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Top picks and view on equities when FIIs were on selling spree in debt markets... July 14, 2018

The World Bank released 2017 gross domestic product (GDP) data of top countries with India occupying the sixth spot on the list. India's GDP in 2017 was pegged at US\$2.597 trillion, just ahead of France's \$2.582 trillion.

Foreign investors have pulled out nearly Rs. 1,200 crore from the debt markets in the first two weeks of the month on higher fuel prices and possibilities of rate hike by the US Federal Reserve. The latest sell-off comes after foreign portfolio investors (FPIs) withdrew an amount close to Rs 50,000 crore from the debt markets in last five months (February to July). Prior to that, overseas investors had infused over Rs 8,500 crore in January. In contrast, foreign portfolio investors have put in Rs 592 crore in equities during the period under review. After being on a selling spree for three consecutive months where FPIs pulled out net assets worth over Rs 20,000 crore (between April-June) from the equity markets, the month of July with net inflow of Rs 552 crore may appear like a breather.

In the past week, TCS' earnings beat street expectations, while those of IndusInd Bank were stable. IT major Infosys reported a mixed set of numbers for the quarter gone by. As per media reports, PNB's recovery of over Rs 7,700 crore in bad loans during the first quarter in the current fiscal has surpassed the total amount it recovered in the entire 2017-18 financial year, indicating that it has embarked on the turnaround path, the bank's top official has said. The Insolvency and Bankruptcy Code (IBC) resolution process has greatly helped Punjab National Bank, which was hit by nearly USD 2 billion fraud allegedly carried out by jeweller Nirav Modi and his associates. In the first quarter itself, 2-3 big accounts have been resolved. As a result, the bank has got over Rs 3,000 crore only through the resolution process. During the quarter (April-June, 2018-19), two big accounts --Bhushan Steel and Electrosteel were resolved through the IBC process. We believe this development will augur well for the badly hit PSU banks.

Going ahead, we believe markets will take cue from Q1FY19 results, management commentary post Q1FY19 results, movement in rupee and crude oil prices, key developments from ongoing trade wars between US and China, WPI data on Monday. More than 100 companies will declare their earnings for the June quarter this coming week, including Hindustan Unilever, Zee Entertainment, ICICI Lombard, Ashok Leyland, UltraTech Cement, Bandhan Bank, Bajaj Finance, Bajaj Finserv, RBL Bank, Kotak Mahindra Bank, ABB India, Bajaj Auto and HDFC Bank. We believe most of the quality names are available in large cap space at good valuation now. In addition, after the massive destruction in midcaps and smallcaps, one can consider Companies in midcaps and smallcaps space wherein FY18 earnings have been strong in sunrise sectors backed by ethical management. Many of these smaller Companies are expected to perform better in FY19.

Top picks:

Glenmark Pharma

CMP: Rs. 567, Target price: Rs. 680, Upside: 20%

Glenmark Pharmaceuticals Ltd. (GPL) is a research-driven, global, integrated pharmaceutical organization headquartered at Mumbai, India. Glenmark is a leading player in the discovery of new molecules both NCEs (new chemical entity) and NBEs (new biological entity). Glenmark has a diverse pipeline with several compounds in various stages of clinical development primarily focused in the areas of oncology, respiratory disease, and dermatology. The company has a significant presence in the branded generics markets across emerging economies including India. The Generics business of Glenmark services the requirements of the US and Western European markets. The API business sells its products in over 80 countries including the US, EU,



South America and India. GPL along with its subsidiaries operate 17 manufacturing facilities across four countries and has five R&D centers globally.

At present, the Company predominantly caters to 2 major geographies - US and India contributing ~60% of sales, is a Generic formulation player in the US and WEU, Branded formulation in other markets, the Company's NME pipeline in early to mid stage of development and Manufacturing base primarily in India. In the generics space, the Company is one of the leaders in the US Gx market –Launched 30+ products, launched oncology injectables in Emerging markets. In the specialty complex gx, the Company has launched unique combinations in India, Ems.

In terms of innovation, the Company is focused on bispecific (2 bispecifics in Phase 1 in US and EU) and multivalent antibodies.

