rs. Cr.)

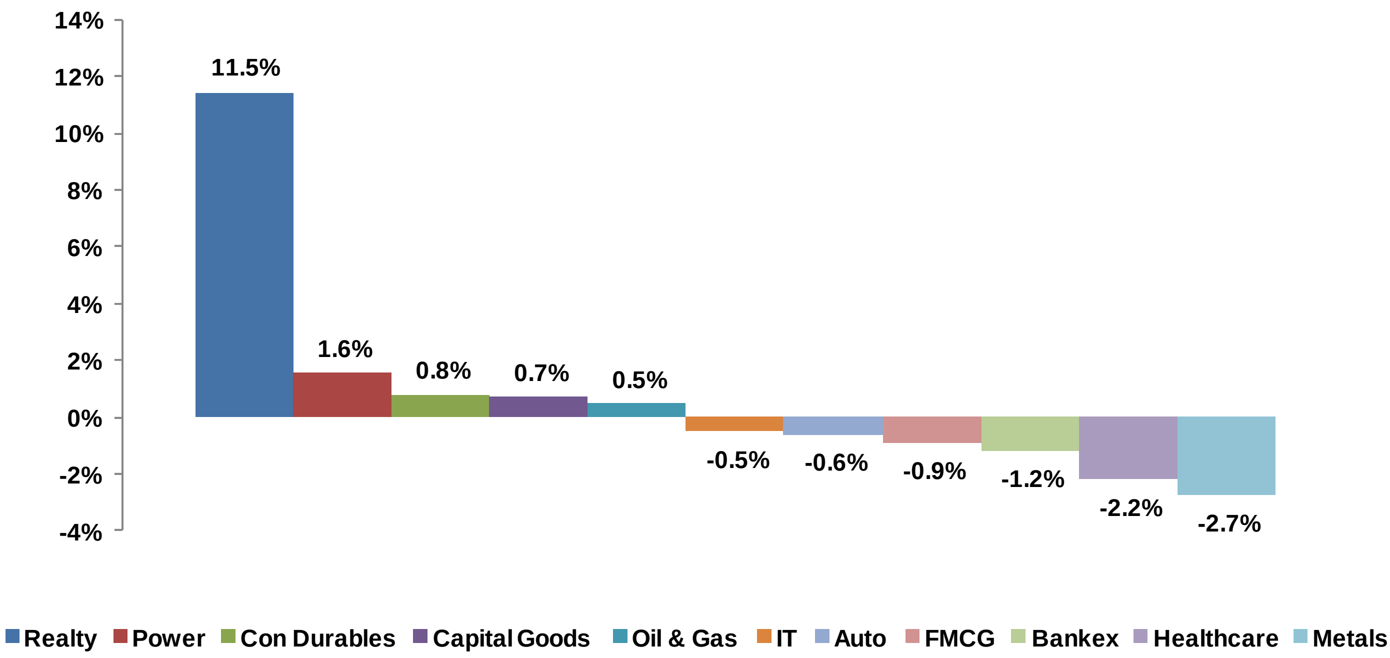
Date	Purchases	Sales	Net
17/04/2017	1,954.9	2,205.4	-250.5
18/04/2017	3,464.0	4,394.6	-930.7
19/04/2017	3,778.1	4,451.5	-673.4
20/04/2017	3,959.3	4,128.1	-168.8
21/04/2017	5,235.0	6,213.3	-978.3
MTD	55,703.4	60,405.6	-4,702.2

DII - ACTIVTY (Rs. Cr.)

Date	Purchase	Sales	Net
17/04/2017	2,471.4	2,523.8	-52.4
18/04/2017	3,337.4	2,459.3	878.1
19/04/2017	2,995.0	2,469.5	525.5
20/04/2017	3,340.9	3,332.1	8.8
21/04/2017	3,546.3	2,413.9	1,132.4
MTD	41,388.8	37,053.0	4,335.9

Weekly Wealth

BSE Weekly Sectoral Performance



Source: BSE, BP Equities Research

TOP OPEN INTEREST GAINERS (WEEKLY)

	13-April-17	21-April-17	Weekly Chg (%)	13-April-17	21-April-17	Weekly Chg (%)
	Share Price (Rs)			Open Interest		
DALMIABHA	2,124.1	2,059.8	-3.0	330,600	1,665,900	403.9
MFSL	658.4	632.6	-3.9	4,351,000	8,029,000	84.5
INDIGO	1,097.6	1,117.4	1.8	995,400	1,448,400	45.5
AMBUJACEM	246.0	239.8	-2.5	11,057,500	15,070,000	36.3
SAIL	62.2	60.6	-2.6	64,632,000	87,996,000	36.2

