# Mid-Cap Marvels

Edelweiss – Ideas create, values protect

January 2016

Edelweiss
Ideas create, values protect

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# Our Core Investment Philosophy (1 of 2)

## Opportunity size

- How big the sector can grow (3x, 4x, 5x)

## Corporate Governance

- Management back ground
- Accounting policies
- Corporate policies
- Business with Related Parties

**Investment Philosophy**

## Moat around the business

- Differentiated business Model
- Sustainable competitive advantage
- High barriers to entry

## Strong Management Credentials

- Professional management
- 2nd level of management
- One person dependency
- Track record of past decisions
- Comments v/s deliverable

# Our Core Investment Philosophy (2 of 2)

**Investment Philosophy**

## Strong earning visibility

* Predictability for next 5-6 years
* Ease in understanding business
* Impact of technology, obsolesce of technology

## Financials

* Revenue growth
* ROE/ROCE
* Cash flow
* Du-pont Analysis
* Financial comparison with the competition

## Leadership Position

* Market Share
* Bargaining power
* Consistent leadership

## What we don’t play

* Subsidy driven
* Non self sustaining

# Our preferred stocks with philosophy

| | Consistency | Sustainable | Pedigree | Profitable |
|---|---|---|---|---|
| **Key Investment Philosophy** | **5 year revenue growth >10-15%** | **Earning Visibility (Sustainable growth in revenues)** | **Corporate Governance** | **Profitable Growth** |
| **NIIT Ltd** | ✓ | ✓ | ✓ | ✓ |
| **Cholamandalam Finance** | ✓ | ✓ | ✓ | ✓ |
| **Jamna Auto Ltd.** | ✓ | ✓ | ✓ | ✓ |
| **Pokarna Ltd.** | ✓ | ✓ | ✓ | ✓ |
| **Natco Pharma** | ✓ | ✓ | ✓ | ✓ |
| **Indo Count Industries Ltd** | ✓ | ✓ | ✓ | ✓ |
| **Siyaram Silk Mills Ltd.** | ✓ | ✓ | ✓ | ✓ |

# Our Preferred Stocks

## Cholamandalam

| | |
|---|---|
| Consistency | The company's net interest income has grown 33% CAGR over last 5 years, with stable margins. |
| Sustainable | Cholamandalam is leading financer in vehicle segment with 9.8% and 11.8% share in CV and LCV financing business. The company is adding new lines of business like tractor and SME financing |
| Profitable | The company has not only shown consistency in profitability. With the revival in Commercial vehicle segment and interest rate peaking out, the profitability is sustainable. |
| Pedigree | The company is promoted by Murugappa group, a leading business house in India |

## Indo Count Industries Ltd

| | |
|---|---|
| Consistency | Indo Count Industries Ltd. (ICIL) is a leading manufacturer and exporter of Home Textiles. It is Third largest exporter of bed linen from India, 14th largest Home Textiles supplier to the USA and fourth-largest Bed Sheet exporter to the USA |
| Sustainable | ICIL exports bed linen on a made-to-order basis, resulting in effective management of the company's inventory. Currently, ICIL products make up 20% of the top global retailers' bed linen requirement, making the company a key supplier for top global retailers. |
| Profitable | The change in product mix towards high value items supported by a product mix shift towards Home Textiles and a declining contribution of the Consumer Durables segment to Nil by FY17E will lead to improvement in margins. |
| Pedigree | |

# Our Preferred Stocks

## Jamna Auto

| | |
|---|---|
| Consistency | Despite Jamna Auto (JAI) being a component supplier to the highly cyclical MHCV segment it has managed to grow faster than Industry. Between Q2FY15 –Q2FY16 JAMNA sales growth has been 35% YoY while MHCV industry sales is 29% YoY. |
| Sustainable | Considering the MHCV recovery is expected to continue till FY18-end we expect JAI – the market leader in the conventional leaf spring space to register a significant growth going forward I.e 18%-20% CAGR FY16E-FY18E. |
| Profitable | With recovery in MHCV OE sales volumes the company's profitability has improved from FY14 to FY15. Core ROCE has moved from 7% to 25%. |
| Pedigree | The Jahuar family has 20 years+ experience of being largely profitable component suppliers to the cyclical CV segment. There clear market dominance in the leaf spring segment highlights their strategic capability and hence their pedigree. |

## Natco Pharma

| | |
|---|---|
| Consistency | The company has grown at 21% CAGR consistently over last 7 years. |
| Sustainable | With dominant position and market share in generic oncology space in the domestic market, and a strong pipeline of niche products in the US, the company is building strong base for future growth |
| Profitable | The company along with growth has been able to improve the quality of business and has been consistently improving its margins over the last 7 years from 10% to 22%. |
| Pedigree | Mr. V C Nannapaneni with strong focus on oncology and developing difficult to manufacture products, the company has been able to create a niche for itself in the pharma space. |

# Our Preferred Stocks

## NIIT Ltd

| | |
|---|---|
| Consistency | Consistently ranked among top-20 global training provider over last 8 years. |
| Sustainable | With recovery in the corporate training spending, NIIT's CLG group is expected to grow by 15% CAGR over next three years. |
| Profitable | NIIT's consolidated EBITDA margin would improve to 9.5% in FY17E against 2.3% in FY15. |
| Pedigree | NIIT has a high-quality, broad-based senior management team. Recently, the company inducted MR. Rahul Patwardhan as CEO. |

## Pokarna Ltd

| | |
|---|---|
| Consistency | Established in 1991, company exports granites and quartz to over 69 countries and is one of the largest granite exporters from India with 15 captive mines for granite catering to wide variety of colour palettes for granite and Quartz (75 and 64 respectively). |
| Sustainable | Total global countertop market is valued at USD 74bn with Quartz at USD6bn. USA and Canada account for 24% of the global countertop market. Quartz's share in the US and Canadian counter top market is estimated at mere 6% and 12%, respectively, portending humungous scope for growth. |
| Profitable | Quartz is expected to be the key growth driver going ahead for Pokarna as Quartz segment accounts for 27% of Pokarna's top line reporting higher EBITDA margins at 34% which has been consistently improving over the years. With granite segment expected to gain market share in global counter top markets Granite business is expected to grow at a steady pace going ahead. |
| Pedigree | Pokarna is one of the largest manufacturer of granite and engineered quartz stone slabs in India. Pokarna's exclusive technology contract with Breton Stone for India gives it an edge over other quartz slab producers in India as well as over quartz manufactured using Chinese technology. |

# Our Preferred Stocks

## Siyaram

| | |
|---|---|
| Consistency | Siyaram is one of the largest and most experienced textile companies in India. The company has grown at a 17% plus CAGR from 2005. |
| Sustainable | Given the industry growth drivers such as increasing personal disposable income, higher consumer discretionary spend and favorable demographics, a 10-12% growth is sustainable. |
| Profitable | The company has consistently maintained PAT margins in excess of 5% since 2010 as higher share of the stable readymade garments(RMG) segment, has reduced earnings volatility. |
| Pedigree | The company belongs to the Poddar group which includes Balkrishna Industries and Govind Rubber. As the current management is vastly experienced in the family business, it gives Siyaram a very strong foundation. |

# Edelweiss Mid-Cap Marvels

| S. No. | Stock Name | CMP | Mkt Cap | P/E | | EV/EBITDA | | ROE (%) | |
|---|---|---|---|---|---|---|---|---|---|
| | | (INR) | (INR Crs.) | FY16E | FY17E | FY16E | FY17E | FY16E | FY17E |
| 1. | Cholamandalam Finance | 642 | 9,833 | 18.7 | 15.7 | NM | NM | 15.7 | 16.4 |
| 2 | NIIT Ltd | 99 | 1,581 | 25.3 | 16.9 | 23.0 | 16.0 | 1.0 | 8.0 |
| 3. | Indo Count Industries Ltd | 1101 | 3,900 | 15.9 | 11.8 | 9.7 | 7.2 | 50.2 | 43.0 |
| 4. | Jamna Auto Industries Ltd. | 140 | 940 | 24.0 | 13.6 | 9.9 | 6.6 | 22.0 | 32.0 |
| 5. | Natco Pharma | 579 | 8,977 | 62.8 | 19.5 | 38.2 | 13.9 | 14.5 | 32.2 |
| 6. | Pokarna Ltd. | 991 | 613 | 15.0 | 13.0 | 8.1 | 8.9 | 55.8 | 40.1 |
| 7. | Siyaram Silk Mills Ltd. | 1221 | 988 | 11.0 | 9.6 | 7.2 | 6.4 | 22.0 | 20.0 |

Note: Market CAP (Mkt CAP) and Current Market Price (CMP) were last recorded on 31st December, 2015

