Narnolia
Advance Strategy · Simple Solutions

IEA Report

27th Dec 2016

ASHOKLEY

"BUY" 27th Dec 2016

Going forward, We assume that the upcoming emission norms BS-IV to BS-VI, focus towards the export markets, improvement in demand from infrastructure segment, diminution of investments in subsidiaries will help the company to focus on its commercial vehicle business and government's initiative to develop defence products in the country can be volume boosters for the company in FY17. The current demonetization issue has impacted the transport sector most because a lot of transactions happen through cash. The sales may be down by 10-12% for next couple of months but we are hopeful that the situation might improve in 4QFY17 due to pre-buying during the quarter. We expect that the company will maintain a healthy ROE of over 20% going ahead. We maintain 'BUY' looking at the huge growth potential going ahead but considering the uncertain demand scenario we reduce our target to Rs.110. .... **(Page : 2-4)**

DABUR

"NEUTRAL" 26th Dec 2016

DABUR's 2QFY17 result was below than our expectations. Sales for second quarter grew by 1% YoY to Rs 1981 cr on the back of sluggish growth from international business. International business has contributed approx. 34% of company's sales in 2QFY17. International business declined by 2.3% YoY in this quarter due to geo political disturbances in the MENA region and adverse currency impact. According to Management, headwind in international business will continue for at least 2-3 quarters going forward. Secondly, recent demonetization may negatively affect company's domestic sales in 3QFY17E which is a cause of concern for the company in the short term. Rural demand is still stressed witnessing slight improvement. Lastly, the company is getting tough competition from Patanjali. Patanjali is strong in north and west India from where Dabur gets Substantial part (approx. 60% of its footprint) of its domestic business which is another concern for DABUR. Hence considering tepid international business growth outlook, tough competition from Patanjali and stress in rural demand we maintain `Neutral' rating on Dabur with no target price. .... **(Page : 5-7)**

SUNPHARMA

"NEUTRAL" 23th Dec 2016

Synergies from the Ranbaxy acquisition are gaining momentum and the Company is on track to achieve the targeted benefits. Post 2QFY17, Sunpharma has further strengthened the branded ophthalmic pipeline through the acquisition of Ocular Technologies. But recent developments are not very conducive for the company. US business is under pricing pressure due to customer consolidation. Ongoing issue in Halol plant and inflated pricing issue on dermatology products in US will pose near term uncertainty. Though the company has maintained its guidance of 8-10% sales growth for FY17E, we are little skeptical about it considering on-going issues. Thus, we recommend "NEUTRAL" view on this stock....................................... **(Page : 8-10)**

ASIANPAINT

"NEUTRAL" 22th Dec 2016

Management remained silent on volume growth improvement (which indicates lower double digit volume growth going ahead) but did hint at margin pressures. We do not see significant improvement in volume growth, margin risks (due to high input cost) and peak valuations (trades at FY18 P/E of 45x) make the risk-reward unfavourable. We see downside risks to our estimates due to an unfavourable H2FY17 base with topline and gross margins peaking out.It also expects paint companies to register flat growth in sales during Q3FY17 compared Q3FY16, following the government's move to scrap old Rs 500 and 1,000 notes. While the month of October saw significant jump in sales during festive season, November has seen a significant fall on account of the demonetization announcement. While the paint industry is 80-85 per cent cash-driven with the paint retailers accepting only cash payments for the sales, is now shifting over to digitized payments to keep the business going. We maintain Neutral rating with a target price of Rs.1015. .... **(Page : 11-12)**

GLENMARK

"BUY" 21th Dec 2016

Management expects domestic business to grow by 15% in FY17 and US business to grow by 25% on the back of new launches like Zetia, Mycolog II, Crestor, etc. in FY17.Going forward we believe that US business will remain key driver for growth. Management has guided for 20 new ANDA's filings in FY17. Considering the long-term opportunities, we recommend "buy" rating on this stock with a target price of Rs. 1096 .... **(Page : 13-16)**

BEML

"BUY" 20th Dec 2016

Company has an order book of roughly about Rs 6600 cr that will set the sales target of Rs 3300 cr for FY17 as whole. However, company's performance till the first half of FY17 has not been satisfactory, as it has achieved only 23% of annual target, leaving a huge target of 77% to achieve in remaining six months. The Company has order on hand from Defense and Rail & Metro businesses and orders are steadily flowing in from Mining & Construction equipment. With dedicated and committed employees, management is confident of reaching the set target for FY17. Company has guided for Rs 3300 cr of top line for FY17 but after seeing 1st and 2nd quarter results we are not confident on the given guidance, hence we have reduced our revenue estimate from Rs 2900 cr to Rs 2500 cr . We have positive view on this stock in long term but due to below expected sales number this quarter we maintain our "HOLD" rating to the stock at a target price of Rs 1240/-(potential upside of 35%). We will review target price post further clarity from management on near term business condition. .... **(Page : 17-20)**

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ASHOKLEY

"BUY"

ASHOK LEYLAND LTD.