US FDA has approved First Supplemental Abbreviated New Drug Application (sANDA) for Glenmark Pharmaceuticals' Manufacturing Facility in Monroe, North Carolina.

Recently, the Company has entered into an Exclusive Licensing Agreement with Seqirus for its Investigational Seasonal Allergic Rhinitis Nasal Spray - Ryaltris - for Australia and New Zealand Markets. The Company has also received ANDA approval for HAILEY™ 1.5/30 (Norethindrone Acetate and Ethinyl Estradiol Tablets USP, 1.5 mg/30 mcg).

On May 21, 2018, Glenmark announced filing of its first New Drug Application (NDA) with the U.S. FDA for Ryaltris™ (olopatadine hydrochloride (665 mcg) and mometasone furoate (25 mcg)) nasal spray suspension for treatment of symptoms of patients over 12 years of age and older with seasonal allergic rhinitis (SAR). Ryaltris (formerly GSP 301) has been studied in 7 clinical trials involving more than 4,000 patients.

The company has a pipeline of 7 new molecular entities (NMEs), which includes 2 new chemical entities (NCEs) and 4 new biological entities (NBEs) and a biosimilar candidate, in various stages of clinical development focused in the therapeutic areas of oncology, respiratory and dermatology. The company also has 3 specialty products in clinical development targeting key indications in the respiratory segment.

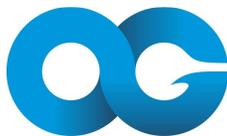
Glenmark has completed a Phase 2a study for its leading dermatology asset GBR 830, evaluating GBR 830, relative to placebo, in adults with moderate -to-severe atopic dermatitis (AD) with history of inadequate response to topical therapies. Based on the results of the Phase 2a study, the company is advancing GBR 830 for patients with AD with initiation of a Phase 2b trial in the U.S. and Europe in Q1 of FY 2019.

Clinical studies for the company's oncology assets GBR 1302 and GBR 1342, and biosimilar candidate GBR 310 are also progressing well.

“While FY 2018 was a challenging year mainly on account of pricing pressure in the U.S., our other key markets like Europe and India performed well on the back of new product launches. Even though we expect pricing pressure to persist, we are glad that FY 2019 has started on a positive note for us with approvals for some interesting products in the U.S.,” said Glenn Saldanha, Chairman & MD, Glenmark Pharmaceuticals Limited. He further added, “We recently filed our first New Drug Application (NDA) for Ryaltris in the U.S, which is a milestone in Glenmark's journey and marks our first step towards the transition to a specialty and innovative drugs company. We believe our strong R&D pipeline of novel assets will help propel growth in the long run.”

In the medium term (3- 5 years), the Company has the following goals:

- a) US, Europe and API to contribute more than 80 percent of sales.



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- b) Plans to increase presence in complex generics
- c) Launch specialty business in the US
- d) Expand manufacturing footprint
- e) Profitability margin at ~23 percent

We like the Company's story and believe it is doing good work in NCE and NBE space and is gradually transiting to a specialty and innovative drugs company. At CMP of Rs. 567 (Face Value: Re. 1), the stock trades at a P/E of 16x on FY18 EPS. We recommend a Buy with a target price of Rs. 680 (16x at estimated FY19 EPS of Rs. 42.5) implying an upside of 20 percent.

Voltas

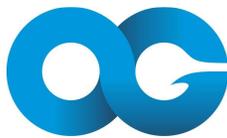
CMP: Rs. 538, Target price: Rs. 650, Upside: 21%

With 22 percent market share in FY18, Voltas remains the market leader in room air-conditioners despite intense competition and aggressive pricing. Voltas recorded a 14.5% secondary sales growth for the year while industry grew at 11%.

In Q4FY18, the Company's consolidated topline was flat with a marginal growth of 0.7% yoy basis to Rs2,048.4 crores impacted by poor performance of the Engineering products and services (EPS) and Unitary Cooling Products (UCP) segments. EBITDA witnessed yoy growth of 14.5% to Rs. 253.2cr. EBITDA increase was a result of decline in other expenses and employee cost by 16.4% and 3.4% yoy during the quarter. Thus, EBITDA margin improved by 149bps from 10.9% in Q4FY17 to 12.4% in Q4FY18. Net profit during the quarter decreased by 2.4% yoy to Rs195.6cr as compared to Rs200.3cr in Q4FY17.