# Cholamandalam Investment (CMP: INR 642; Mkt Cap: INR 9,833 crs)

**Business Overview**

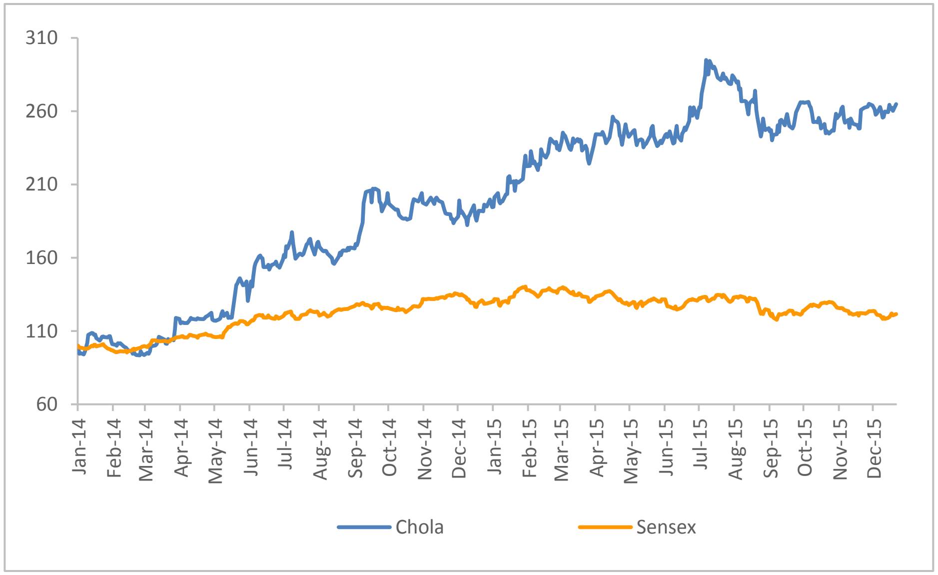
* Retail finance company, promoted by Murugappa group, with focus on vehicle finance and loan against property
* Vehicle finance constitute 69% of AUM and home equity constitute 29% of AUM
* Within vehicle finance, the focus is on small road transport operators
* Within home equity, 89% of loan is against self occupied residential property.
* Company has 534 branches (90% in Tier II, Tier III and Tier IV towns)

**Opportunity Size: -**

* CV sales growth over last 2 years was worst in 10 years. There will be growth due to uptick in pent up demand
* Company is adding new lines of business like tractor financing, rural financing, SME financing, both working capital and term loan

| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|---|---|---|---|---|
| Net Interest Income (INR cr) | 1,107 | 1,459 | 1,704 | 1,904 | 2,229 |
| Net Profit after tax (INR cr) | 307 | 364 | 435 | 537 | 642 |
| Adjusted BV per share | 137 | 160 | 203 | 234 | 270 |
| Dilute EPS (Rs.) | 21.4 | 25.4 | 30.3 | 34.4 | 41.2 |
| Gross NPA ratio (%) | 1.0 | 1.9 | 3.1 | 2.5 | 2.1 |
| Net NPA ratio (%) | 0.2 | 0.7 | 2.0 | 1.3 | 0.9 |
| Price/Adj. Book Value(x) | 4.7 | 4.0 | 3.2 | 2.8 | 2.4 |
| Price/Earnings (x) | 30.2 | 25.4 | 21.3 | 18.7 | 15.7 |

| Share Holding Pattern | (%) |
|---|---|
| Promoter | 53.15 |
| FII | 15.68 |
| DII | 24.72 |
| Others | 6.45 |



# Cholamandalam Investment (CMP: INR 642; Mkt Cap: INR 9,833 crs)

## Investment Hypothesis

- Leading financier in vehicle segment. Adding new lines of business like tractor, rural and SME financing, both working capital and term loan
- Constant improvement in efficiency. The operating cost as % of assets has come down from 5.1% in FY09 to 3.5% in FY15
- Currently at the bottom of NPA cycle. Asset quality is expected to improve constantly

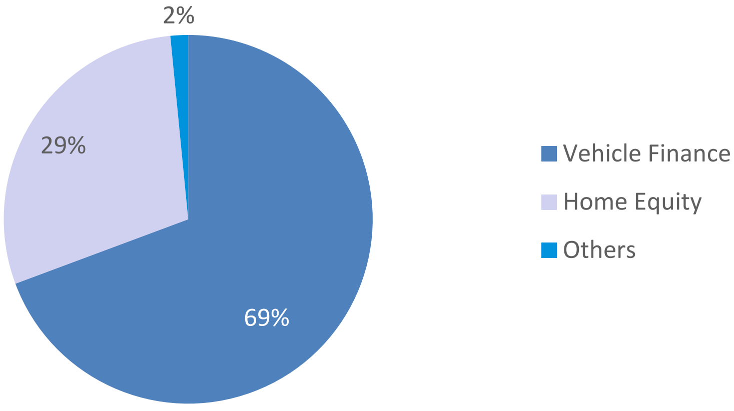
## Risks

- Commercial vehicle segment is highly correlated to GDP growth and IIP. Slow down in GDP growth and IIP will have impact on growth
- Vehicle segment constitute 69% of loan book. Negative news like mining ban etc. will have impact on the asset quality

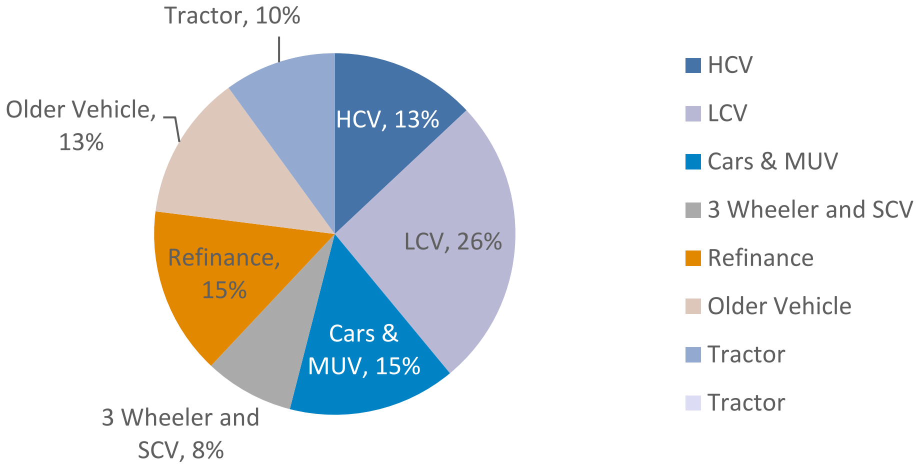
## Peer Comparison

| | Diluted P/E(x) | | P/BV(x) | | Return on average equity (%) | |
|---|---|---|---|---|---|---|
| | FY16E | FY17E | FY16E | FY17E | FY16E | FY17E |
| **Shriram Transport** | 14.0 | 11.9 | 2.1 | 1.9 | 13.7 | 14.4 |
| **Cholamandalam** | 16.8 | 14.0 | 2.5 | 2.1 | 15.7 | 16.4 |

### Loan Book Break-up




### Vehicle Finance Loan Book Break-up



# Jamna Auto Industries Ltd. (CMP: INR 140; Mkt Cap: INR 940 crs)

## Business Overview

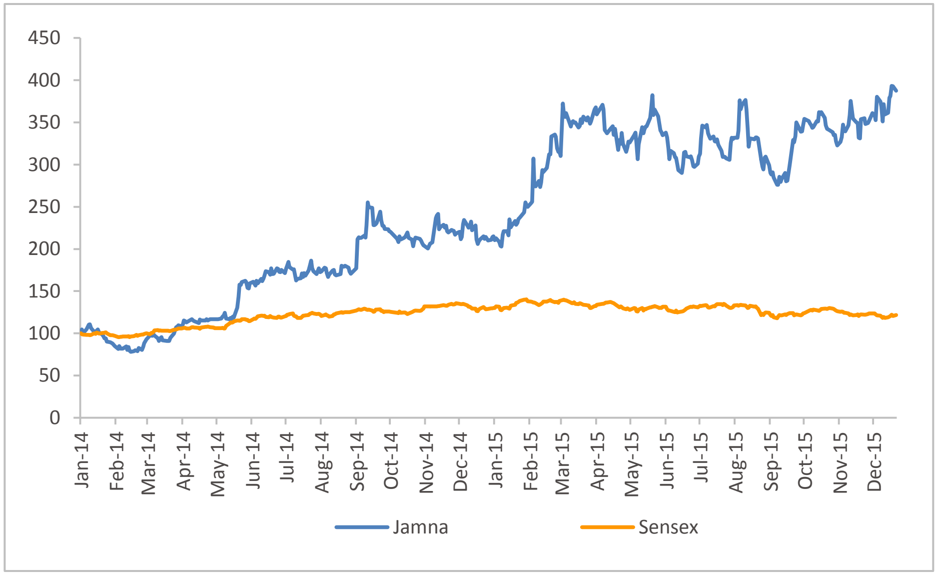
- Jamna Auto Industries Ltd. (JAI) is a market leader in the CV suspension leaf spring segment (90% of sales), including products like the conventional leaf spring and parabolic leaf spring.
- JAI currently has a 64% market share in the conventional leaf springs segment and a market leader in the parabolic leaf spring segment. Being the industry leader makes JAI a key beneficiary of the ongoing domestic MHCV cycle recovery.
- The company is focused on capturing the rising content-per-vehicle trend and hence it has forayed into the Air Suspension and Lift Axle segments (10% of consolidated sales) where its main client is Ashok Leyland for the heavy tonnage trucks.