27-Dec-16

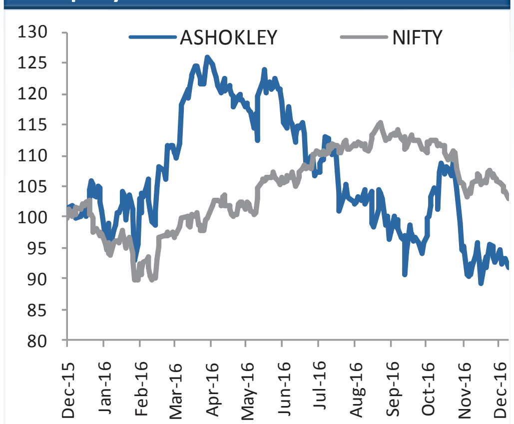
Result Update	
CMP	77
Target Price	110
Previous Target Price	120
Upside	44%
Change from Previous	-

Market Data	
BSE Code	500477
NSE Symbol	ASHOKLEY
52wk Range H/L	113/74
Mkt Capital (Rs Cr)	21,799
Av. Volume	567130
Nifty	7,908

Stock Performance	1Month	1Year	YTD
Absolute	-0.6	-12.9	-13.0
Rel.to Nifty	2.0	-13.5	-12.5

Share Holding Pattern-%	2QFY17	1QFY17	4QFY16
Promoter	50.4	50.4	50.4
Public	49.6	49.6	49.6
Others	--	--	--
Total	100.0	100.0	100.0

Company Vs NIFTY



Naveen Kumar Dubey
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Ashok Leyland reported 6.4% decline in revenues during 2QFY17. CV volumes contracted by 10% YoY but realization increased by 4% YoY during the quarter. Domestic M&HCV market share increased by 220 bps QoQ to 33% in 2QFY17, due to intense competition from competitors in the form of discounting. The country would be moving to BS-IV norms in April, 2017 and a significant amount of pre-buying expected, especially in the fourth quarter of FY17. Ashok Leyland is already manufacturing commercial vehicles with EURO-IV engines in India and EURO-VI engines for export market, which is similar to BS-IV and BS-VI norms. Management's focused approach towards curtailing debt and concentrating in its core CV business will help the company to gain further market share and revenue growth in domestic and exports businesses.

2QFY17 Result Highlights

Revenue declined by 6.4% YoY to Rs.4622 crore in 2QFY17 due to 15%YoY decline in M&HCV segment. Realisation grew by 4%YoY due to higher sales in the exports market combined with higher revenues from spare parts.

EBITDA margin contracted by 40 bps due to higher other expenses during the quarter.

PAT margin grew by 260 bps to 6.4% due to lower interset cost and tax expenses.

Outlook

Going forward, We assume that the upcoming emission norms BS-IV to BS-VI, focus towards the export markets, improvement in demand from infrastructure segment, diminution of investments in subsidiaries will help the company to focus on its commercial vehicle business and government's initiative to develop defence products in the country can be volume boosters for the company in FY17. The current demonetization issue has impacted the transport sector most because a lot of transactions happen through cash. The sales may be down by 10-12% for next couple of months but we are hopeful that the situation might improve in 4QFY17 due to pre-buying during the quarter. We expect that the company will maintain a healthy ROE of over 20% going ahead. We maintain **'BUY'** looking at the huge growth potential going ahead but considering the uncertain demand scenario we reduce our target to Rs.110.

Rs. In crore

Financials	*2QFY17*	*1QFY17*	*2QFY16*	*QoQ*	*YoY*
Sales	*4622*	*4259*	*4940*	*9%*	*-6%*
EBITDA	*536*	*476*	*594*	*13%*	*-10%*
Net Profit	*294*	*282*	*287*	*5%*	*3%*
EBIDTA%	*11.6%*	*11.2%*	*12.0%*		
PAT %	*6.4%*	*6.6%*	*5.8%*		

Investment Arguments

♦ The country would be moving to BS-IV norms in April, 2017 and a significant amount of pre-buying expected, especially in the fourth quarter of FY17. Ashok Leyland's subsidiary, Albonair, holds a significant potential moving forward because Albonair does exhaust emission systems, selective catalytic reduction emission systems which are necessary for being BS-IV compliant.

♦ Export is only 12% of total volumes, therefore the company is targeting the African and Middle East countries to expand its export contribution by setting up own assembly plants in these countries under the company's global expansion project. The exports is an important part of Ashok Leyland's strategic intent to globalise its product portfolio and derisk itself from supplying only into India.

♦ The management expects its defence business to log four-fold jump in revenues at over Rs 2,000 crore in next five years as it gears up to provide an entire range of mobility solutions, including missile carrying vehicles to the armed forces. Ashok Leyland is the largest supplier of logistics vehicles to the Indian Army.

♦ The management has focused approach towards its core commercial vehicle business. We expect that the company will be benefitting from recovery in the M&HCV demand and its EBITDA margin will expand on account of operating leverage. The company is also working on to reduce its debt and generate more cash to fulfill its future expansion requirements.

Management Highlights

♦ Management expects Q4 to be promising due to the implementation of BS-IV norms.

♦ If there is economic growth in the country CV industry will move ahead. Going ahead we see CV industry to grow about 12-15% annually.

♦ 30% market share in M&HCV space and in south region overall market share is 51%.

♦ Domestic truck business contributes 50-55 percent of total revenue.

♦ Marginal impact of commodity prices but it will be passed on to the customers.

♦ Net debt stood at Rs.1870 crore.

♦ Price increase on November 1, 2016 of 1%.

♦ Ashok Leyland have acquired 100% ownership of the JVs, we will continue to be associated with Nissan for the technology of the existing Dost, Partner, and Mitr models.

♦ The management is focusing on to improve profitability and ROCE of the company going ahead.

♦ Defence Revenue to be close to around Rs 1,500 crore by FY18.

M&HCV volume and growth trend