TOP OPEN INTEREST LOSERS (WEEKLY)

	13-April-17	21-April-17	Weekly Chg (%)	13-April-17	21-April-17	Weekly Chg (%)
	Share Price (Rs)			Open Interest		
IBREALEST	106.5	143.6	34.8	40,210,000	17,290,000	-57.0
CAIRN	295.8	286.0	-3.3	26,831,000	19,488,000	-27.4
INFIBEAM	1,030.5	1,099.6	6.7	1,348,400	1,132,400	-16.0
HDIL	86.1	91.9	6.8	24,648,000	21,848,000	-11.3
RELCAPITAL	607.3	610.2	0.5	14,251,500	12,648,000	-11.3

Source: NSE, BP Equities Research

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Bulk Deals

Date	Scrip Name	Client Name	Exchange	Deal Type	Quantity	Trade Price (Rs)
17/04/2017	KNR Constructions Ltd.	HSBC GIF ASIA EX JAPAN EQUITY SMALLER COMPANIES	BSE	SELL	746,318	198.0
17/04/2017	MBL Infrastructures Ltd	IFCI VENTURE CAPITAL FUND LTD	BSE	SELL	329,053	40.4
18/04/02017	FORTIS Healthcare Ltd.	STANDARD CHARTERED PRIVATE EQUITY (MAURITIUS) III LIMITED	BSE	SELL	3,075,593	190.7
18/04/02017	FORTIS Healthcare Ltd.	STANDARD CHARTERED PRIVATE EQUITY (MAURITIUS) III LIMITED	BSE	SELL	3,737,449	190.7
19/04/2017	Kamat Hotels (I) Ltd	CLEARWATER CAPITAL PARTNERS (CYPRUS) LIMITED (FCCB)	BSE	SELL	1,448,884	44.0
20/04/2017	Kamat Hotels (I) Ltd	CLEARWATER CAPITAL PARTNERS (CYPRUS) LIMITED (FCCB)	BSE	SELL	600,000	45.0
20/04/2017	Radico Khaitan Ltd.	MADHURI MADHUSUDHAN KELA	BSE	BUY	704,741	117.0

Source: Company, BP Equities Research

Learning Curve

How to get better risk adjusted returns from equity investments

Equity investing can fetch high returns but can also be risky. Investors need to view equities from the risk-return perspective. Ambit Capital recently came out with a report—Sectoral equity investing in India—that made some interesting observations about the investing time period and sector choices that can offer better risk-reward payoffs for investors.

Is five years too short for investing?

An analysis of BSE100 returns from April 1991 to December 2016 suggests that investors may need at least a 7-year time horizon to ensure good risk-adjusted returns. The report finds that 3 and 5-year time horizons have the lowest probabilities of beating the risk-free return of 8%, while the median returns in this time frame are also the lowest. Meanwhile, the 10-year and 7-year horizons offer not just the highest median returns but also the highest risk-adjusted returns along with the most elevated probabilities of beating the risk-free return of 8%. An examination of the volatility of equity returns suggests that the volatility of returns for the BSE100 is the lowest for the 10-year and 7-year horizons.

While the one-year horizon entails disproportionately high volatility— nearly 4.4 times the risk involved over a 10-year horizon—the 3 and 5-year time horizons also entail high risk at 2.8 times and 2.2 times the 10-year period. These findings broadly hold true for the BSE500 universe as well. So does this mean investors need to stretch their investing horizon to ensure better riskadjusted return? Kunj Bansal, ED & CIO, Centrum Wealth says, “It is true that longer the holding time horizon, entry point of the investment matters lesser and lesser.” Vikas Gupta, CEO and Chief Investment Strategist, OmniScience Capital, argues that for those buying the market or index, time horizon requirement would typically be longer. This is because the index is usually skewed towards larger, over-valued companies. But if one were to buy a portfolio differentiated from the index, based on thorough research and at reasonable price, the holding time horizon for fetching healthy risk-adjusted return would not be that long.

Are defensive stocks better bets?