## Opportunity Size: -

- Domestically, considering the 2.3 lakh MHCV run-rate in FY15 the overall leaf spring OEM opportunity stands between INR 1500 cr to INR 1800 cr .
- Post GST implementation, aftermarket will offer an opportunity that is 4x of the OEM market opportunity.

| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|---|---|---|---|---|
| Net revenue | 980 | 834 | 1,095 | 1,280 | 1,528 |
| EBITDA | 86 | 44 | 94 | 118 | 177 |
| Adjusted PAT | 28 | 2 | 29 | 46 | 81 |
| Diluted EPS (Rs) | 3 | 0.2 | 4 | 6 | 10 |
| Diluted P/E (x) | 43.3 | 759.9 | 37.7 | 24.0 | 13.6 |
| EV/EBITDA (x) | 19.4 | 96.1 | 12.3 | 9.9 | 6.6 |
| ROAE(%) | 17% | 1% | 16% | 22% | 32% |
| ROCE(%) | 23% | 7% | 25% | 32% | 45% |

| Share Holding Pattern | (%) |
|---|---|
| Promoter | 43.81 |
| FII | 0 |
| DII | 0.37 |
| Others | 55.82 |



# Jamna Auto Industries Ltd. (CMP: INR 140; Mkt Cap: INR 940 crs)

### Investment Hypothesis

- Post a 2-year downturn, the MHCV industry in India is registering a recovery. JAI is the largest player in the domestic leaf spring industry with 64% market share whilst several other small companies contribute to the remaining 36% share. JAI is expected to be a significant beneficiary of the CV cycle recovery in India.
- JAI's multiple plant location strategy in proximity to CV OEM customers has helped the company maintain its dominance in the leaf spring industry. At present, the company has six facilities located close to major CV manufacturing hubs in India and this has helped JAI gain a significant share of business (SOB) with leading CV OEMs. Apart from scale, the strategic location of its plants has helped it to manage cost efficiently by reducing freight expenses.
- Additionally, the company has forayed into the air suspension and lift axle segment via a technology tie-up with Ridewell, USA. Implementation of GST (Goods and Services Tax), will open up a significant aftermarket opportunity (i.e. ~4x OEM industry) for organized suspension leaf spring manufacturers such as JAI.

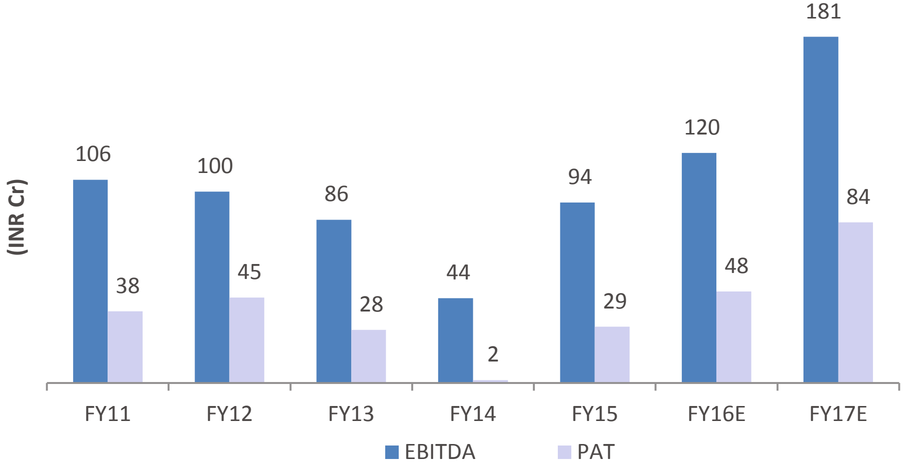
### Risks

- End-segment concentration risk
- Steel price pass-through may affect revenue growth

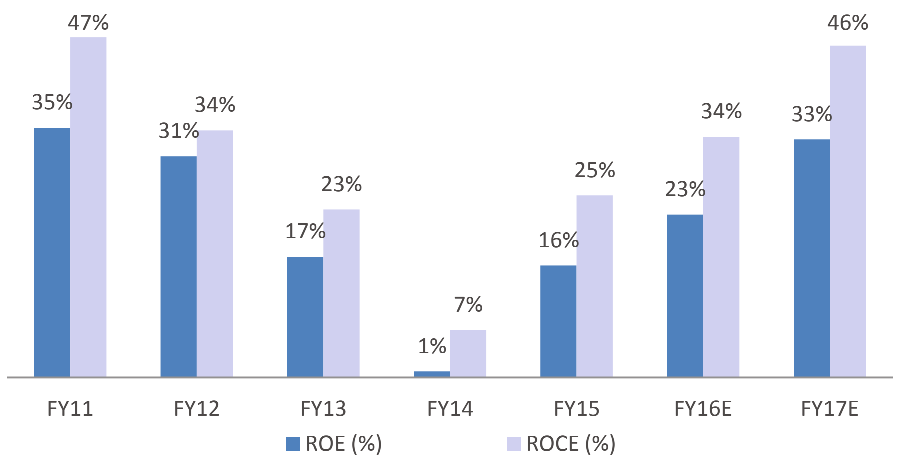
### Peer Comparison

| | Diluted P/E (x) | | | Diluted EPS | | | ROCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY15E | FY16E | FY17E | FY15 | FY16E | FY17E | FY15E | FY16E | FY17E |
| **Jamna Auto** | 31.9 | 20.1 | 11.4 | 7.4 | 5.8 | 10.3 | 25 | 32 | 45 |
| **Suprajit Engineering** | 34.4 | 27.7 | 19.1 | 4.2 | 5.2 | 7.5 | 23.7 | 24.2 | 26.4 |

### Operating Leverage to be a primary driver of profitability




### ROCE will improve significantly



# NIIT Ltd. (CMP: INR 99; Mkt Cap: INR 1,581 crs)

**Business Overview**

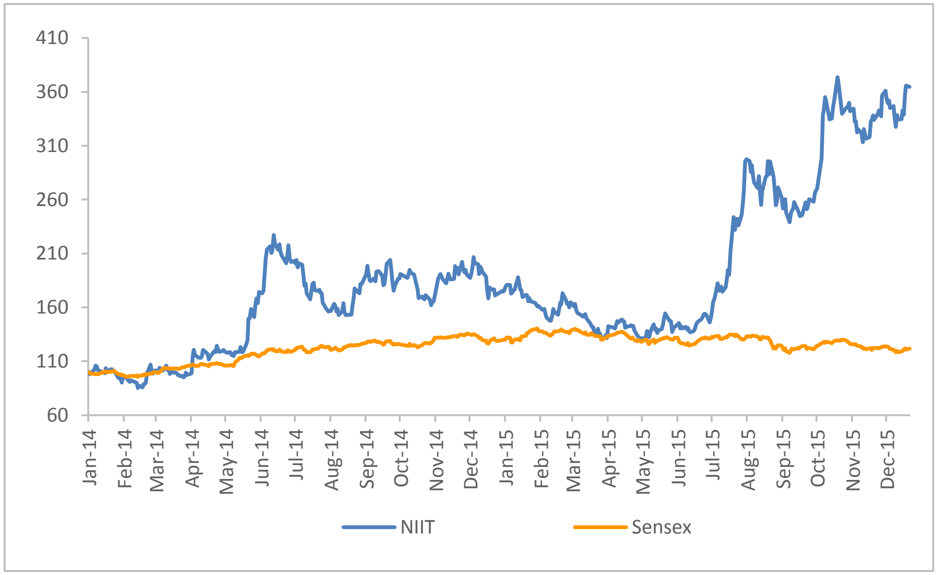
- NIIT Ltd is in the business of providing training with a whole gamut of content, delivery and educational platforms to Corporates, Individuals and Schools.
- The company has 3 main business segments – Corporate Learning Group (CLG), Skills & Careers Group (SCG) and School Learning Group (SLG). The company's learning and talent development solutions have received widespread recognition globally.
- It has been ranked among the Top 20 Training Outsourcing Companies for the 8th consecutive year by Training Industry Inc.

**Opportunity Size: -**

- Global spend on corporate training currently totals US$135bn and within that USA's share is US$85bn.
- The year 2014, saw sizeable increase in the average expenditure for training outsourcing in USA. Currently US companies on an average spend $308,833 on training outsourcing up from $140,345 in 2013. An average 8% of the total training budget was spent on outsourcing in 2014.

| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|---|---|---|---|---|
| Revenue( crs) | 961 | 951 | 957 | 972 | 1,089 |
| Rev. growth (%) | (23.8) | (1.0) | 0.7 | 1.5 | 12.1 |
| EBITDA (crs) | 42 | 51 | 22 | 73 | 104 |
| Net profit (crs) | (7) | (42) | (87) | 2 | 27 |
| Shares outstanding (crs) | 16.5 | 16.5 | 16.5 | 16.5 | 16.5 |
| Diluted EPS (INR) | 1.6 | 1.1 | (8.4) | 3.9 | 5.8 |
| EPS growth (%) | 27.4 | 32.6 | (881.8) | 146.7 | 49.2 |
| Diluted P/E (x) | 62.2 | 92.3 | (11.8) | 25.3 | 16.9 |
| EV/ EBITDA (x) | 39.8 | 32.8 | 75.0 | 23.02 | 16.07 |
| ROCE (%) | -9% | -6% | -26% | 1% | 12% |
| ROE (%) | -5% | -9% | -56% | 1% | 8% |

| Share Holding Pattern | (%) |
|---|---|
| Promoter | 34.19 |
| FII | 9.24 |
| DII | 13.07 |
| Others | 43.50 |



# NIIT Ltd. (CMP: INR 99; Mkt Cap: INR 1,581 crs)

## Investment Hypothesis

* Globally corporate training and training outsourcing industry is coming back into the growth path. NIIT's Corporate Learning business (CLG) is well placed to gain from the changing market dynamics. Going forward, CLG business is expected to grow at 15% CAGR over FY15-FY18E and EBITDA margin will likely improve to 13% in FY18E from 11.5% currently.
* In the Skill & Career Group (SCG) business, NIIT took a decision to launch a comprehensive business transformation programme to get back onto the profitable growth path. Although, the growth of SCG will likely be anaemic in near term; we believe that with demand pick-up, the benefit of operating leverage would kick in and operating margin would improve significantly to 8% in FY18E.
* In the School Group (SCG), NIIT has exited from the government and capex driven private school business and focus on IP driven school business to become more asset light and improve return ratios.

