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Weekly Newsletter

Financial Year Ends on a High Note!

27th March to 31st March, 2017

Markets this week

- The markets remained on a positive bias, closed extremely flat taking a breather during the expiry week. Domestic bourses witnessed smart recovery on Tuesday gaining >50pts on the back of strong global cues and supported by introduction of four bills on GST in the lower house of Parliament on Monday. Late rally in banks and index heavy weights helped the 51-share NSE Nifty end March series at record closing high on Thursday. The index remained flat and closed on a record high on last trading day of FY17 beginning the new series and FY18 with renewed hope.

- NIFTY and SENSEX witnessed sustained buying at lower levels as they ended on 9173 and 29620, up by 65 points (+0.71%) and 199 points (+0.68%) respectively. The broader markets outperformed for a third consecutive week as the NIFTY MIDCAP and SMALLCAP index gained 1.28% and 2.99% respectively.

- The biggest sectoral gainer for the week were FINANCIAL SERVICES and BANK'S as they gained 1.66% and 1.52% respectively. State Bank of India gained 6.11% and the other bank was Punjab National Bank which added 5.26% during the week.

- The biggest sectoral loser for the week was PHARMA as it lost 1.38%. Glenmark Pharma and Lupin lost 3.89% and 2.86% respectively.

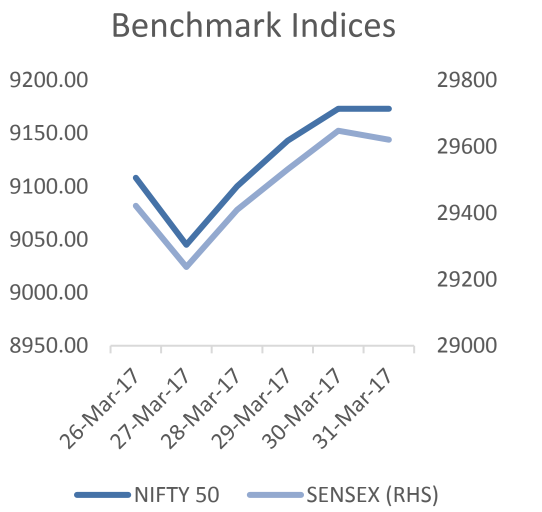
Corporate updates

- Aurobindo Pharma has received USFDA approval to manufacture and market Meropenem injection (skin infection). The approved product has an estimated market size of US$118 million for the 12 months ending January 2017, according to IMS.
- Vedanta has indicated that it has received all approvals for its merger with subsidiary Cairn India, except the RBI's permission for issuing redeemable preference shares to the non-resident shareholders of Cairn.
- IDFC Bank has sold ~nine stressed exposures to Edelweiss Asset Reconstruction Company for ~INR 5000 crore. The portfolio sold includes exposure to Ruchi Soya, Essar (linked to Hazira port debt) and Lanco group.
- L&T Hydrocarbon Engineering has won a major onshore EPC contract of INR 4000 crore for the design, supply, construction and commissioning of a large petrochemical facility in the Middle East.
- Kotak Mahindra Bank's board has approved raising of equity capital to the tune of 6.2 crore shares using appropriate route, subject to approval from shareholders and regulators. This would result in dilution of 3.3% of its equity. Promoter Uday Kotak's stake could come down by ~1% to 30.8%.
- GST regime on Wednesday came a step closer to meet its July 1 target of roll out, with the Lok Sabha approving four supplementary legislations.
- CL Educate had a weak debut, closed at Rs 422 down over 16%.
- The country's fiscal deficit at the end of February stood at INR 6.05 lakh crore, 113.4% of the full year target for FY17, on lower realisation on non-tax revenues.

