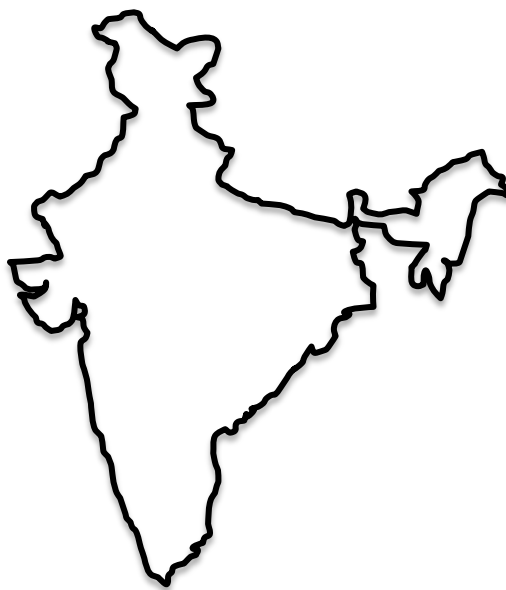


India

The Delhi Dozen – Selected Stock Ideas



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Horizon Delhi Dozen – Introduction

The Horizon Delhi Dozen is a concentrated, actively managed “best ideas” strategy launched on January 1, 2012. The Fund invests in 12 companies of all market capitalization, with the objective of forming an equal weighted portfolio, but with the ability to allocate up to 50% of the portfolio in the five largest positions. Investment ideas are thoroughly analyzed by members of an experienced team of investment professionals in the Horizon organization. Horizon Delhi Dozen Fund will employ Private Market Value (PMV) with a Catalyst™ research methodology in defining the investable universe.

Investment philosophy

Our philosophy is based on value investing. Value investing works because it is founded on the notion of buying something for less than it is worth. The value investor has the best of both worlds: upside potential and the comfort of owning a business with a margin of safety.

Our investment process centers on the application of principles first articulated in 1934 by the founders of modern securities analysis, Benjamin Graham and David Dodd, in their seminal work *Security Analysis* (1934). To this, we add what Warren Buffet contributed to the field of investing: the notion of valuing a business's franchise and taking a substantial stake in portfolio companies.

Investment process

- We look for a fundamentally strong business, with growing cash flow, that we would be comfortable owning in its entirety.
- Investment in a diversified portfolio of 12 Indian equities
- Diversified across securities, capitalizations, sectors, and event time horizons
- Flexible through various market cycles; opportunistic in nature
- An identifiable catalyst, or event, that has the ability to surface in the next 3–18 months, including asset divestitures, transformative acquisitions, returning cash to shareholders, or sale of the company.
- Positions are sold when:
 - We find reason to question our original investment thesis.
 - Share price appreciates beyond estimate of private market value (PMV).
 - A position becomes too small to be impactful to performance over a 2-3 year holding period.

Horizon Delhi Dozen – Performance

	<u>Since inception</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>YTD 2017</u>
Delhi Dozen	127.3%	14.1%	55.2%	2.0%	2.1%	23.3%
SENSEX	59.1%	8.1%	29.9%	-5.0%	1.9%	17.0%
BSE 500	72.5%	2.3%	37.0%	-0.8%	3.8%	19.6%
BSE Mid-Cap	103.2%	-6.8%	54.7%	7.4%	8.0%	21.6%
Nifty	61.7%	5.9%	31.4%	-4.1%	3.0%	17.5%

Source: Horizon Research

McLeod Russel (MCLR IN – INR 166 - BSE)
Planting the future of Tea

<u>Year</u>		<u>EPS</u>	<u>P/E</u>		<u>PMV</u>		
2020E	INR	3.1	53.2	x	INR 479	Dividend:	INR 0.0
2019E		2.1	80.0		438	Shares O/S:	109.5 Million
2018E		1.1	156.2		400	52 week range:	INR 219.5 – INR 137.2
2017A		5.4	31.1		343		

BACKGROUND

MCLR, based in Kolkata, India, is the world's largest tea plantation company, accounting for ~10% of India's tea production and 2% of black tea grown globally. MCLR's tea estates are located in India, Vietnam, Uganda and Rwanda. MCLR sells their tea in the wholesale market (both domestic and export) to packaged tea companies such as Tata Global Beverages (TGBL IN). MCLR generated INR 18.7 billion of revenue and INR 1.1 billion of EBITDA in 2017.

Diversifying to beat unpredictable weather patterns

Unfavourable weather conditions in India led to a decline in Indian tea production in FY15, FY16 and FY17. This resulted in the MCLR stock trading at a 5yr low share price and at a 7yr low multiple (EV/Revenue). Weather systems have now reversed and this would lead to increased tea production. Over the past decade MCLR has increased their tea production by acquiring tea gardens, mostly outside India, which has helped them diversify out the risk of unfavourable local climate systems.

Inherent positives led by Geographical diversification

- MCLR produces 115.6 million kgs of tea per year from 64 tea estates with 39,770 hectares of land under cultivation supported by 67 tea-manufacturing facilities, and, exports tea to 24 countries.
- Though global demand for tea is growing at ~3% per annum, global supply of tea is limited as there are very few remaining regions where green field tea plantations can be established due to unique climatic conditions required for tea plantations. Favorable tea industry dynamics have seen MCLR increase tea prices by a CAGR of 10% since FY08.
- MCLR is likely to benefit from a decline in Kenyan tea production in 2017 by ~12% due to a drought, which is expected to result in higher tea exports from India at higher prices.
- Increase in prices of near substitutes (coffee prices had increased by the highest percentage amongst all commodities in 2014 due to poor weather patterns) lead us to believe that any such similar disruption would cause tea prices to increase at a similar rate which would benefit plantation owners such as MCLR.

Table 1:
MCLR capitalization & earnings model

(INR million, except per-share data)

<u>Capitalization</u>	<u>Financial Data</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18E</u>	<u>FY19E</u>	<u>FY20E</u>	<u>FY21E</u>
Balance Sheet as of: 3/31/2017									
Fully Diluted Shares	109.5	Revenue	17,887.6	16,459.5	19,263.2	18,708.2	20,894.3	22,274.3	23,745.5
		% Growth		-8.0%	17.0%	-2.9%	11.7%	6.6%	6.6%
Market Price	166.4								
Equity Market Capitalization	18,208.0	EBITDA	3,526.1	1,292.2	1,688.9	1,104.4	1,723.1	1,782.5	1,840.3
		% Margin	19.7%	7.9%	8.8%	5.9%	8.2%	8.0%	7.8%
Plus: Debt	9,811.3	% Growth		-63.4%	30.7%	-34.6%	56.0%	3.4%	3.2%
Less: Cash and Equivalent	460.9								
		EPS, continuing ops (INR)	23.5	2.8	2.6	5.4	1.1	2.1	3.1
		% Growth		-87.9%	-10.1%	109.1%	-80.1%	95.2%	50.3%
Investments	784.2								
Minority interest	222.3	Revenue Multiple	1.5	1.6	1.4	1.4	1.3	1.2	1.1
		EBITDA Multiple	7.6	20.8	15.9	24.4	15.6	15.1	14.6
		P/E Multiple	7.1	58.4	65.0	31.1	156.2	80.0	53.2
Total Capitalization	26,932.6								

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 166, MCLR trades at 1.2x FY19E revenue of INR 22.3 billion. Though a short-term positive catalyst is not anticipated, improvement in weather conditions in India should in itself lead to increase in revenues and EBITDA.