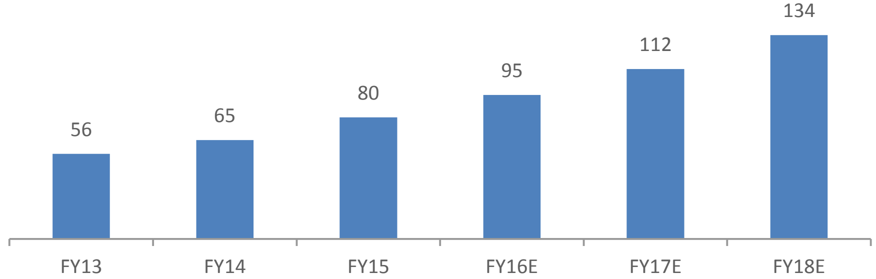
## Risks

* Lower pick-up in global corporate training business.
* Losing market share to low cost online training companies.

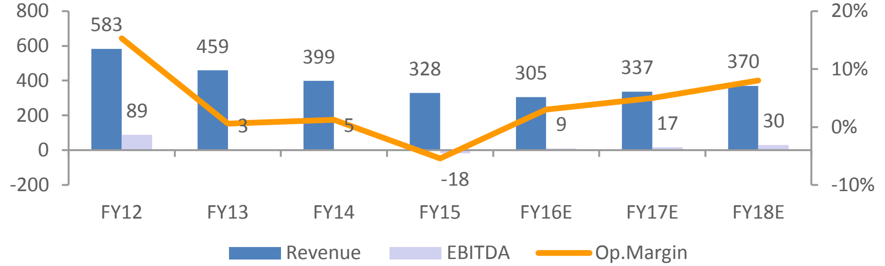
## Peer Comparison

| | Diluted P/E (x) | | | Diluted EPS | | | ROCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY15E | FY16E | FY17E | FY15 | FY16E | FY17E | FY15E | FY16E | FY17E |
| GP Strategies | 18 | 19 | 15 | 1.4 | 1.4 | 1.5 | 18% | 19% | 20% |

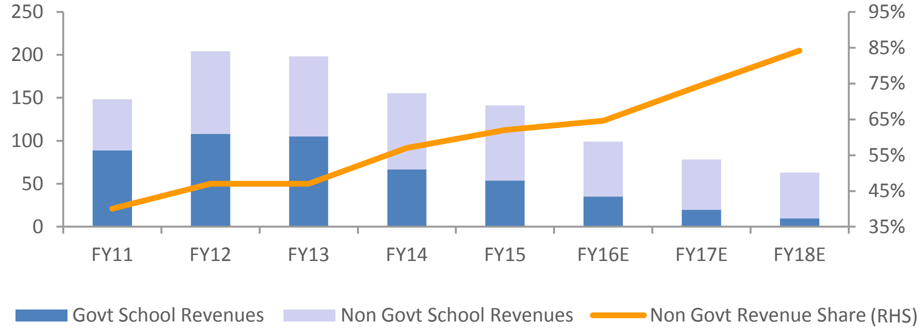
**CLG business expected to grow by 15% CAGR over FY15 – 18E**




**SCG group operating margin to get leverage benefit**




**Government Business will majorly end in FY17E and complete exit by FY19E**



# Indo Count Industries Ltd (CMP: INR 1101; Mkt Cap: INR 3,900 crs)

**Business Overview**

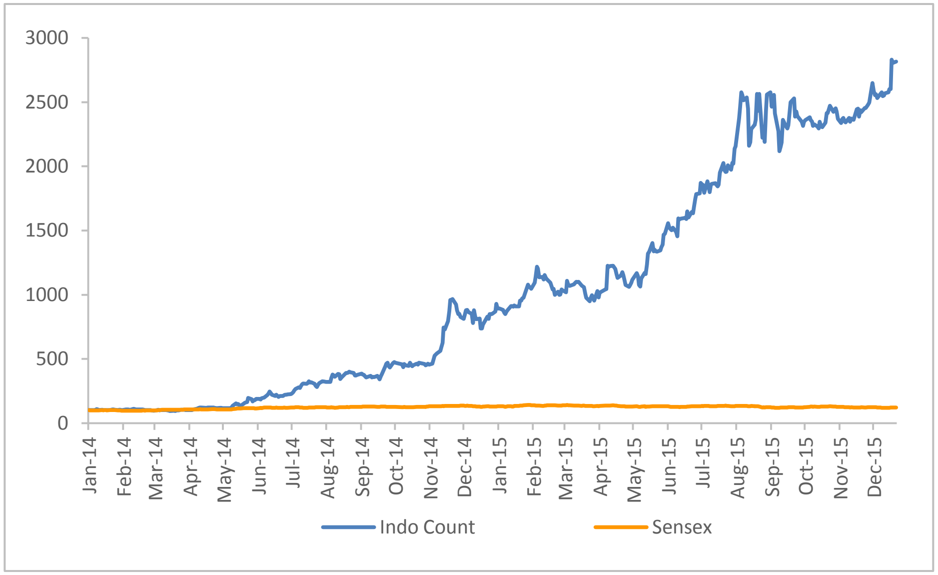
- Third largest exporter of Home Textiles (bed linen); 20% market share
- Exports constitute 85% of revenue (70% to US)
- Marquee global clients - Walmart,, House of Fraser, JC Penney, BBB (top 2 supplier )

**Opportunity Size: -**

- Global Home Textile Market is currently valued at USD 86bn (2015) and is expected to grow to USD 96bn by 2017.
- India's Home Textiles exports stood at USD 1.4bn in 2013 and is expected to grow to USD6.8bn by 2020 i.e. FY13-20 CAGR of 12%
- India is 46.5% of the US Cotton Bed Sheets/Pillow imports (Imports USD 1.56bn)
- Bed Sheet segment alone is estimated to be USD 4.5bn in the USA market
- Newer segments such as Fashion Bedding, Utility Bedding and Institutional bedding together account for USD 9.5bn.
- These three segments are currently dominated by China (85-90% of total USA imports in these three segments). Any shift in the market share from China to India would offer huge growth potential for Indian Home Textile players

| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|---|---|---|---|---|
| Revenue( crs) | 1,208 | 1,489 | 1,782 | 2,242 | 2,672 |
| Rev. growth (%) | 50.0 | 23.2 | 19.6 | 25.8 | 19.2 |
| EBITDA (crs) | 96 | 180 | 314 | 486 | 632 |
| Net profit (crs) | 30 | 110 | 146 | 284 | 383 |
| Shares outstanding (crs) | 3.8 | 3.8 | 4.1 | 4.1 | 4.1 |
| Diluted EPS (INR) | 7.8 | 29.1 | 35.8 | 69.5 | 93.7 |
| EPS growth (%) | 1,377.5 | 274.0 | 23.3 | 93.9 | 34.8 |
| Diluted P/E (x) | 141.7 | 37.9 | 30.7 | 15.9 | 11.8 |
| EV/ EBITDA (x) | 47.9 | 25.4 | 15.3 | 9.7 | 7.2 |
| ROCE (%) | 14.1 | 24.0 | 37.7 | 52.1 | 49.9 |
| ROE (%) | 15.7 | 44.7 | 40.4 | 50.2 | 43.0 |

| Share Holding Pattern | (%) |
|---|---|
| Promoter | 58.95 |
| FII | 8.46 |
| DII | 1.50 |
| Others | 31.09 |



# Indo Count Industries Ltd (CMP: INR 1101; Mkt Cap: INR 3,900 crs)

### Investment Hypothesis

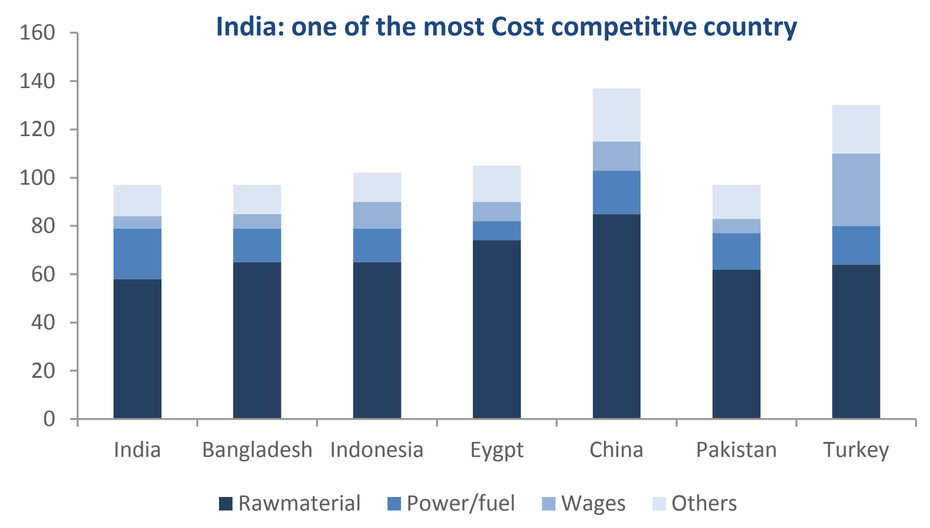
- Competitve advantage over competitors due to cotton surplus status, favorable cost dynamics, skilled labour advantage and supportive government policies & subsidies.
- Shift in Home Textiles market from China to India due to wage inflation and Yuan appreciation in China.
- Shift in Product mix towards high margin Home Textiles business (20% margins) from low margin Spinning business (5-7% margins).
- Foray into newer geographies and also newer segments with a total market size of USD 9bn such as Fashion, Utility and Institutional Bedding
- Fashion and Utility segments would utilize the same retail distribution channel as Sheets allowing for distribution synergies.
- China dominates 85-90% of these three segments. Any minor shift in market share to boost Indo Count's revenues.
- Asset light business model leading to Superior return ratios.