Indian equity benchmark indices' returns

Broad Indices	WkCl	WkOp	% Chg
NIFTY 50	9173.00	9108	0.71%
SENSEX	29620.5	29421	0.68%
NIFTY MID 50	4384	4329	1.28%
NIFTY SMALL 50	3823	3712	2.99%

Sectoral Indices	WkCl	WkOp	% Chg
AUTO	9880	9878	0.02%
BANK	21444	21123	1.52%
ENERGY	11648	11485	1.42%
FINANCIAL	8734	8591	1.66%
FMCG	23542	23455	0.37%
IT	10703	10769	-0.61%
METAL	3096	3123	-0.86%
PHARMA	10411	10556	-1.38%
REALTY	215	213	0.84%



FII and DII weekly investments (RS Cr)

Action	FII Inv (Equity)	DII Inv (Equity)
Buy	47528	21640
Sell	40302	17394
Net	**7226**	**4246**

Nifty top 5 gainers/losers

Gainers	WkCl	WkOp	% Chg
SBI	293	277	6.11%
Eicher Motors	25588	24350	5.08%
Adani Ports & SEZ	340	323	5.06%
Bharti Infratel	326	310	4.99%
Tata Power	90	87	4.39%

Losers	WkCl	WkOp	% Chg
Hero MotoCorp	3222	3375	-4.54%
ONGC	185	192	-3.60%
TechM	459	474	-3.16%
Lupin	1445	1488	-2.86%
Sun Pharma	688	704	-2.24%

Stock in Focus: Visaka Industries Ltd.

- Visaka Industries (established 1985) is engaged in two businesses – Building products (cement asbestos products and fibre cement flat products like V-Boards and V-Panels) and textiles. Its manufacturing facilities are spread across 11 locations supported by nine Pan-India marketing offices. The company is the second largest cement asbestos products manufacturer in India possessing an aggregate production capacity (annual) of about 8,02,000 tonnes of corrugated cement asbestos sheets and 1,29,750 tonnes of fibre cement flat board products. Their spinning plant is the largest Twin Air Jet Equipment installation in India and one of the biggest such installations in the world, capable of producing 11,000 tonnes of yarn/p.a..

Financial Performance

- Overall net sales for the quarter ended Dec'16 of the company stood at Rs 202.85 crore, down by 6% on YoY basis. According to the management this fall in sales was partly attributable to the demonetisation effect. But the company was in a relatively better position as compared to its competition.
- Operating profit margin increased by 310 bps to 10.7%, supported by a better gross margin. Despite muted revenue, the EBIT margin in the Building Products division expanded 607 bps yoy to 10%, and that of the yarn division fell 521bps YoY to 8.1%. The company expects margins to climb to 12-13% in the next two years.
- PAT for the quarter ended Dec'16 stood at Rs 5.39 crore, as compared to Rs 1.11 crore YoY, up by a massive 386%. This was made possible due to margin improvement and interest costs coming down by 18%.

Investment Rationale

- It addresses a range of customers – rural Indians who buy cement asbestos sheets, global institutional customers who buy the Company's yarn and individual cum institutional customers through its fibre cement flat products under the name of V-Board and V-Panels.
- It is in a relatively good position as far leverage is concerned; its gearing was 1.00 at the end of 2015-16, which coupled with an interest cover of 2.90, represent adequate fiscal comfort giving the company scope to borrow further if the need arises. The average cost of the Company's debt was 9%. There is a growing reliance on cash to fund operations and derive the best procurement bargains.
- It has been paying dividends consistently for the last 28 years, the latest year dividend being 50%.
- The management is taking conscious steps towards increasing the Non-Asbestos component of overall business due to better opportunities. The Non-Asbestos component of the overall business is growing, it has increased from 29% in 2014-25 to 32% in 2015-16.

Key Concerns

- Price volatility in some of the key raw materials is a reason for deep concern as the company may not be able to pass on the increase in costs to its customers.
- Asbestos fibre has been included with other forms of asbestos, in being considered to be a human carcinogen. Any government initiative to completely ban or restrict use of asbestos fibre will be key negative.
- Lack of entry barriers is attracting new entrants into this line of business. This coupled with intense competition from unorganised sector can increase the pricing pressure faced by the company.

Valuation

- Making note of the fact that the shares of the company have a comparatively low P/E of 10.2x and a P/B of 1.15x and the positive outlook for cement & construction material industry, increasing demand for its products, efforts to diversify product mix, reduction in debt, improved margins and low equity base, we believe that there is scope for price appreciation in the next 12 months.