We recommend buying MCLR as it trades at a 62% discount to our FY19 PMV of INR 438. We have used the tea industry acquisition EV/Revenue multiple of 2.5x for valuing tea gardens.

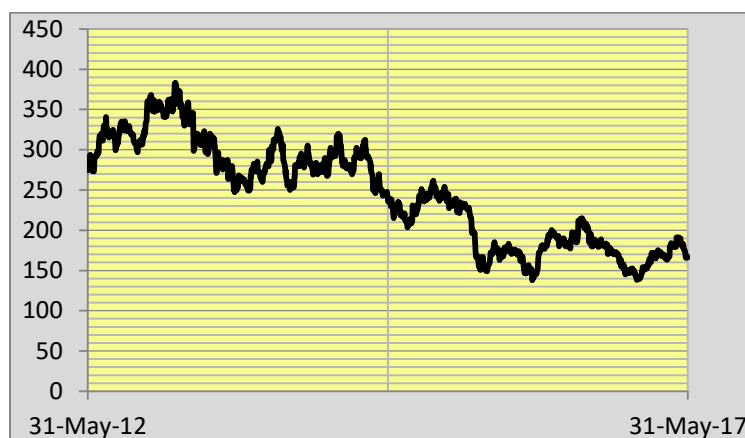
Table 2: MCLR – Private Market Value Analysis

(INR million, except per-share data)

<u>PMV Analysis</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18E</u>	<u>FY19E</u>	<u>FY20E</u>	<u>FY21E</u>	<u>FY22E</u>
<u>Tea business</u>									
Revenue	17,887.6	16,459.5	19,263.2	18,708.2	20,894.3	22,274.3	23,745.5	25,313.9	26,985.9
Valuation Multiple (EV/Revenue)	2.5x	2.5x	2.5x	2.5x	2.5x	2.5x	2.5x	2.5x	2.5x
Segment Value	44,718.9	41,148.9	48,158.0	46,770.5	52,235.6	55,685.8	59,363.9	63,284.8	67,464.8
Segment value per share	408.6	375.9	440.0	427.3	477.2	508.8	542.4	578.2	616.4
Less: Debt	2,446.5	5,451.5	9,569.1	10,468.2	9,811.3	9,076.6	8,333.4	7,590.2	6,847.0
Add: Cash	482.1	434.2	460.9	506.6	524.7	559.4	654.3	820.2	1,058.7
Net Debt	1,964.4	5,017.3	9,108.2	9,961.6	9,286.5	8,517.3	7,679.2	6,770.0	5,788.3
Net Debt per share	17.9	45.8	83.2	91.0	84.8	77.8	70.2	61.9	52.9
Investments			<u>784.2</u>	<u>784.2</u>	<u>784.2</u>	<u>784.2</u>	<u>784.2</u>	<u>784.2</u>	<u>784.2</u>
Investments per share			7.2	7.2	7.2	7.2	7.2	7.2	7.2
Total Equity value	<u>42,754.5</u>	<u>36,131.6</u>	<u>39,834.0</u>	<u>37,593.1</u>	<u>43,733.4</u>	<u>47,952.8</u>	<u>52,468.9</u>	<u>57,299.0</u>	<u>62,460.7</u>
Shares Outstanding (year-end)	109.5	109.5	109.5	109.5	109.5	109.5	109.5	109.5	109.5
PMV per share (INR)	391	330	364	343	400	438	479	523	571
Current Market - Discount to PMV	57%	50%	54%	52%	58%	62%	65%	68%	71%

Source: Horizon Research, Company data

Mcleod Russel – Price chart



Source: Horizon Research, BSE

Heritage Foods India (HTFL IN – INR 1,090 - BSE)
Milking a geographic advantage

<u>Year</u>		<u>EPS</u>	<u>P/E</u>		<u>PMV</u>		
2020E	INR	48.8	22.3	x	INR 1,930	Dividend:	INR 4.0
2019E		39.3	27.7		1,728	Shares O/S:	23.2 Million
2018E		31.1	35.1		1,562	52 week range:	INR 1,203.2 – INR 496.9
2017A		28.8	37.8		1,339		

BACKGROUND

HTFL is the second largest listed dairy products producer in India with ~1.89 million litres per day milk processing capacity. On an average, HTFL procures 1.1 million litres of milk every day and sells 868,000 litres of milk and 123,489 kg of curd every day to over 1.14 million households. In addition to dairy products, HTFL had a small food retailing segment with 112 stores and 394,000 sqft of carpet area which was sold to Future Retail (FRETAIL IN) in early 2017. The Dairy segment with INR 18.7 billion of revenue and the retail segment with INR 7.6 billion of revenues accounted for 71% and 29% respectively, of the company's total INR 26.4 billion of gross revenues in FY17. Two factors that will drive HTFL's growth and margins are a) Indian dairy consumption has grown at a CAGR of 4.7% (2008-16) b) value added products (e.g. curd) growth is 29% CAGR (2011-17) (at twice the margins of raw milk sale). HTFL was founded in 1992 by Telugu Desam Party leader and current Chief Minister of Andhra Pradesh, Chandrababu Naidu.

Focus on Dairy

The presence of a number of catalysts makes HTFL an attractive stock within the Indian dairy industry. Catalysts include:

- The dairy segment has been subsidizing the unprofitable retail segment. On November 7, 2016, HTFL announced the sale of their retail segment in exchange for a 3.65% stake in Future Retail (FRETAIL IN). A sale of the retail segment remove the subsidy burden for the dairy segment and HTFL should trade at a higher EV/revenue multiple which other single segment focused dairy companies such as Hatsun Agro (HTSMF) trade at.
- Recent changes in bovine culling and slaughter laws in India have made milk production unviable in several Indian states. HTFL stands to benefit from their presence in Andhra Pradesh where these laws have limited applicability.
- A growing number of acquisitions of EM dairy companies led by a lack of growth opportunities in western markets and rising consumption in emerging markets.
- Appointment of KPMG to help HTFL determine their long term strategy and the appointment of SBI Capital Markets to help setting up of a JV with a leading European Co to collaborate on dairy products in India and overseas market.