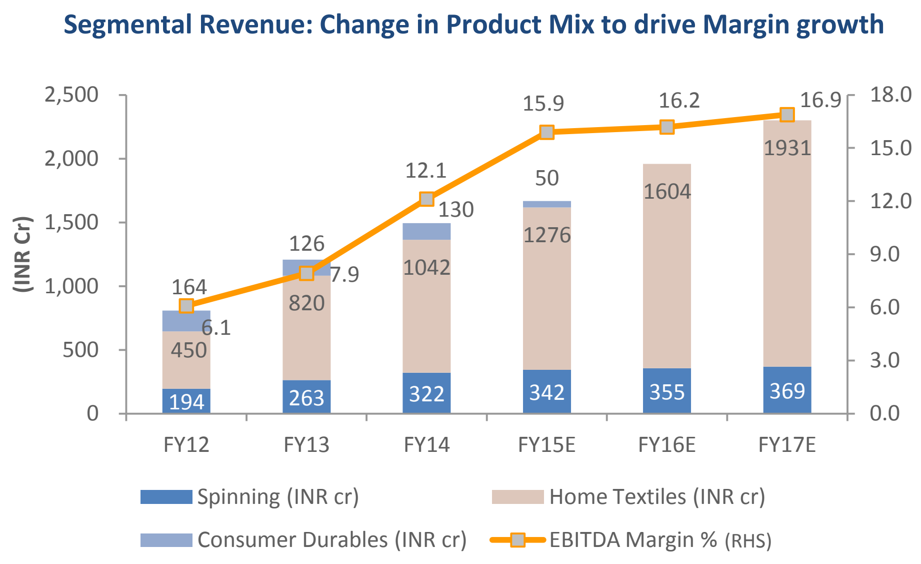
### Risks

- Raw material volatility
- Losing Suppliers

### Peer Comparison

| | Diluted P/E (x) | | | Diluted EPS | | | ROCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY15E | FY16E | FY17E | FY15 | FY16E | FY17E | FY15E | FY16E | FY17E |
| **Indo Count Inds.** | 16.86 | 12.1 | 9.6 | 35.7 | 49.6 | 62.4 | 37.7 | 40.6 | 38.3 |
| **Welspun India** | 10.6 | 9.5 | 8.6 | 53.8 | 59.9 | 66.8 | 24.6 | 25.7 | 23.8 |



# Natco Pharma Ltd (CMP: INR 579; Mkt Cap: INR 8,977 crs)

**Business Overview**

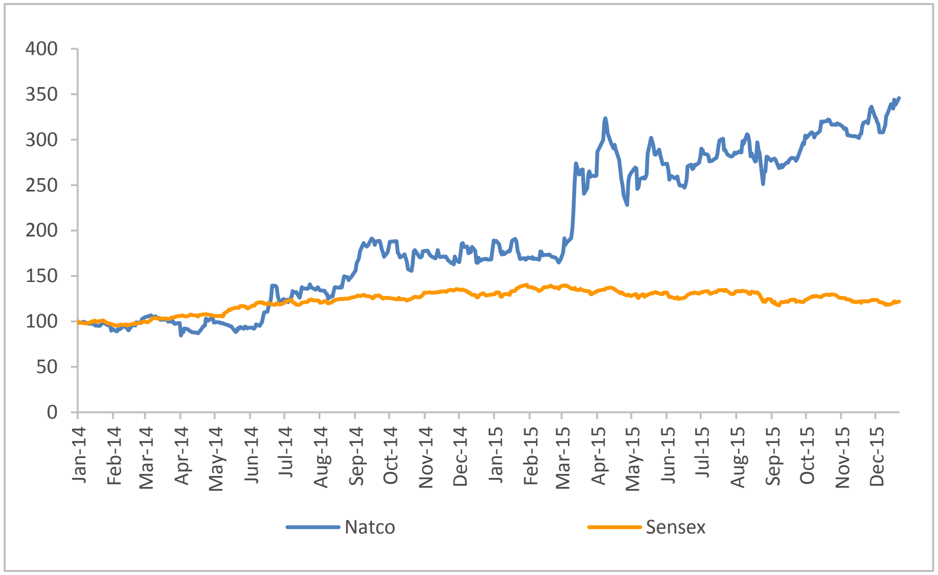
- Focused R&D play in Oncology, CNS and other niche therapies
- Identifies difficult to replicate molecules.
- Has track record of winning complex patent challenges
  - Nexavar (CL)/ Copaxone/Sovaldi/Tamiflu
- De-risks itself from litigation expenses
- 30% market share in Indian generic Oncology market.

**Opportunity Size: -**

- Current opportunity of USD 15 bn of the drugs known filed ANDA's in the US Market
- Post generization the opportunity size is around ~ USD 5 bn ( assuming 70% price erosion))
- If we assume 20% market share for Natco, revenue accrual could be ~USD 1 bn.

| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|---|---|---|---|---|
| Net revenues | 661 | 739 | 825 | 1,025 | 1,806 |
| Rev growth (%) | 27.0% | 11.9% | 11.7% | 24.2% | 76.1% |
| EBITDA | 150 | 179 | 213 | 259 | 711 |
| Adjusted PAT | 84 | 103 | 150 | 158 | 509 |
| Adj. EPS (INR) | 4.8 | 5.9 | 8.6 | 9.1 | 29.2 |
| EPS growth (%) | 38.5% | 23.0% | 45.8% | 5.5% | 222.2% |
| P/E (x) | 118.8 | 96.6 | 73.7 | 62.8 | 19.5 |
| EV/EBITDA (x) | 68.3 | 56.6 | 47.9 | 38.2 | 13.9 |
| RoACE (%) | 17.5% | 17.9% | 16.9% | 17.2% | 40.0% |
| RoAE (%) | 14.1% | 16.1% | 18.9% | 14.5% | 32.2% |

| Share Holding Pattern | (%) |
|---|---|
| Promoter | 51.29 |
| FII | 10.85 |
| DII | 5.89 |
| Others | 31.97 |



# Natco Pharma Ltd (CMP: INR 579; Mkt Cap: INR 8,977 crs)

### Investment Hypothesis

- Strong revenue visibility due to
  - Copaxone launch on the anvil (3 Bn USD)
  - Other US filings equally lucrative: (Revlimid USD 4 Bn, Tracleer USD 1.5 Bn, Tamiflu USD 600 Mn , Vidaza USD 300 Mn)
  - Sovaldi (Hepatitis C) to be a game changer (100 mn patients in 91 EM)
- Strong R&D focus as seen in its filings
- Limited competition products would be margin accretive

