Diwali picks for Samvat - 2074

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a) Ajanta Pharma

CMP: Rs. 1,195, Target price: Rs. 1,500, Upside: 25.5%, FV: Rs. 2, Market Cap: Rs. 10,521 crs.

Ajanta Pharma is a specialty pharmaceutical company engaged in development, manufacture and marketing of quality finished dosages in domestic and international markets.

The Company's strategy is to be present in the right markets with differentiated, difficult-to-produce products has been designed to create impact and optimise opportunities across geographies. This ensures consistent growth for Ajanta Pharma each year.

Over the years, the Company has developed a propensity for launching a number of firsts to markets, with a focus on new drug delivery system (NDDS). Of around 250+ actively marketed brands, 150+ brands were India's first. Focus on specialty therapies and niche products has led the Company to post a strong CAGR of 25.6% in branded generic business during FY 2013-17.For the India market, its plan is to be a leader in the sub-therapeutic segments has been supported by many innovative first-to-market product launches for better customer experience.

The Company continues to plan for revival of growth in the emerging markets by implementing sustainable business strategies. The expansion of the emerging markets team during FY 2017 was part of preparation for reviving growth in these markets.

Its USA success in FY17, was, for instance, the outcome of a plan laid down in FY 2010 to be a meaningful player in that market. The Company introduced seven new products including two successful day one launches in USA in FY 2017 and more launches are planned in FY 2018. Its precise preparation allowed it to file eight more ANDAs with the US FDA and is ready for 12-15 filings in the ensuing year. This demonstrates a strong product pipeline that can be monetised on approval and a validation of its R&D efforts. The timely expansion of its R&D facilities and commencement of Guwahati plant during the year is an outcome of the foresight and future-oriented actions, taken two years ago. Similarly, the Company strengthened and grew its R&D team for accelerating product filings in different markets. Its detailed preparation for the recent US FDA inspections of manufacturing plants helped it to sail through these inspections without any major concerns or comments.

We recommend a BUY with a target price of Rs. 1,500 (P/E of 25x on estimated FY19 EPS of Rs. 60).

b) HT Media

CMP: Rs. 102, Target price: Rs. 125, Upside: 22.5%, FV: Rs. 2, Market Cap: Rs. 2,380 crores.

Strong Q2FY18 result..

Delhi-based HT Media has recorded a whopping 52 percent growth year-on-year in consolidated profit at Rs 77.8 crore for the quarter ended September 2017, backed by strong operational performance. Profit in year-ago quarter stood at Rs 51.2 crore. Consolidated revenue during the quarter fell 6.9 percent to Rs 560.6 crore compared with Rs 602.2 crore in same quarter last fiscal.

EBITDA (earnings before interest, tax, depreciation and amortisation) shot up 107.3 percent year-on-year to Rs 104.5 crore and margin expanded sharply by 1,020 basis points to 18.6 percent in July-September quarter. Margin was aided by decline in finance cost that fell 21 percent to Rs 121 crore YoY. Cost of materials, employee cost and other expenses were also down 11 percent, 20 percent and 22 percent during the quarter YoY.

HT Media, which also runs the FM radio network Fever 104, said earnings before interest, tax, depreciation and amortization (Ebitda)—an indicator of operating profitability—in the quarter rose 15.5% to Rs 148 crore from Rs128.4 crore in the year-ago period.

Advertising revenue for the print business declined 8.8% to Rs390 crore. Circulation revenue fell 9.2% to Rs69 crore. Fever 104's revenue increased 18% to Rs43 crore, led by revenue growth in core stations. Revenue from the digital business declined by 8.1% to Rs34 crore from Rs37 crore a year earlier.

"Advertising revenue growth continues to be a challenge in our core print business, with this quarter witnessing high level of uncertainty across industries on account of GST (goods and services tax) implementation. Our radio business continues to do well. New radio stations are generating revenue and the entire radio business witnessed an increase in operating profits," HT Media's chairperson and editorial director Shobhana Bhartia said in the statement.

"While advertising revenue in print has been soft, operating profits continue to grow steadily on the back of strong cost management and aided by favourable currency and commodity rates," Bhartia added. "GST is expected to stabilize soon which should lead to better macroeconomic environment and result in higher advertising spends. With growth coming back to core business, we hope to deliver better results to our shareholders."

We recommend a BUY with a target price of Rs. 125 (P/E of 13x on estimated FY19 EPS of Rs. 9.6).

c) Minda Corp

CMP: Rs. 145, Target: Rs. 175, Upside: 21%, FV: Rs.2, Market Cap: Rs. 3,035 crores

Minda Corp has a major presence in the auto-component industry with a diversified product portfolio ranging from security systems, wiring harnesses, couplers & terminals, instrument clusters, sensors, die casting, interiors, and keys & key duplicating machines that caters to all major two, three, four wheeler & off-road vehicles manufacturer in India & overseas. The products of the company have been well received by both OEMs and after-market.