The sale of the retail segment will act as short term catalyst that will assist in surfacing the underlying value of HTFL.

Table 1: HTFL capitalization & earnings model

(INR million, except per-share data)

<u>Capitalization</u>	<u>Financial Data</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18E</u>	<u>FY19E</u>	<u>FY20E</u>	<u>FY21E</u>
Balance Sheet as of: 3/31/2017									
Fully Diluted Shares 23.2	Revenue	17,220.4	20,729.7	23,805.8	26,428.9	20,890.0	23,315.3	26,124.6	29,395.1
	% Growth		20.4%	14.8%	11.0%	-21.0%	11.6%	12.0%	12.5%
Market Price 1,089.8	EBITDA	950.7	820.3	1,308.0	1,413.1	1,466.8	1,756.1	2,100.3	2,507.8
Equity Mkt Capitalization 25,281.1	% Margin	5.5%	4.0%	5.5%	5.3%	7.0%	7.5%	8.0%	8.5%
	% Growth		-13.7%	59.5%	8.0%	3.8%	19.7%	19.6%	19.4%
Plus: Debt 1,574.1	EPS, continuing ops (INR)	19.6	12.2	24.5	28.8	31.1	39.3	48.8	60.7
Less: Cash 470.4	% Growth		-37.5%	100.3%	17.6%	7.8%	26.5%	24.3%	24.3%
Less: Investments	Revenue Multiple	1.5	1.3	1.1	1.0	1.3	1.1	1.0	0.9
Add: Minority interest	EBITDA Multiple	27.8	32.2	20.2	18.7	18.0	15.0	12.6	10.5
	P/E Multiple	55.7	89.1	44.5	37.8	35.1	27.7	22.3	17.9
Total Capitalization 26,384.9									

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 1,090, HTFL trades at 1.1x FY17E revenue of INR 23.3 billion and 15.0x FY19E EBITDA of INR 1.8 billion. We recommend buying HTFL as it trades at a 37% discount to our FY19 PMV of INR 1,728 (Table 2).

Table 2: HTFL – Private Market Value Analysis

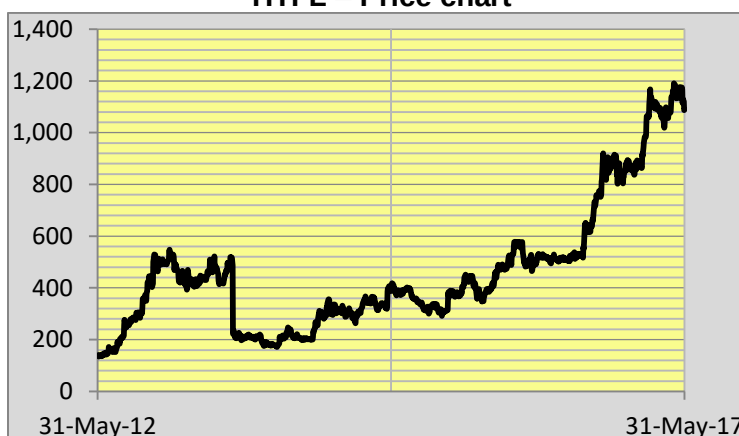
(INR million, except per-share data)

PMV Analysis	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
<u>Dairy business</u>									
Revenues	13,282	15,559	17,688	18,701	20,838	23,263	26,072	29,343	33,170
EBITDA	1,129	871	1,363	1,449	1,434	1,723	2,067	2,475	2,954
Valuation Multiple (EV/Revenue) (A)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Segment value	19,923	23,338	26,532	28,052	31,257	34,895	39,109	44,014	49,754
Segment value per share	859	1,006	1,144	1,209	1,347	1,504	1,686	1,897	2,145
<u>Retail, Agri and Bakery businesses</u>									
Revenues	4,494	5,839	6,867	8,793	11/07/2016: HTFL announced that they signed an agreement to sell this segment for a 3.65% stake in Future Retail (FRETAIL IN). Timeline: 6-7months.				
EBITDA	-150	-13	-31	888					
Valuation Multiple (EV/Revenue) (B)	0.6	0.6	0.6	0.6					
Segment value	2,696.5	3,503.2	4,120.0	5,276					
Segment value per share	116	151	178	227					
Market Capitalization of FRETAIL IN					155,504	155,504	155,504	155,504	155,504
Ownership of HTFL in FRETAIL					3.7%	3.7%	3.7%	3.7%	3.7%
Value of HTFL's stake in FRETAIL					5,676	5,676	5,676	5,676	5,676
Value per share of HTFL					245	245	245	245	245
<u>Renewable</u>									
Revenues	8	26	30	52	52	52	52	52	52
EBITDA	3	15	21	33	33	33	33	33	33
Investments	171	0	0	0	0	0	0	0	0
Segment value	171	171	171	171	171	171	171	171	171
Segment value per share	7	7	7	7	7	7	7	7	7
<u>Inter-segment cancellations</u>									
Revenues	-563	-693	-779	-1,118	11/07/2016: After selling Retail, Agri and bakery segment, HTFL will be reduced to single segment. Renewable segment is for captive use with only a small amount of external sale of electricity.				
EBITDA	-31	-52	-44	-56					
Valuation Multiple (EV/Revenue) (A)	1.2	1.2	1.2	1.2					
Segment value	-676	-832	-935	-1,341					
Segment value per share	-29	-36	-40	-58					
Less Debt	(1,274)	(1,574)	(1,260)	(1,574)	(1,239)	(1,058)	(665)	(271)	(271)
Add Cash	445	408	453	470	365	407	483	861	1,998
Net Debt	-829	-1,166	-807	-1,104	-874	-651	-182	590	1,727
Net Debt per share	-36	-50	-35	-48	-38	-28	-8	25	74
Total equity value	21,286	25,014	29,081	31,054	36,230	40,091	44,774	50,452	57,329
Shares Outstanding (year-end)	23.2	23.2	23.2	23.2	23.2	23.2	23.2	23.2	23.2
PMV per share (INR)	918	1,078	1,254	1,339	1,562	1,728	1,930	2,175	2,471
Current Market - Discount to PMV	-19%	-1%	13%	19%	30%	37%	44%	50%	56%

Note A: We have used 1.5xEV/Revenue multiple for valuing dairy segment. Saputo (a Canadian Dairy company) offered AUD 9.20 per share or 1.2xEV/Revenue multiple to Warrnambool Cheese and Butter (WCB AU) shareholders. Hatsun Agro (HTMSF:IN) trades at a 1.6xEV/Revenue multiple.