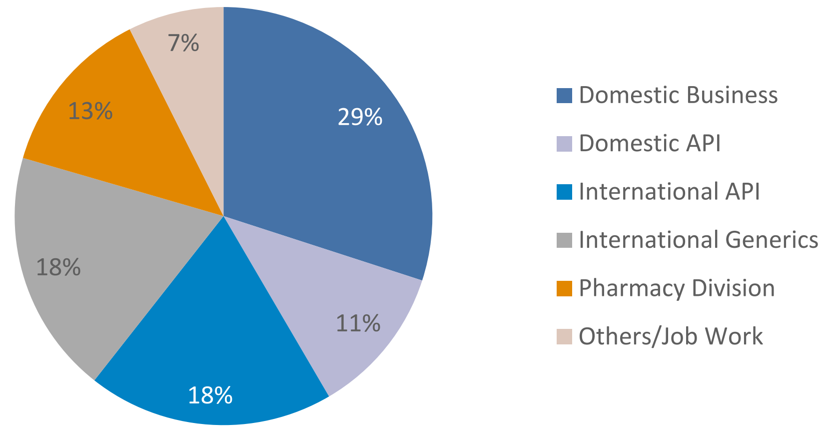
### Risks

- Delay in approvals from USFDA
- Adverse court ruling
- Currency risk

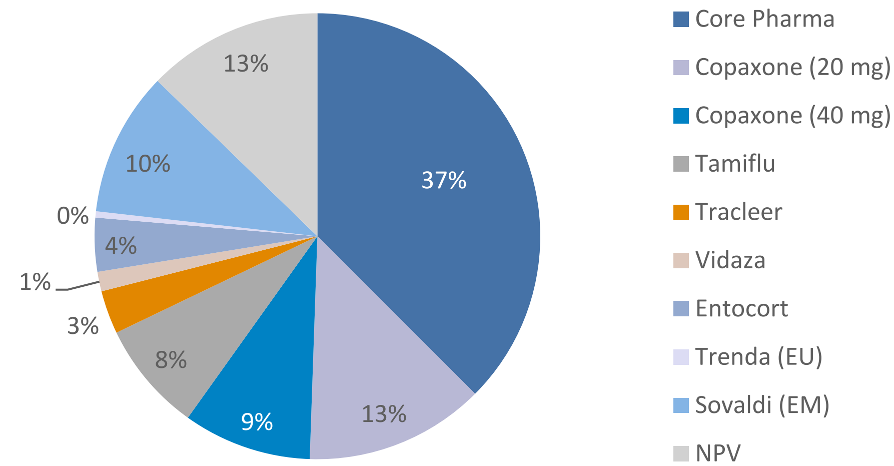
### Peer Comparison

| Company Name | Diluted P/E (x) | | Diluted EV/EBITDA (x) | | ROE (%) | |
|---|---|---|---|---|---|---|
| | FY16E | FY17E | FY16E | FY17E | FY16E | FY17E |
| Natco Pharma | 61.6 | 40.8 | 35.6 | 25.6 | 17.0 | 19.1 |
| Torrent Pharma | 23.0 | 17.1 | 14.2 | 11.1 | 32.6 | 34.1 |
| Alembic Pharma | 35.8 | 30.3 | 25.2 | 21.1 | 36.8 | 33.2 |
| Glenmark | 22.4 | 17.8 | 14.4 | 12.2 | 24.5 | 24.7 |

### Segmental Revenues




### Target Price Break-up (Incl. of Launches in US & Sovaldi)



# Pokarna Ltd (CMP: INR 991; Mkt Cap: INR 613 crs)

**Business Overview**

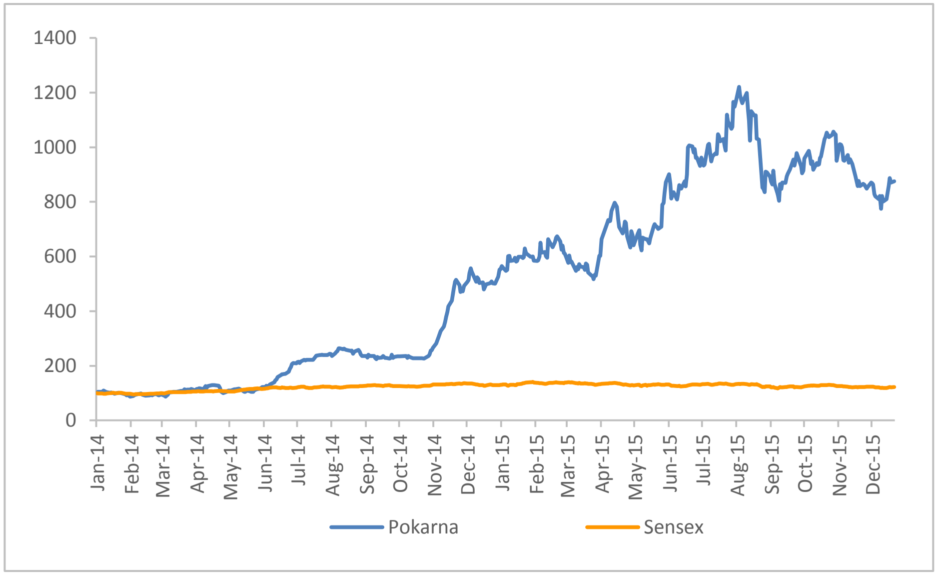
- Pokarna exports granites and quartz to over 69 countries.
- Pokarna's key segments are Engineered Stone-Quartz (contributing 42% of revenues) which is the fastest growing segment and Natural Stone -Granite ( contributing 56% of revenues)
- Quartz is the fastest growing segment for Pokarna with a gain in revenue contribution from high margin Quartz from 27% in FY14 to 42% in FY15.
- Granite is a steady state business for the company. Pokarna is one of the largest granite exporters from India with captive quarries for granite.

**Opportunity Size: -**

- Global counter top market is USD 81bn; with Quartz at a mere 8bn i.e.10% market share offering immense growth potential.
- US/ Canada at 24% are the biggest markets for Counter top yet Quartz is grossly underpenetrated in these markets.
- Quartz's share in US and Canada counter top markets is estimated at a mere 8% and 15%, respectively, portending humungous scope for growth.
- US quartz is expected to grow in volume terms by 20% CAGR over 2012-17E

| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|---|---|---|---|---|
| Revenue( crs) | 204 | 231 | 326 | 429 | 512 |
| Rev. growth (%) | 12.6 | 13.3 | 41.5 | 31.4 | 19.5 |
| EBITDA (crs) | 36 | 48 | 82 | 107 | 128 |
| Net profit (crs) | (7) | 12 | 28 | 41 | 47 |
| Shares outstanding (crs) | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Diluted EPS (INR) | (10.7) | 18.8 | 44.7 | 66.3 | 76.1 |
| EPS growth (%) | (78.5) | (275.2) | 137.6 | 48.2 | 14.8 |
| Diluted P/E (x) | (92.3) | 52.6 | 22.2 | 15.0 | 13.0 |
| EV/ EBITDA (x) | 24.5 | 19.3 | 10.9 | 8.1 | 8.9 |
| ROE (%) | (35.3) | 56.5 | 70.4 | 55.8 | 40.1 |

| Share Holding Pattern | (%) |
|---|---|
| Promoter | 56.67 |
| FII | 1.23 |
| DII | -- |
| Others | 42.10 |



# Pokarna Ltd (CMP: INR 991; Mkt Cap: INR 613 crs)

### Investment Hypothesis

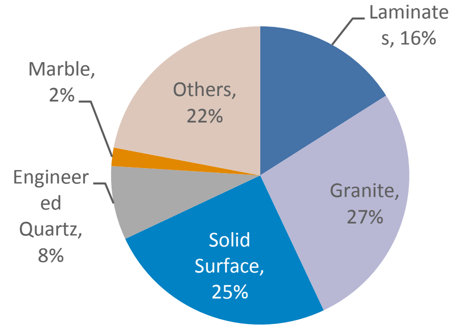
- Shift in consumer interest from other Counter top materials such as Laminates (market share of 16% currently) towards Quartz fueling growth.
- Quartz growing faster than Counter top market: from 1999-14 quartz segmetn grew at CAGR of 15.8% while counter top grew at CAGR of 4.4%
- Shift in Pokarna's product mix towards high margin Quartz segment from traditional Granite segment. Quartz reported 32% EBITDA margin with 42% contribution to Total Revenues whereas Granite reported 22% margins with 56% contribution to Total Revenues.
- BretonStone technology manufactures superior quality of Quartz product. Globally, only 10 sizeable manufacturers produce quartz using the Breton Stone technology. Pokarna has an exclusivity contract within India and is the sole company in India using the Breton Stone technology to manufacture quartz slabs
- Currently Pokarna has less than 5% market share in the US Quartz market. Company is expanding its distribution reach in order to expand its presence in key counter top regions such as North America and in Europe.
- Granite business segment to continue growing at a steady pace

### Risks

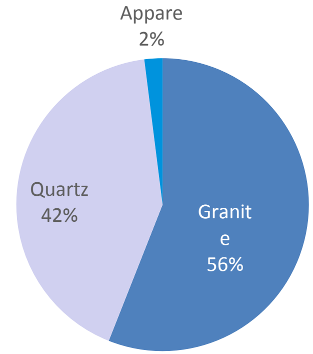
- Currency risk due to non-hedging of currency exposure
- Downturn in USA housing market
- Change in consumer preference away for quartz counter tops

| | Diluted P/E (x) | | | Diluted EPS | | |
|---|---|---|---|---|---|---|
| | FY15 | FY16E | FY17E | FY15 | FY16E | FY17E |
| Pokarna | 20.3 | 14.7 | 12.0 | 50.5 | 69.9 | 85.6 |
| Ceasar Stone (USD) | 24.6 | 17.4 | 14.4 | 2.4 | 3.4 | 4.1 |

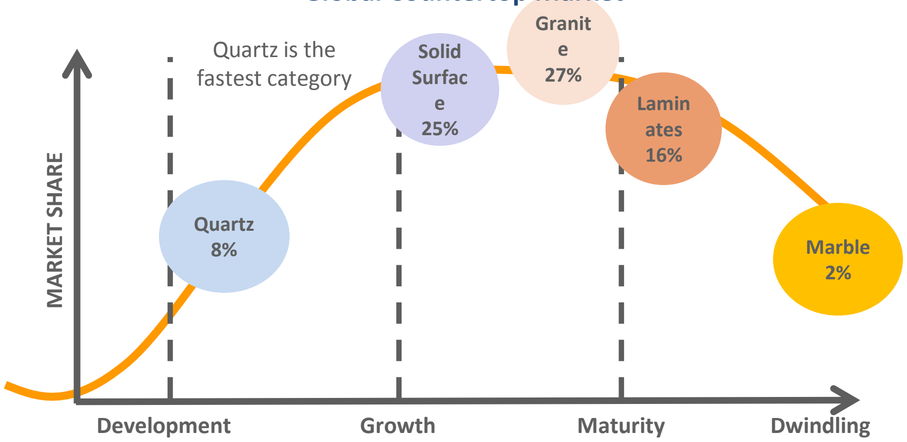
**Global Countertop Market Segmentation (Sales-2012)**