Minda boasts of its strong client base which include auto majors such as Maruti Suzuki, Bajaj Auto, Mahindra and Mahindra, Hero MotoCorp, Royal Enfield, Volkswagen to name a few.
Minda's largest client is Maruti Suzuki which contributes 10 percent to its revenues and top five clients contribute only 37 percent of the revenues. Therefore, the company does not have the risk of client concentration.

The company has been focusing and investing a lot on R&D and the management believes that the next leg of growth for the company would come from higher demand for electronics and advanced products such as EFI/EMS systems (electronic fuel injection, engine management systems), ABS, EGT/EGRT sensors (exhaust gas temperature sensors), connected cars and soot sensors.

To develop technologically advanced products, it has established a technical centre Spark Minda Technical Centre (SMIT) in Pune. This will serve as a hub for all future innovation for automotive electronics and mechatronics. The unit will also help the company develop products meeting the requirements for the changing emission norms to BSVI.

The Company's topline has registered a CAGR of 22 percent over FY14-17 and EBITDA margin averages around 9.1 percent over the same period. The company's margin and returns were under pressure in the last two years partly because of higher expenses on R&D. The company spent 2.96 percent of total turnover on R&D in FY17, up from 0.83 percent in FY15. Apart from the R&D expenses, the underperformance was due to Minda Furukawa, which, is being turned around. The management indicated that the company would be able to have double-digit EBITDA margin by the end of FY18. At CMP, the company is trading at 19 and 18 times FY18 and FY19 projected earnings. We recommend a BUY with a target price of Rs. 175 (P/E of 18x on estimated FY19 EPS of Rs. 9.7).

d) Persistent Systems:

CMP: Rs. 650, Target: Rs. 820, Upside: 26%, FV: Rs. 10, Market Cap: Rs. 5,194 crores

Strong Q2FY18 results..

Persistent Systems reported a profit after tax of Rs 82.6 cr for the quarter ended 30th Sept, 2017, up 10% sequentially and 12.4% over the previous year. The revenue for the period was up 4.6% sequentially at Rs 761.25 cr, and up 8.1% over the corresponding quarter last year. In dollar terms, revenue was up 4.5% sequentially at $118 mn, an increase of 12.3% over the previous year.

Anand Deshpande, Managing Director, Persistent Systems, said, "We are pleased with our performance this quarter, we have seen continued and steady growth in our revenues supported by improved margins. We see strong demand in data, digital and IoT, specifically in healthcare and financial services. Our methodology, Software 4.0 is helping our customers accelerate their journey towards becoming a software driven business. Encouraged by the splendid response to the inaugural edition, we are delighted to launch Smart India Hackathon 2018. Smart India Hackathon, which started as a simple idea sparked at Persistent Systems, has now evolved into a nationwide movement."

Expect better performance in H2FY18

Persistent Systems has seen its investments in non-US markets pay off in the September quarter, which the company says is part of its long-term strategy. Unlike other IT giants, however, digital growth has not impacted their deal sizes, the company said.

European market has been a long-term strategy. We started to diversify in Europe and APAC two-three years ago. We have been creating a new team in Europe since a year. Our acquisition in Australia last year has also started taking shape," said Mritunjay Singh, president (services) and executive director, Persistent Systems. He, however, added that given their small base in these markets, a single major deal can make a huge difference to the numbers. He said they expect more growth from Europe and APAC in the coming quarters.

For a company largely dependent on US-based service projects, it has seen maximum traction from European projects on the back of a large deal with Salesforce partner PARX. This deal has single-handedly tilted the scales for their enterprise — European and digital revenue share by bringing in a large number of new clients —from an average 5.7 per cent revenue share in the previous six quarters to 8.5 per cent revenue (European) share in the September quarter.

IT giants such as Tata Consultancy Services have repeatedly pointed out that the focus on digital services will alter the nature of deal sizes across the board resulting in multiple smaller deals instead of large consolidated deals. This has worked out in favour of mid-cap companies such as Persistent. "In the enterprise segment, deal sizes are becoming smaller but from larger players. They are unbundling $100 million deals into smaller $2-3 million deals. Enterprise segment has grown a lot over the years. For us, who had deal sizes of $200,000-$300,000 (earlier), we are going up in deal size while others are coming down," he said.

The higher focus on global revenues also materialises in the revenue contribution from their global delivery centres (GDC). From about 27 per cent a year ago, the revenue contribution of GDCs has slowly inched up to 32 per cent, while Indian delivery centres' contribution has come down by a similar margin. "We realised that the kind of work we were doing couldn't be done out of India alone. We needed to capture local talent. We have also added a lot of products. There is engineering talent in India while expertise in building a product expertise and ecosystem had to be acquired outside," said Singh.

We recommend a BUY with a target price of Rs. 820 (P/E of 18x on estimated FY19 EPS of Rs. 45).

Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above
Accumulate – Absolute return between 15% and above
Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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