Source: Horizon Research, Company data

HTFL – Price chart



Source: Horizon Research, BSE

ElH (ElH IN – INR 136 - BSE)
Iconic Hotels

<u>Year</u>		<u>EPS</u>	<u>P/E</u>		<u>PMV</u>		
2020E	INR	3.3	41.4	x	INR 168	Dividend:	INR 1.1
2019E		2.8	48.2		155	Shares O/S:	571.6 Million
2018E		2.3	58.8		128	52 week range:	INR 126.5 – INR 85.9
2017A		2.5	53.8		123		

BACKGROUND

ElH is India's leading hotel chain, operating 'The Oberoi', 'The Vilas' and 'The Trident' brands. ElH manages 4,591 hotel rooms of which 2,232 rooms are directly owned and the remaining 2,359 rooms are either owned through associates or are managed for 3rd party owners. Prithvi Raj Singh Oberoi (PRS) is the chairman of ElH and controls the family companies that are the majority shareholders of ElH. ElH generated INR 15.3 billion of revenue and INR 2.6 billion of EBITDA in 2017.

Ownership of Iconic hotels

ElH has two iconic hotels in Delhi and Mumbai, which were acquired over 50 years ago and generate a large part of ElH's FCF. The intrinsic value of ElH's owned properties is ~INR 33 million compared to their current EV/room of INR 26 million (INR 26 million is inclusive of the valuation of ~2,359 hotel rooms owned/managed by ElH through subsidiaries). ElH owns four hotels outside India with combined room capacity of 297, and a 36% stake in ElH Associated Hotels (OAH IN), which owns eight hotels with room capacity of 875.

Change in management

PRS is 87 years old and has been handing over more executive responsibilities to Vikram Oberoi (PRS's son) and Arjun Oberoi (PRS's Nephew). Speculation over the impending retirement of PRS led both Reliance Industries (RIL IN) and ITC (ITC IN) to each make large purchases of ElH stock in an attempt to acquire a majority stake in ElH.

ITC, which had acquired a ~14% stake in ElH in 2002, further acquired ~1% stake in 2011 for INR 420 million valuing ElH at an EV of 46.3 billion and 3.2x FY12 revenues of INR 14.3 billion. On August 30, 2010, RIL acquired 58.2 million ElH shares (14.8% of shares outstanding) for INR 10.7 billion valuing ElH at an EV of 86.6 billion and 6.8x FY11 revenues of INR 12.7 billion. The share sale to RIL was seen as a bid by the Oberoi's to thwart the unsolicited purchases of share of ElH by ITC. RIL has subsequently appointed 2 directors on the board of ElH (total number of directors are 12). On March 02, 2012, RIL acquired a further 21.3 million ElH shares (3.7% of shares outstanding) for INR 1.9 billion valuing ElH at an EV of 56.1 billion and 3.8x FY13 revenues of INR 14.9 billion. An eventual sale of their stake in ElH by PRS's family companies will act as a long term catalyst that will assist in surfacing the underlying value of ElH.

Table 1: ElH capitalization & earnings model

(INR million, except per-share data)

<u>Capitalization</u>	<u>Financial Data</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17E</u>	<u>FY18E</u>	<u>FY19E</u>	<u>FY20E</u>	<u>FY21E</u>
Balance Sheet as of: 3/31/2017									
Fully Diluted Shares	571.6	Revenue	15,465.7	16,682.7	16,588.5	15,267.9	16,336.7	19,480.2	20,843.8
		% Growth		7.9%	-0.6%	-8.0%	7.0%	19.2%	7.0%
Market Price	135.9	EBITDA	3,335.1	3,301.4	3,444.9	2,610.5	2,932.4	3,584.4	3,929.1
Equity Mkt Capitalization	77,647.7	% Margin	21.6%	19.8%	20.8%	17.1%	18.0%	18.4%	18.9%
		% Growth		-1.0%	4.3%	-24.2%	12.3%	22.2%	9.6%
Plus: Debt	3,803.3	EPS, continuing ops (INR)	1.8	1.1	2.6	2.5	2.3	2.8	3.3
Less: Cash	1,793.6	% Growth		-38.0%	136.7%	-3.4%	-8.4%	21.9%	16.4%
36.8% stake in ElH Associates (OAH IN)	4,314.5	Revenue Multiple	4.9	4.6	4.6	5.0	4.7	3.9	3.4
Add: Minority interest	805.3	EBITDA Multiple	22.8	23.1	22.1	29.2	26.0	21.2	19.4
		P/E Multiple	76.3	123.1	52.0	53.8	58.8	48.2	41.4
Total Capitalization	76,148.2								

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 136, EIH trades at 21.2x FY19E EBITDA of INR 3.6 billion and 3.9x FY19E revenue of INR 19.5 billion. We recommend buying EIH as it trades at a 12% discount to our FY19 PMV of INR 155. We have applied an EV/revenue multiple of 4.5x based on the asset value per share. The replacement cost of EIH's hotels is INR 100.9 billion or INR 177 per share. In comparison RIL paid a 6.9x revenue (forward) multiple to acquire EIH shares in 2010.

Table 2:

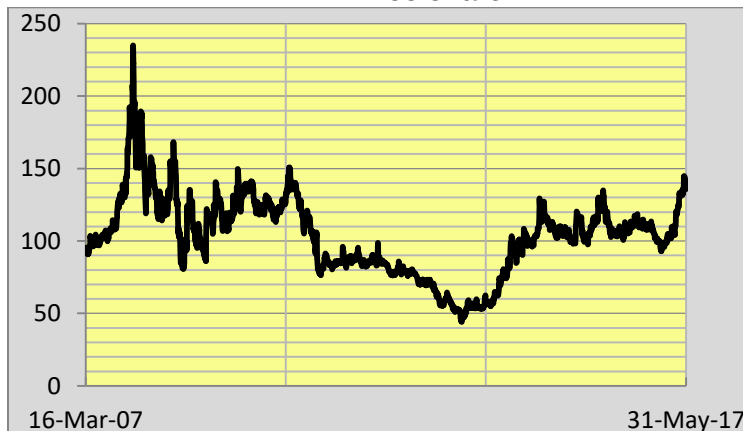
EIH – Private Market Value Analysis

(INR million, except per-share data)