**Pokarna Segmental Revenues**




**Quartz is the gaining Market Share in Global Countertop Market**



# Siyaram Silk Mills Ltd. (CMP: INR 1221; Mkt Cap: INR 988 crs)

### Business Overview

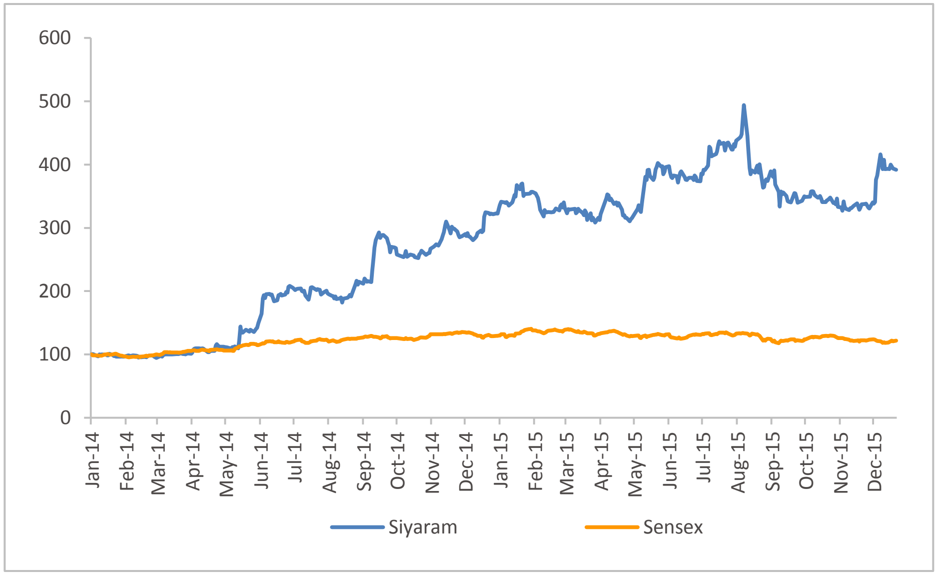
- Siyaram Silk Mills Ltd. (Siyaram) is an integrated textile manufacturer with a domestic focus which has strategically transformed itself from a textile manufacturer to a major garmenting and brand house
- Revenues breakup is Fabrics - 76%, Readymade Garments - 16%, Others - 5% and Yarn - 3%
- Siyaram's biggest brands include Siyaram, J. Hampstead, Mistair and Oxemberg
- It has a pan India distribution network comprising 500 agents, 1,500 dealers and 365,000 retailers and over 200 franchise stores

### Opportunity Size: -

- The textile market will grow to USD221bn by 2021 from USD108bn. The growth will be driven by readymade garments (RMG).
- Sales of branded apparel (part of RMG) have increased at 15% CAGR over 2009-14. Going ahead, branded apparel is expected to clock 10-12% CAGR over 2014-19. Therefore, the share of branded garments is expected to catapult to 46-48% in 2019 compared to around 35% in 2014.

| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|---|---|---|---|---|
| Net Revenues | 1,032 | 1,291 | 1,496 | 1,661 | 1,849 |
| Rev Growth (%) | 14% | 25% | 16% | 11% | 11% |
| EBITDA Margin | 11 | 11 | 12 | 12 | 12 |
| Adjusted PAT | 55 | 69 | 79 | 104 | 119 |
| Adj. EPS (INR) | 58 | 78 | 84 | 111 | 127 |
| EPS Growth (%) | -3% | 25% | 15% | 32% | 14% |
| P/E (x) | 20.9 | 15.7 | 14.6 | 11.0 | 9.6 |
| P/B (x) | 3.6 | 3.1 | 2.6 | 2.2 | 1.8 |
| RoACE (%) | 15 | 17 | 18 | 20 | 20 |
| RoAE (%) | 19 | 21 | 19 | 22 | 20 |
| EV/EBITDA (x) | 13 | 10 | 8.3 | 7.2 | 6.4 |

| Share Holding Pattern | (%) |
|---|---|
| Promoter | 67.07 |
| FII | 0.75 |
| DII | 6.28 |
| Others | 25.90 |



# Siyaram Silk Mills Ltd. (CMP: INR 1221; Mkt Cap: INR 988 crs)

### Investment Hypothesis

- The changing product mix to premium products and increasing share of the high-margin RMG segment has helped improve EBITDA margin and ROCEs from 8% and 6% in FY09 to 11.7% and 18%, respectively in FY15.
- The RMG segment's share in revenues and EBIT will increase from 16% and 18% currently to 20% and 31% of revenues in next 3 years
- Margin to stabilize at 12.2% by FY17E from the 11.7% margins currently which will help reducing earnings volatility. Any spurt in consumption will lead to volume growth, which will in turn trigger operating leverage.
- The stock trades at very attractive valuations of 9x FY16E and 8x FY17E EPS of INR 105 and INR 121, respectively – much cheaper than its peers.

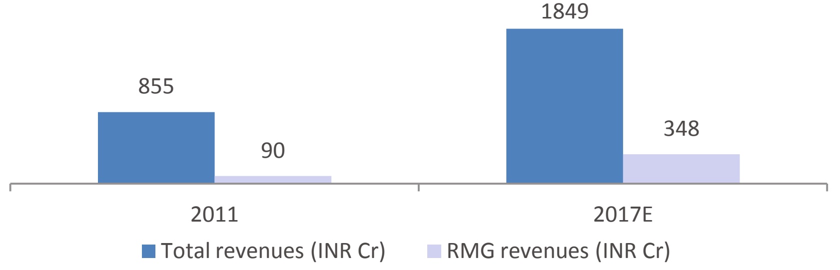
### Risks

- Fluctuation in raw material prices
- Competition from the unorganized sector
- Semi-Urban slowdown and limited Pricing Flexibility

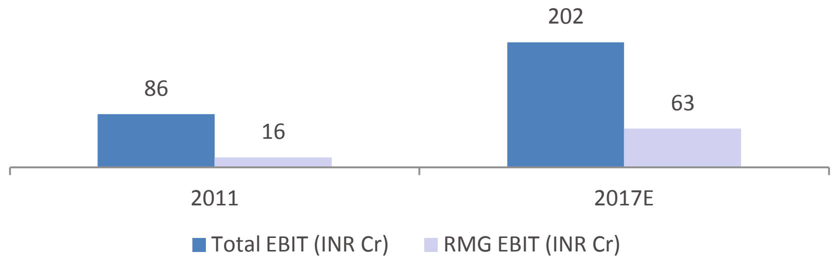
### Peer Comparison

| | Diluted P/E (x) | | | Diluted EPS | | | ROCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY15 | FY16E | FY17E | FY15 | FY16E | FY17E | FY15 | FY16E | FY17E |
| **Siyaram** | 12.4 | 9.6 | 7.8 | 76.0 | 98.0 | 121.0 | 18% | 18% | 19% |
| **Raymond** | 19.9 | 23.0 | 15.0 | 21.0 | 18.0 | 28.0 | 9% | 9% | 12% |
| **Arvind** | 20.1 | 19.4 | 15.1 | 15.0 | 16.0 | 20.0 | 12% | 12% | 13% |
| **KKCL** | 37.4 | 31.2 | 23.6 | 53.0 | 63.0 | 83.0 | 31% | 30% | 28% |

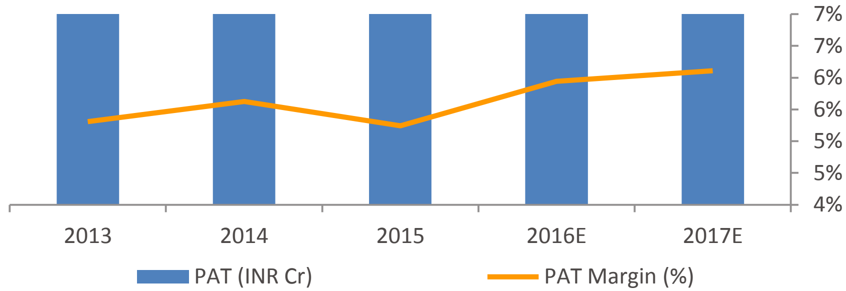
### Readymade garment revenues to improve to ~20% of total revenues