Stock Information

CMP (INR)	269.85
O/s Shares (Cr):	1.58
Market Cap (INR Cr):	409.23
52 WK HI/LO (INR):	273/101
Face Value (INR):	10.00

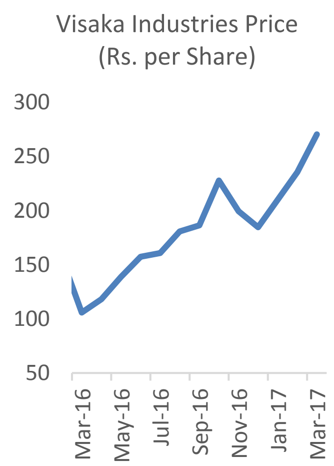
Shareholding Pattern in %

Promoters	37.64
FIs & Local MFs	0.42
FIIs	3.64
Public & Others	58.30

Financial Snapshot (Rs in crores)

	3Q17	2Q17
Sales	202.85	200.94
Op. Cost	-180.8	-173.9
EBIDTA	22.03	26.95
OPM %	*10.70*	*13.45*
Interest	-4.71	-3.45
Depcrtn.	-8.74	-8.1
Tax	-3.19	-6.61
Net Profit	5.39	8.79
NPM %	*2.66*	*4.38*
EPS (Rs)	3.4	5.53
CEPS (Rs)	8.9	10.64

Price Chart



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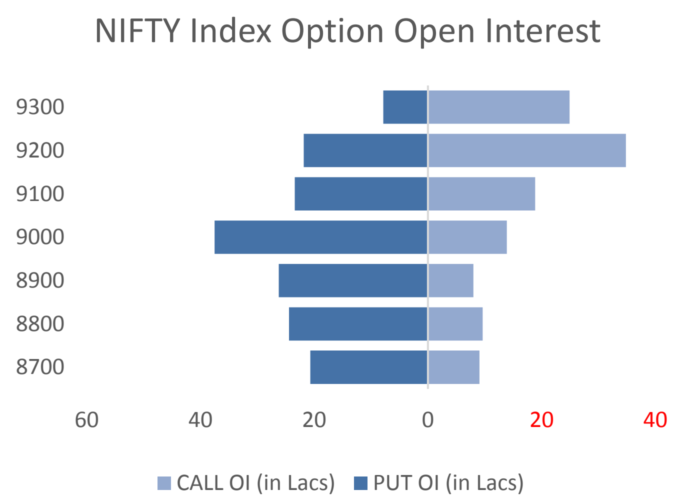
Technical View



Maximum put open interest was seen at 9000 followed by 8900 with 37 lakh and 26 lakh contracts respectively. 9200 PE had accumulated 21 lakh contracts.

Fresh call writing was seen at 9400 with 24 lakh contracts. The maximum Call open interest stood at 9,200 strike with 34 lakh contracts, which will act as a key resistance for the index, while strike prices 9500 had 32 lakh contracts in open interest.

During the week the index declined from the highest Call base of 9200 but recovered from the noticeable Put base of 9000. The put-call-ratio (PCR) stands at 0.89.

Resistance	R1 –9215	R2 – 9245	R3 – 9300
Support	S1 – 9120	S2 – 9070	S3 – 9000

Market Outlook

Consolidation continued all through the week. The market breadth remained positive, however, 9200 remained a major hurdle as we predicted. The bourses witnessed profit booking at around all-time highs. The markets witnessed deluge in domestic funds while FII inflows remained intact. Technically Index has to move above 9200 to start a fresh leg of bull rally. On the flip side 9120 will act as an immediate support. Marketwide rollovers of F&O contracts remained lower than the average of last three series with lower roll-cost, indicating cautiousness among trades carrying their bullish bets. The volatility index (VIX) moved higher and stood at a two week high, even after the index hovered in a narrow range and remained flat during the last couple of sessions. For the coming week we expect the index to move in a positive direction with a strong support at 9070-9020. Market participants should be cautious if the index fails to hold 9070.