PMV Analysis	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
Revenues	15,466	16,683	16,589	15,268	16,337	19,480	20,844	22,303	23,864
EBITDA	3,335	3,301	3,445	2,611	2,932	3,584	3,929	4,304	4,654
Valuation Multiple (Revenue) (a)	4.5x	4.5x	4.5x	4.5x	4.5x	4.5x	4.5x	4.5x	4.5x
Segment EV	69,596	75,072	74,648	68,706	73,515	87,661	93,797	100,363	107,388
Per share value	122	131	131	120	129	153	164	176	188
36.81% in EIH Associated Hotels (OAH IN)	1,794	2,479	3,252	4,314	4,314	4,314	4,314	4,314	4,314
Per share value	3	4	6	8	8	8	8	8	8
Less Debt	(4,518)	(3,539)	(3,401)	(3,803)	(5,288)	(4,504)	(3,164)	(1,527)	0
Less Minority interest	(513)	(769)	(781)	(805)	(924)	(1,070)	(1,241)	(1,440)	(1,666)
Add Cash	1,641	1,792	1,681	1,794	1,710	2,039	2,182	2,334	2,904
Net debt	(3,390)	(2,516)	(2,502)	(2,815)	(4,502)	(3,534)	(2,223)	(633)	1,238
Per share Value	(6)	(4)	(4)	(5)	(8)	(6)	(4)	(1)	2
Total equity value	68,000	75,035	75,399	70,205	73,327	88,441	95,889	104,045	112,941
Shares Outstanding (year-end)	572	572	572	572	572	572	572	572	572
PMV per share	119	131	132	123	128	155	168	182	198
Current Market - Discount to PMV	-14%	-3%	-3%	-11%	-6%	12%	19%	25%	31%

Source: Horizon Research, Company data

EIH – Price chart



Source: Horizon Research, BSE

Jyothy Laboratories (JYL IN – INR 367 - BSE)
Power brands

Year	EPS	P/E	PMV	Dividend:	Shares O/S:	52 week range:
2020E	10.5	34.9	510	INR 6.0	181.7 Million	INR 427.0 – INR 270.0
2019E	9.2	39.7	463			
2018E	8.0	46.0	419			
2017A	11.5	32.0	369			

BACKGROUND

JYL is a Fast Moving Consumer Goods (FMCG) company that sells fabric whiteners, soaps, detergents, mosquito repellents, scrubbers, and incense sticks in India. JYL generated INR 17.5 billion of revenue and INR 2.6 billion of EBITDA in 2017.

Room for growth

JYL is either a market leader or has a strong position in various product markets in India:

- JYL has over 75% market share in INR 5.4 billion fabric whitener market. Though, the fabric whitener industry growth has stagnated, JYL's Ujala has been growing at ~5%.
- JYL holds significant market share in their product categories:
 - 17.6% market share in INR 3.0 billion fabric detergent market.
 - 16.7% market share in INR 3.6 billion liquid dish wash market growing at ~15%. 10% market share in INR 21.4 billion dish wash bar market growing at ~10%.
 - 7% market share in INR 14.7 billion mosquito repellent coil market growing at 11%.

Henkel's call option

On May 5, 2011, JYL purchased a 51% stake (59.4 million shares) in Henkel India for INR 20 per share from Henkel AG (HEN AG), valuing Henkel India at an EV of INR 6.6 billion and 1.5x FY11 sales of INR 4.3 billion. As part of the sale agreement HEN was given a call option to acquire up to a 26% stake in JYL between April 1, 2016 and March 31, 2017 subject to terms and conditions to be mutually agreed and also subject to shareholders' approval. In 2016 JYL signed a confidentiality agreement with HEN to pursue a stake sale pursuant to the 2011 sale agreement. On April 2, 2017, on the request of HEN, the validity of the call option was extended by JYL to October 31, 2017.

HEN has built up a reserve of over USD 5 billion for acquisitions and continues to pursue acquisition targets. On May 31, 2016, HEN acquired 57.5% stake in Expand Global Industries (deals in laundry & home care segment in Nigeria) for EUR 110 million (implied EV/sales: 2.2x). On June 5, 2014, HEN acquired Spotless Group SAS; a France based FMCG company for USD 1.27 billion (Implied EV/EBITDA multiple: 12x).

An acquisition of up to a 26% stake JYL by HEN will act as a medium term catalyst that will assist in surfacing the underlying value of JYL.

Table 1: JYL capitalization & earnings model

(INR million, except per-share data)

Capitalization	Financial Data	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
Balance Sheet as of: 3/31/2017									
Fully Diluted Shares	181.7	Revenue	13,702	15,676	16,595	17,492	19,398	21,605	24,069
Market Price	366.5	% Growth		14.4%	5.9%	5.4%	10.9%	11.4%	11.4%
Equity Mkt Capitalization	66,587.1	EBITDA	1,572	1,917	2,383	2,569	2,876	3,149	3,448
Plus: Debt	5,685.0	% Margin	11.5%	12.2%	14.4%	14.7%	14.8%	14.6%	14.3%
Less: Cash	1,319.0	% Growth		21.9%	24.3%	7.8%	12.0%	9.5%	9.5%
		EPS, continuing ops (INR)	4.7	6.8	4.3	11.5	8.0	9.2	10.5
		% Growth		43.8%	-36.4%	165.4%	-30.5%	15.9%	13.8%
Less: Hidden assets (land)	1,500.0	Revenue Multiple	5.1	4.4	4.2	4.0	3.6	3.2	2.9
Add: Minority interest	(66.5)	EBITDA Multiple	44.1	36.2	29.1	27.0	24.1	22.0	20.1
Total Capitalization	69,386.6	P/E Multiple	NA	NA	84.9	32.0	46.0	39.7	34.9

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 367, JYL trades at 22.0x FY19E EBITDA of INR 3.1 billion. We recommend buying JYL as JYL trades at a 21% discount to our FY19 PMV of INR 463. We have applied the median trading EV/EBITDA multiple of 27x that the Indian FMCG industry trades at to estimate JYL's PMV. On April 14, 2014, JYL management said that they would be willing to sell a 26% stake to HEN at an implied an acquisition price of ~INR 300 and a forward EV/EBITDA multiple of 27x.

JYL's EV/EBITDA multiple has remained lower than comparable FMCG companies such as Godrej Consumer Products (GCPL IN), Dabur (DABUR IN) and Hindustan Unilever (HUVR IN) as JYL possesses a lesser number of products & brands with a lower geographic coverage.

Table 2: JYL – Private Market Value Analysis

(INR million, except per-share data)

PMV Analysis	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Revenues	13,702	15,676	16,595	17,492	19,398	21,605	24,069	26,865	30,043
EBITDA	1,572	1,917	2,383	2,569	2,876	3,149	3,448	3,782	4,154
Valuation Multiple (EV/EBITDA)	27.0x	27.0x	27.0x	27.0x	27.0x	27.0x	27.0x	27.0x	27.0x
Segment value	42,448	51,765	64,344	69,352	77,656	85,033	93,107	102,109	112,161
Segment value per share	234	285	355	382	427	468	512	562	617
Less Debt	5,336	5,694	5,703	5,179	4,709	4,390	4,058	3,715	3,361
Add Cash	1,302	2,704	1,471	1,319	1,547	1,723	1,919	2,142	2,396
Net Debt	4,034	2,990	4,232	3,860	3,162	2,667	2,138	1,573	966
Net Debt per share	22	16	23	21	17	15	12	9	5
Add Land value		1,500	1,545	1,591	1,639	1,688	1,739	1,791	1,845
Value per share		8	9	9	9	9	10	10	10
Total equity value	38,414	50,275	61,657	67,084	76,134	84,054	92,708	102,328	113,040
Shares Outstanding (year-end)	181.0	181.7	181.1	181.7	181.7	181.7	181.7	181.7	181.7
PMV per share (INR)	212	277	340	369	419	463	510	563	622
Current Market - Discount to PMV	-73%	-32%	-8%	1%	13%	21%	28%	35%	41%