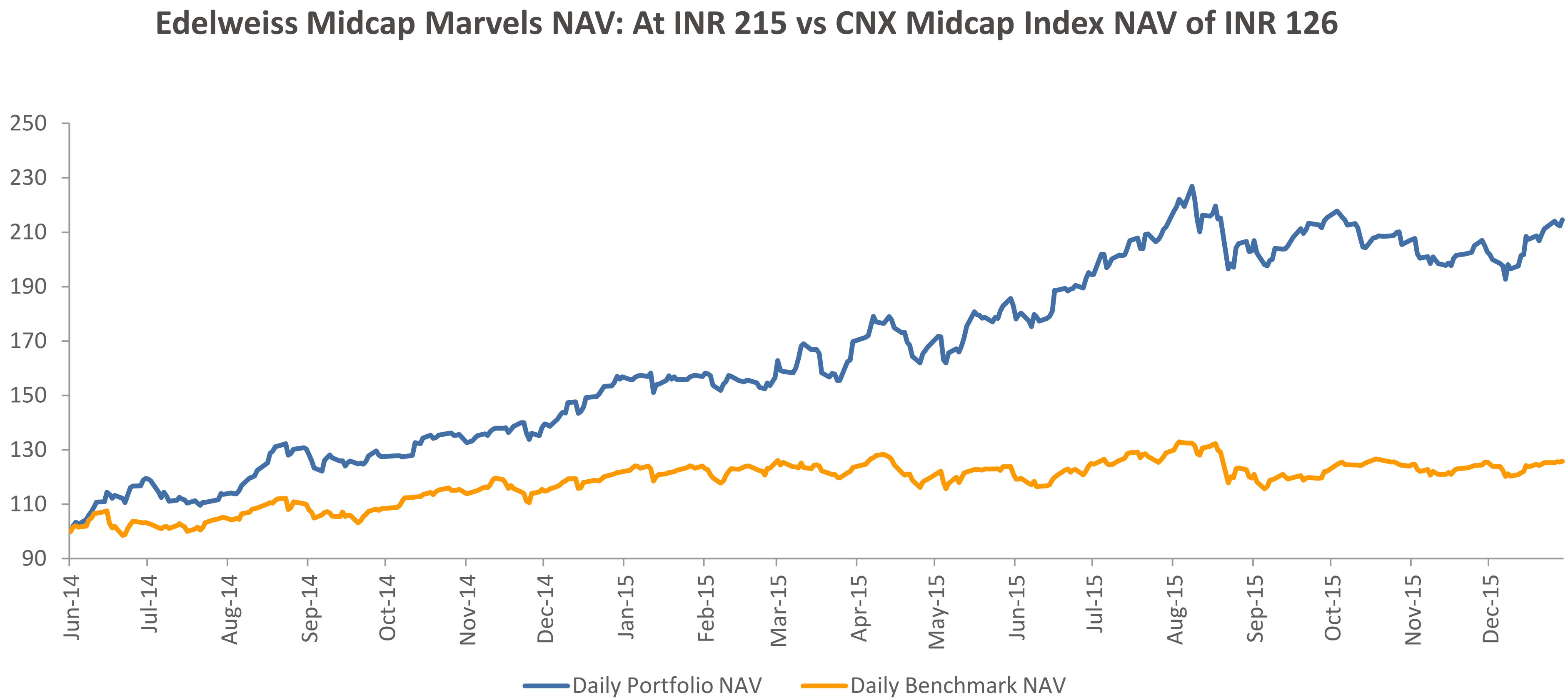

### Readymade garments EBIT to improve to 31% of total EBIT




### PAT growth expected to outpace topline growth



# Edelweiss Midcap Marvels: Performance

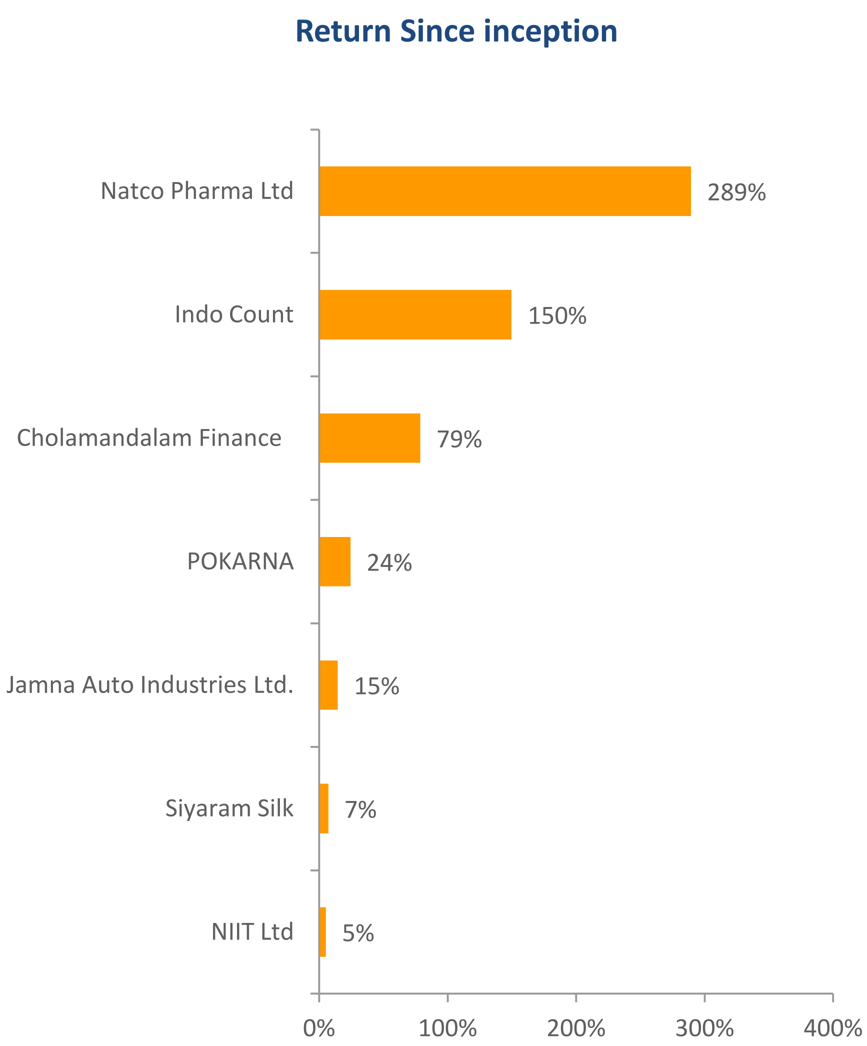


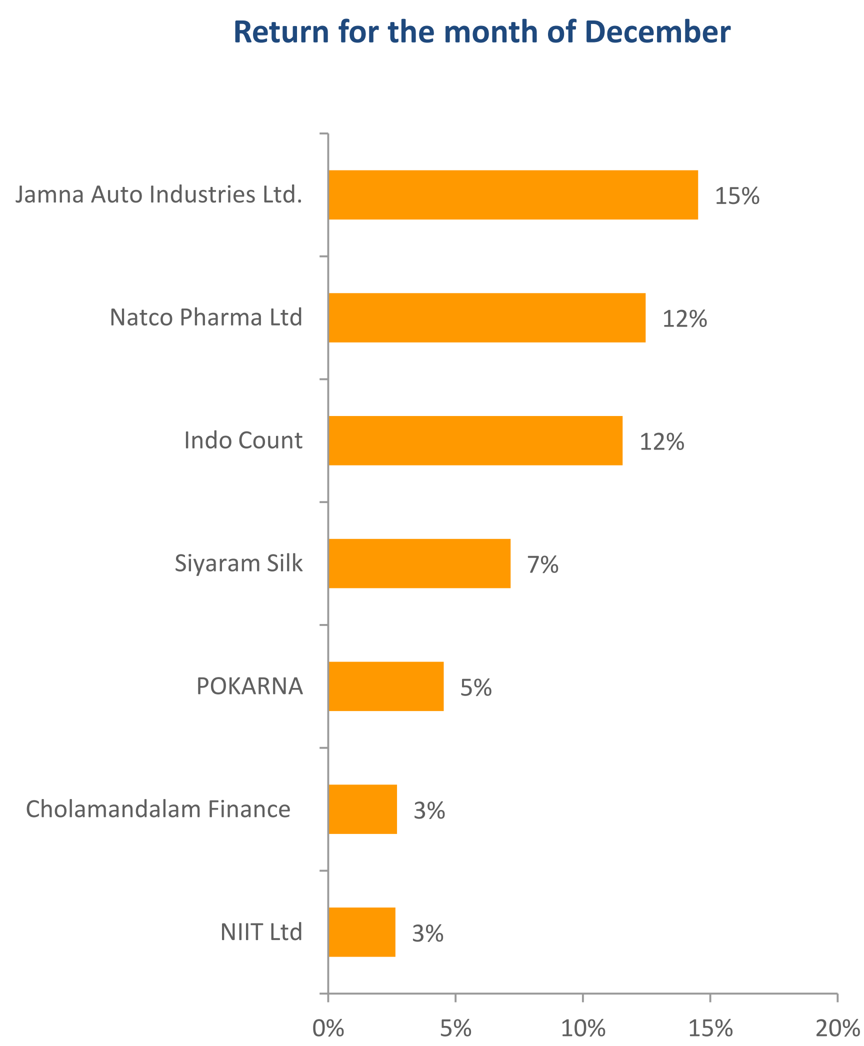

* Edelweiss Midcap Marvels have delivered a CAGR return of 62% since inception (4 June 2014) as against CNX Midcap Index CAGR return of 16%.

# Mid-Cap Marvels Portfolio Performance

| Midcap Marvels Portfolio Performance | | | | | | |
|---|---|---|---|---|---|---|
| **Parameters** | **1 M** | **3 M** | **6 M** | **9M** | **12M** | **ITD** |
| Portfolio Returns | 5.9% | -1.4% | 10.3% | 25.3% | 36.8% | 62.2% |
| Benchmark Returns | 0.3% | 0.9% | 0.9% | 0.9% | 3.1% | 15.7% |
| Volatility | 22.1% | 18.2% | 24.7% | 24.6% | 24.6% | 23.1% |
| Benchmark Volatility | 12.5% | 10.5% | 19.3% | 19.2% | 18.4% | 18.2% |
| Sharpe Ratio | 2.8 | -0.8 | 0.5 | 1.0 | 1.2 | 2.3 |
| Information Ratio | 5.2 | -0.7 | 0.8 | 2.1 | 2.1 | 2.8 |

# Returns since Inception and for the month



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