The Company's decision to focus more on Govt. projects / externally funded investments has helped the domestic projects business to remain sufficiently protected against the impact of low investment and myriad liquidity issues faced by the private sector. With the Government pushing the growth agenda, opportunities are increasing in electrical distribution, water treatment and Smart City development. Besides, the division's core area of HVAC projects has benefited with projects in large buildings and in tunnel ventilation for Metro transportation. Meanwhile, the Company continues to pursue various internal efficiency improvement initiatives, which augur well for maintaining the margins. Its subsidiary RIEL has registered a full year profit in 2017-18 through efficient execution of rural electrification projects. The current year saw an order booking of Rs. 2,149 crores. The Domestic order book now stands improved at Rs. 3058 crores (growth of 20% y/y) as of 31st March 2018, and provides a stronger base.

Electro-mechanical projects and services' (EMPS) Q4FY18 sales registered a growth of 5.4 percent on yoy basis to Rs. 873.5 crores. EBIT margin in the segment increased from 5.7% in Q4FY17 to 7.6% in Q4FY18. The higher profitability is a result of better quality of orders and efficient execution both in domestic and international business. Order Book of EMPS segment saw a growth of 17.2 percent on yoy basis to Rs. 5,062 crores as at Q4FY18 end. New orders booked during the current quarter were Rs. 616 crores (domestic) and Rs. 614 crores (International) business. In International Projects, the Company's focus is on effective execution of on-going projects together with settlement and financial closure of older completed projects continues. These initiatives have helped improve operations. At the same time, the company is conscious of the continued embargo in Qatar and are selective in booking orders in the region. The Company has spoken earlier on the Carillion PLC UK contractor's filing for compulsory liquidation in January 2018. The company branch in UAE and its joint venture company in Oman are currently executing MEP projects as a subcontractor where in Carillion PLC is a joint venture partner of the main contractor. Project certifications are picking up and receivables are being liquidated as the Company continues to make progress on these projects.



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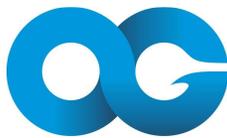
Unitary Cooling Products (UCP) division was below par owing to higher inventory build – up by dealers in Q3FY18. EBIT margin, however, increased from 16.4% in Q4FY17 to 17.2.0% in Q4FY18. In UCP, Voltas has also ramped up its product mix to gain market share in the inverter AC segment.

Going ahead, the management remains reasonably confident about the longer term future, not forgetting that the nature of its industry is substantially dependent on the weather. In the immediate term, unseasonal showers across some parts of the country in the peak summer months of April and May have dampened the industry spirits, however it is too early to predict the impact of this on the entire year's sales.

The Company has entered into a Joint Venture arrangement with a leading European home appliance company, Arçelik A.S. to form an equal partnership for entering the wider consumer durables market in India. The entity will launch refrigerators, washing machines, microwaves and other white goods / domestic appliances in a phased manner, under the brand name of Voltas-Beko. The Company is on schedule for the proposed launch that is expected in H2 CY'18. This provides the Company an opportunity to expand the established 'Voltas' brand and tap into India's growing consumer durables market. In line with the Govt. 'Make in India' initiative, manufacturing facilities are being set up in Gujarat, leveraging the technological excellence and global capabilities of its Joint Venture partner.

In the Projects space, the Company will focus on building a larger order book, albeit continuing its practice of intensive risk assessment. Needless to state, the strength of its balance sheet and the availability of cash surplus and a ROCE exceeding 20%, remains an advantage as the Company looks at opportunities for growth.

We believe the recent correction in the stock price has made the valuation of the Company reasonable. At CMP of Rs. 538 (Face Value: Re. 1), the stock trades at a P/E of 36x on FY18 EPS of Rs. 15.15. We recommend a Buy with a target price of Rs. 650 based on SOTP valuation for FY19 earnings, an upside of 21 percent for investors with a 12 months horizon.



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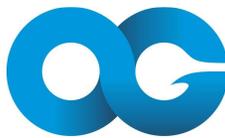
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