Source: Horizon Research, Company data

JYL – Price chart



Source: Horizon Research, BSE

CG Power & Industrial Solutions (CGPOWER IN – INR 83 - BSE)
Promising makeover

<u>Year</u>		<u>EPS</u>	<u>P/E</u>		<u>PMV</u>		
2019E	INR	4.4	18.6	x	INR 164	Dividend:	INR 0.0
2018E		4.0	20.6		152	Shares O/S:	626.7 Million
2017E		3.3	24.9		139	52 week range:	INR 97 – INR 56
2016A		3.0	27.7		112		

BACKGROUND

CGPOWER manufactures electrical products in the power and industrial segments. The combined product portfolio includes power and distribution transformers, switchgears, circuit breakers, power conversion equipment such as motors and alternators, inverters and converters. On October 27, 2015, CGPOWER sold their Canadian power transmission business to PTI Holdings Corp for CAD 20 million. On May 5, 2016, CGPOWER completed the spinoff of their consumer electric segment, Crompton Greaves Consumer Electrical (CROMPTON IN) and on March 7, 2017, CGPOWER sold their erstwhile Automation segment for an EV of EUR 120 million to Alfano Electric Systems Co, Saudi Arabia. CGPOWER intends to use the proceeds of these assets sales to partly pay off their debt. CGPOWER generated INR 56.1 billion of revenue and INR 3.7 billion of EBITDA in 2016 from the power, industrial and automation segments.

Focusing on EM growth

- Reviving demand and improving operating margins: Capital expenditure in global power transmission and distribution (T&D) industry was ~USD 284 billion in 2014 and is likely to grow by 6.8% per year to USD 369 billion by 2018. India and EMEA (Europe, the Middle East and Africa) are expected to account for 45%-50% of T&D capex. Global nominal gross fixed investment (GFI) was USD 17 trillion and is likely to grow by 7% to USD 22 by 2018.
- Industrial segment: This segment is likely to benefit from improved outlook of cement industry and stable demand from water and irrigation. CGPOWER has ~30% market share in the motors segment. In FY17 the Industrial Systems segment has started seeing significant improvement in sales including orders from Lafarge and Indian Railways.
- Power segment: The power business struggled in FY16 due to lower KVA orders in backlog which hit sales growth and margins. However the Indian power transformer demand is projected to grow by 9% in FY17 driven by the Power Grid Corporation of India Limited (PGCIL), the National Thermal Power Corporation (NTPC) and some key State Electricity Boards.

Catalyst

CGPOWER is now looking to sell their remaining international businesses and focus on emerging markets. The sale of the international businesses, which are incurring losses, will act as a medium term catalyst that will assist in surfacing the underlying value of CGPOWER.

Table 1:
CGPOWER capitalization & earnings model

(INR million, except per-share data)

<u>Capitalization</u>		<u>Financial Data</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17E</u>	<u>FY18E</u>	<u>FY19E</u>	<u>FY20E</u>	<u>FY21E</u>	<u>FY22E</u>
Balance Sheet as of:	3/31/2016									
Fully Diluted Shares	626.7	Revenue	58,001.5	56,051.6	56,993.3	55,820.8	59,714.3	63,880.3	68,337.9	73,107.6
		% Growth		-3.4%	1.7%	-2.1%	7.0%	7.0%	7.0%	7.0%
Market Price	82.7	EBITDA	5,092.0	3,670.8	5,106.1	5,038.0	5,450.2	5,895.4	6,376.2	6,895.5
Equity Mkt Capitalization	51,800.6	% Margin	8.8%	6.5%	9.0%	9.0%	9.1%	9.2%	9.3%	9.4%
Plus: Debt	14,693.7	% Growth		-27.9%	39.1%	-1.3%	8.2%	8.2%	8.2%	8.1%
Less: Cash	7,978.4	EPS, continuing ops (INR)	3.5	3.0	3.3	4.0	4.4	4.9	5.3	5.8
		% Growth		-14.7%	11.6%	20.9%	10.3%	9.5%	9.6%	9.7%
Less: Investments		Revenue Multiple	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.8
Add: Minority interest		EBITDA Multiple	11.5	15.9	11.5	11.6	10.7	9.9	9.2	8.5
Total Capitalization	58,515.9	P/E Multiple	23.7	27.7	24.9	20.6	18.6	17.0	15.5	14.1

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 83, CGPOWER trades at 10.7x FY19E EBITDA of INR 5.5 billion. We recommend buying CGPOWER at the current share price as it trades at 50% discount to our FY19 PMV of INR 164. The median trading EV/EBITDA multiple of comparable power companies in India is 43.5x. Siemens (SIEM IN) and Alstom India (ALST IN) trade at an EV/EBITDA multiple of 65x and 22x, respectively. Given CGPOWER's ongoing restructuring we have applied an EV/EBITDA multiple of 17x which is slightly below that of ALST.

Table 2:

CGPOWER – Private Market Value Analysis

(INR million, except per-share data)

PMV Analysis	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
Power Systems								
Revenues	29,212	26,296	29,038	31,071	33,246	35,573	38,063	40,728
EBITDA	4,577	2,528	3,333	3,598	3,883	4,190	4,521	4,879
Valuation Multiple (EV/EBITDA)	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Segment value	77,802	42,983	56,665	61,159	66,006	71,231	76,864	82,937
Segment value per share	124	69	90	98	105	114	123	132
Industrial Systems								
Revenues	19,740	21,072	22,944	24,550	26,268	28,107	30,075	32,180
EBITDA	1,827	2,119	2,503	2,703	2,919	3,151	3,402	3,672
Valuation Multiple (EV/EBITDA)	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Segment value	31,066	36,016	42,555	45,951	49,615	53,565	57,826	62,421
Segment value per share	50	57	68	73	79	85	92	100
Automation								
Revenues	8,918	8,548						
EBITDA	968	876						
Valuation Multiple (EV/EBITDA)	17.0	17.0						
Segment value	16,458	14,894						
Segment value per share	26	24						
Others/Inter Segment								
Revenues	132	136	167	200	200	200	200	200
EBITDA	-2,280	-1,852	-1,180	-1,263	-1,351	-1,446	-1,547	-1,655
Valuation Multiple (EV/EBITDA)	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Segment value	-38,762	-31,489	-20,060	-21,464	-22,967	-24,574	-26,295	-28,135
Segment value per share	-62	-50	-32	-34	-37	-39	-42	-45
Overseas T&D power business - Held for sale		8,135	8,135	8,135	8,135	8,135	8,135	8,135
Per share value		13	13	13	13	13	13	13
Less Debt	20,882	14,694	8,208	6,366	6,069	5,492	4,604	3,371
Add Cash	8,437	7,978	7,979	7,815	8,360	8,943	9,567	10,235
Net Debt	12,445	6,715	229	-1,449	-2,291	-3,451	-4,963	-6,864
Net Debt per share	20	11	0	-2	-4	-6	-8	-11
Total equity value	74,119	63,823	87,066	95,230	103,079	111,808	121,494	132,222
Shares Outstanding (year-end)	626.7	626.7	626.7	626.7	626.7	626.7	626.7	626.7
PMV per share (INR)	118	102	139	152	164	178	194	211
Current Market - Discount to PMV	30%	19%	41%	46%	50%	54%	57%	61%