According to the Ambit Capital report, stocks from the fast moving consumer goods (FMCG) and healthcare sectors have delivered higher risk-adjusted returns than the market across all time horizons. These have emerged as the two sectors offering the highest probability of beating the risk-free rate across most horizons. FMCG, healthcare have delivered higher risk-adjusted returns than market Over the 10-year horizon, both sectors offer 100% probability of beating the risk-free rate. So does this imply that stocks from these two segments, often termed as defensive bets, make for better bets for investors? Bansal contends that this superior risk-adjusted performance is owing to their ability to generate healthy cash flow consistently. “Both have robust business models to sustain growth and deliver healthy returns over time.” Interestingly, both sectors have found the going tough in recent months. FMCG majors have taken a hit post demonetisation, particularly in rural markets. In the December quarter, FMCG firms’ sales declined by 2.5%, while earnings fell by 2.1% over a year ago. In the absence of volume growth, FMCG majors are relying on price hikes in spurts. Pharma firms have been weighed down by increased scrutiny by the US Food and Drug Administration. The report finds that banks and automobiles stocks have delivered higher risk-adjusted returns than the market across all time horizons, except the 5-year and 1-year horizon, respectively. At the other end of the spectrum, metals and oil and gas stocks are serial underperformers, offering the worst probability of beating the risk-free rate across most time horizons.

Source: Economic Times

Ramkrishna Forgings Ltd.

Buy

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Automobile & Ancillaries Sector

Company Overview

Ramkrishna Forgings (RKF) was incorporated in 1981 in Kolkata (currently the headquarters). It is a forging company, primarily producing components for the automotive segment. It also caters to domestic mining clients and the Indian Railways. RKF's IPO was in 2004. Within the automotive segment, RKF primarily produces forged components for to the major domestic CV Original Equipment Manufacturers (OEMs) and Tier-1 component suppliers globally. Key domestic clients include Tata Motors (client since 1995), Ashok Leyland, and Volvo (Eicher). Key international clients include Meritor (manufactures axles for North American commercial vehicles) and Dana Corp (supplies axles, drive shafts for automotive OEMs). RKF's has 5 manufacturing units across India. Three units are located in Jamshedpur (Jharkhand), one in Kolkata and one in Saraiwan (Jharkhand). The company is also close to several steel mills, ensuring stable supply or raw materials. Its product portfolio includes machined and forged axle, engine, steering and gearbox components. RKF's current capacity stands at 150K tonne, split into Ring-Rolling (24K), Forging (45K) and Press Lines (80K).

Investment Rationale

Heavy Capex incurred for Greenfield expansion

Over FY11-16, the company consistently increased its forgings capacities for components, ring rolling and machined parts. It further enhanced capacities in FY16. It incurred `7bn capex on its fifth greenfield set-up in Jamshedpur. Its capacity is now ~150,000 tpa. With capex completed in the year gone by, we do not expect any major capex in the new few years. Currently, the newer machines have a capacity utilisation of ~15%. We expect this to go up to 33-35% p.a during FY17-19. This would take overall capacity utilisation to ~73% by FY19. This increase in capacity utiliazaions along with the recent shift to 12,500 tonne and 6,300 tonne press will help RKF to capture market share and grab the oppurtunities in the Global and Indian markets due to the current BS-4 Norms and increasing number of old vehicles as well as the international markets.

Low press forgings replaced with Heavy Press Forgings to increase growth

Ramkrishna's recent shift to a 12,500-tonne and a 6,300-tonne press to manufacture complex and heavy-forged components (till now available only with Bharat Forge) is key to its enhanced growth in FY18 and FY19. With these additions, capacity at Plant 5 is now ~80,000 tpa. This would open up newer opportunities across the US, Europe and India. The company is securing orders from global and local OEMs, Tata Motors being a key client since RKForge has been selected as a 2nd supplier of crank shifts for TATA Motors. It supplies auto components to all major domestic commercial vehicle manufacturers (Tata Motors, Hindustan Motors, Ashok Leyland and Eicher Motors). Internationally, it has also entered in a multiyear LTA with a leading OEM in commercial vehicles in Europe for the supply of forgings. The value of LTA is approximately Euro 4 Million per annum. There are also signs of recovery of heavy trucks in the North American markets due to increase in freight rates and majority of the vehicles being old, it will be necessary for them to be replaced which will provide good oppurtunities to the Indian Forging industry. The company registered a 24% CAGR over FY10-16. During this time, the medium and heavy commercial-vehicle segment in India saw a 6% CAGR. Clearly, the company has increased its market share over the last few years, supported by higher exports.