Source: Horizon Research, Company data

CGPOWER – Price chart



Source: Horizon Research, BSE

Crompton Greaves Consumer (CROMPTON IN – INR 223 - BSE)
Leveraging the brand

Year		EPS	P/E		PMV		
2020E	INR	7.2	31.1	x	INR 287	Dividend:	INR 0
2019E		6.2	35.9		252	Shares O/S:	626.7 Million
2018E		5.4	41.7		221	52 week range:	INR 246.0 – INR 130.1
2017A		4.7	47.7		191		

BACKGROUND

CROMPTON is a consumer electricals company that was recently spun off from CG Power & Industrials Solutions (CGPOWER IN). CROMPTON started trading on BSE and NSE on May 5, 2016.

Upon completion of the spinoff, Avantha Holdings (majority shareholders of CGPOWER) sold their entire 34.4% stake in CROMPTON to Advent International Corporation and Temasek Holdings for INR 20 billion (Implied EV: INR 62.5 billion; EV/EBITDA: 11.8x).

On May 13, 2016, Advent International Corporation and Temasek Holdings made a tender offer to acquire 163.0 million shares (26% of 626.7 million shares outstanding) of CROMPTON. At the tender offer price of INR 104, CROMPTON was valued at an EV of INR 69.5 billion or 14.8x FY17E EBITDA of INR 4.7 billion.

Indian consumption story

- Leading market position: CROMPTON is largest ceiling fan manufacturer in India and has ~26% market share. CROMPTON is the third largest player in the conventional lighting market with a 14% share and the largest player in the domestic pumps market with a 10% share.
- Addressable market growth is expected to be led by an increase in average household income, urbanization, increase in the culture of nuclear families, etc.:
 - According to Euromonitor, NSSO and BCG Indian Consumer Survey, air circulation (includes ceiling fans) market in India is expected to grow by 12% from INR 62 billion in FY15 to INR 87 billion in FY18.
 - Lighting market in India is expected to grow by 12% from INR 103 billion in FY15 to INR 146 billion in FY18.
- The company plans to leverage the 'Crompton' brand by introducing more products such as the recently introduced air cooler which will not only help in growing the revenue but will also provide product diversification.

Table 1:
CROMPTON capitalization & earnings model

(INR million, except per-share data)

Capitalization		Financial Data	FY14	FY15	FY16E	FY17	FY18E	FY19E	FY20E	FY21E
Balance Sheet as of:	03/31/2017									
Fully Diluted Shares	626.7	Revenue	28,471	32,330	35,869	39,759	44,193	49,128	54,622	60,739
		% Growth		13.6%	10.9%	10.8%	11.2%	11.2%	11.2%	11.2%
Market Price	223.3	EBITDA	3,478	4,140	4,286	4,902	5,573	6,272	7,058	7,939
Equity Mkt Capitalization	139,921.1	% Margin	12.2%	12.8%	11.9%	12.3%	12.6%	12.8%	12.9%	13.1%
Plus: Debt	6,500.0	% Growth		19.0%	3.5%	14.4%	13.7%	12.5%	12.5%	12.5%
Less: Cash	3,885.1	EPS, continuing ops (INR)	NA	NA	3.8	4.7	5.4	6.2	7.2	8.3
		% Growth				23.1%	14.4%	16.0%	15.7%	15.3%
Less: Investments	-	Revenue Multiple	5.0	4.4	4.0	3.6	3.2	2.9	2.6	2.3
Add: Minority interest	-	EBITDA Multiple	41.0	34.4	33.3	29.1	25.6	22.7	20.2	18.0
Total Capitalization	142,536.0	P/E Multiple	NA	NA	58.7	47.7	41.7	35.9	31.1	27.0

Note: FY14, FY15 and FY16 figures are taken from segment data disclosed by Crompton Greaves (CRG IN)

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 223, CROMPTON trades at 22.7x FY19E EBITDA of INR 6.3 billion. We recommend buying CROMPTON as it trades at an 11% discount to our FY19 PMV of INR 252. We have applied a 25x EV/EBITDA multiple, which is the median trading EV/EBITDA multiple of comparable consumer durable companies in India.

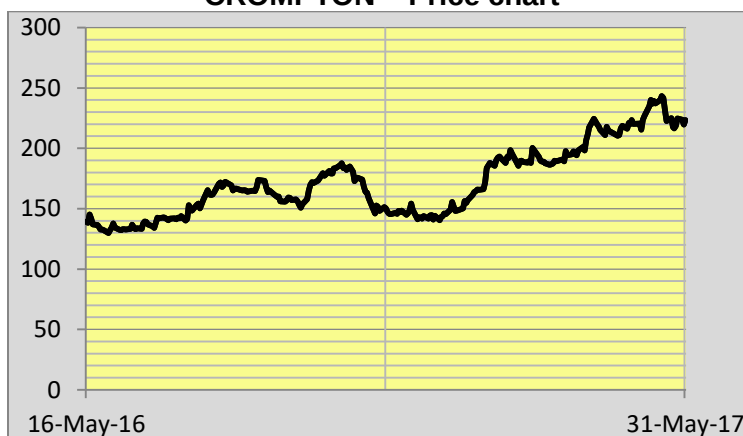
Table 2: CROMPTON – Private Market Value Analysis

(INR million, except per-share data)