High margins to assist earnings

With increasing revenue over the last few years, Ramkrishna Forgings has seen steady growth in margins. Over FY11-15, the margin averaged 15.8%. With the 3,150-tonne and 4,300-tonne presses, the company expanded its FY15 margin to 17.1%. In FY16, it added 6,300-tonne and 12,500-tonne presses. Greater exports and newer products helped margins expand considerably, despite the lower utilisation of the newly-added presses, 19.7% for FY16. With the new range of complex forgings, realisations are expected to be ~12-15% higher, thus enhancing the margins. With higher capacity utilisation and the sales mix tilting toward heavy-forged components, we expect a 100-150bp improvement in margins. The realisations from exports are better than domestic markets. With the increase in exports and capacity utilisations, the earnings are expected to increase due to the good operating leverage.

Valuation & Outlook

There is a structural shift in the Indian forgings sector where we expect the companies with advance technology and heavy press forgings is expected to grow at faster rate. RKF is now the only competitor for Bharat Forge for heavy press forgings in India. RKF can now also manufacture complex products with the increase in press. With the improvement in the Domestic and Global Markets in CV Sector, we expect RKF to get numerous growth oppurtunities and increase its earnings. The phase of capex expenditure for Greenfield expansion is now complete and we believe that RKF will reap the benefits by better cash flows and returns for RKF. We have valued the stock on EV/EBITDA basis at a discount of 20% to Bharat Forge because of its superior margins and diversified client list with a multiple of 9 with a target price of Rs. 591.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook — **Positive**

Stock

CMP (Rs)	497.4
Target Price (Rs)	591.0
BSE code	532527
NSE Symbol	RKFORGE
Bloomberg	RMKF IN
Reuters	RKFO.BO

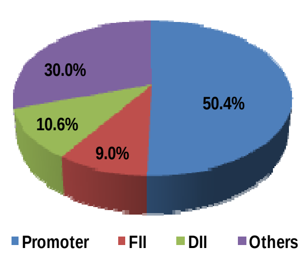
Key Data

Nifty	9,119.4
52WeekH/L(Rs)	537/256
O/s Shares (mn)	29
Market Cap (Rs Bn)	14
Face Value (Rs)	10.0

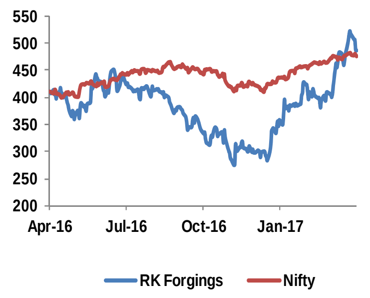
Average volume

3 months	68,110
6 months	51,450
1 year	45,730

Share Holding Pattern (%)



Relative Price Chart



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Key Financials					
YE March (Rs. mn)	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Revenue	**7,408**	**8,972**	**8,129**	**9,545**	**12,085**
Growth%	*72.5%*	*21.1%*	*-9.4%*	*17.4%*	*26.6%*
EBITDA	**1,268**	**1,775**	**779**	**1,946**	**2,814**
Growth%	*-124.7%*	*-40.0%*	*-56.1%*	*149.7%*	*44.6%*
Net Profit	**747**	**549**	**-624**	**326**	**1,138**
Growth%	*-784.2%*	*26.6%*	*213.8%*	*-152.2%*	*248.9%*
Diluted EPS (Rs.)	**25.8**	**18.9**	**-21.5**	**11.3**	**39.2**
Growth%	*784.2%*	*-26.6%*	*-213.8%*	*-152.2%*	*248.9%*
Key Ratios					
EBITDA(%)	**17.1%**	**19.8%**	**9.6%**	**20.4%**	**23.3%**
NPM (%)	10.1%	6.1%	-7.7%	3.4%	9.4%
RoE (%)	**18.2%**	**11.6%**	**-15.3%**	**7.4%**	**21.3%**
BV/Per Share (Rs.)	**142**	**163**	**141**	**151**	**185**
Valuation Ratios					
P/E (x)	*19.2x*	*26.2x*	*-23.0x*	*44.0x*	*12.6x*
EV/EBITDA (x)	**17.0x**	**12.9x**	**29.4x**	**11.9x**	**8.0x**
Market Cap./ Sales (x)	*1.9x*	*1.6x*	*1.8x*	*1.5x*	*1.2x*

Source: Company, BP Equities Research

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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