PMV Analysis	FY14	FY15	FY16E	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Revenues	28,471	32,330	35,869	39,759	44,193	49,128	54,622	60,739	67,552
EBITDA	3,478	4,140	4,286	4,902	5,573	6,272	7,058	7,939	8,928
Valuation Multiple (EV/EBITDA) (A)	25.0x	25.0x	25.0x	25.0x	25.0x	25.0x	25.0x	25.0x	25.0x
Segment value	86,940	103,500	107,138	122,553	139,326	156,811	176,439	198,468	223,190
Segment value per share	139	165	171	196	222	250	282	317	356
Less Debt	0	0	6,445	6,500	5,200	3,900	2,600	1,300	0
Add Cash	0	0	900	3,885	4,206	4,887	5,946	7,425	9,375
Net Debt	0	0	5,545	2,615	994	-987	-3,346	-6,125	-9,375
Net Debt per share	0	0	9	4	2	-2	-5	-10	-15
Total equity value	86,940	103,500	101,593	119,938	138,332	157,798	179,785	204,594	232,565
Shares Outstanding (year-end)	626.7	626.7	626.7	626.7	626.7	626.7	626.7	626.7	626.7
PMV per share (INR)	139	165	162	191	221	252	287	326	371
Current Market - Discount to PMV	-60.9%	-35.2%	-37.7%	-16.7%	-1.1%	11.3%	22.2%	31.6%	39.8%

Source: Horizon Research, Company data

CROMPTON – Price chart



Source: Horizon Research, BSE

Hindustan Media Venture (HMTL IN – INR 277 - BSE)

Printing the future

Year	EPS	P/E	PMV	Dividend:	INR 1.2
2019E	28.1	9.9	388	Shares O/S:	73.4 Million
2018E	23.5	11.8	328	52 week range:	INR 314.0 – INR 253.0
2017E	22.2	12.5	277		
2016A	24.6	11.3	295		

BACKGROUND

HMTL is an Indian media company with a focussed presence in Delhi-NCR, Uttarakhand, Uttar Pradesh, Bihar and Jharkhand. HMTL's flagship hindi newspaper "Hindustan" has 14.75 million readers and is the second largest read newspaper in India. It holds the Number 1 position in Bihar, Jharkhand, Uttarakhand and number 2 position in Uttar Pradesh. HMTL generated INR 9.2 billion of revenue and INR 2.2 billion of EBITDA in 2016.

Dominant player in vernacular newspapers

- HMTL is a dominant player in the Indian Hindi print media market with ~12% share of advertising revenue and ~7% share of circulation revenue.
- According to Indian media and entertainment industry report 2016 by KPMG and FICCI, advertising revenue of the Hindi print market in India has grown at a CAGR of 10% (2011-2016) and is expected to grow at the same rate over the next five years.
- Circulation revenue of the Hindi print market in India has been growing at a CAGR of 9% (2011-2016) and is expected to grow at same rate over the next five years. This is unlike the global print industry, which has witnessed a decline in both advertisement and subscription revenue on account of shifting of consumer preference to new platforms such as Internet and mobile. Readers in India are less likely to discontinue their subscriptions due to the low average monthly newspaper price in India (USD 2-3) compared to the US (USD 30) and Singapore (USD 23-25).
- Print media remains the preferred advertisement avenue for political parties during elections. Hindustan has the second highest number of readers in Uttar Pradesh which has seen a state election in 2017.

Catalyst

HT Media (HMTL IN), the majority shareholder of HMTL, had demerged and listed HMTL as a separate company in July 2010 in order to exploit M&A opportunities in vernacular media. HMTL retains a 74% stake in HMTL. HMTL has not yet made any acquisitions and if HMTL fails to make any acquisitions in the next two years, HT Media has stated that they may consider re-merging HMTL with themselves. Either an acquisition of vernacular newspapers by HMTL or its merger with HT Media will act as long term catalyst that will help surface the underlying value of HMTL.

Table 1: HMTL capitalization & earnings model

(INR million, except per-share data)

Capitalization	Financial Data	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E
Balance Sheet as of: 3/31/2016									
Fully Diluted Shares 73	Revenue	7,297	8,186	9,185	9,424	10,374	11,430	12,605	13,911
	% Growth		12.2%	12.2%	2.6%	10.1%	10.2%	10.3%	10.4%
Market Price 277	EBITDA	1,512	1,665	2,177	1,805	2,087	2,413	2,790	3,223
Equity Mkt Capitalization 20,326	% Margin	20.7%	20.3%	23.7%	19.2%	20.1%	21.1%	22.1%	23.2%
	% Growth		10.1%	30.8%	-17.1%	15.6%	15.6%	15.6%	15.5%
Plus: Debt 1,727	EPS, continuing ops (INR)	15.2	19.2	24.6	22.2	23.5	28.1	33.4	39.5
Less: Cash 6,430	% Growth				-9.7%	5.7%	19.5%	18.9%	18.4%
Less: Investments -	Revenue Multiple	2.1	1.9	1.7	1.7	1.5	1.4	1.2	1.1
Add: Minority interest -	EBITDA Multiple	10.3	9.4	7.2	8.7	7.5	6.5	5.6	4.8
	P/E Multiple	NA	NA	11.3	12.5	11.8	9.9	8.3	7.0
Total Capitalization 15,624									

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 277, HMVL trades 6.5x FY19E EBITDA of INR 2.4 billion. The median trading EV/EBITDA multiple of newspaper and magazine publishers in India is 8x. We recommend buying HMVL as it trades at a 29% discount to our FY19 PMV of INR 388 (Table 2).

Table 2:

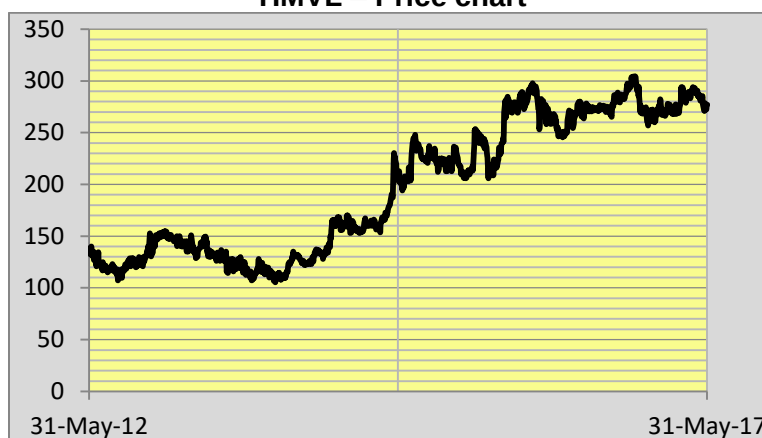
HMVL – Private Market Value Analysis

(INR million, except per-share data)

PMV Analysis	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
Revenues	7,297	8,186	9,185	9,424	10,374	11,430	12,605	13,911	15,365
EBITDA	1,512	1,665	2,177	1,805	2,087	2,413	2,790	3,223	3,721
Valuation Multiple (EV/EBITDA) (A)	7.8x	7.8x	7.8x	7.8x	7.8x	7.8x	7.8x	7.8x	7.8x
Segment value	11,751	12,936	16,916	14,024	16,218	18,752	21,675	25,040	28,909
Segment value per share	160	176	230	191	221	256	295	341	394
Less Debt	299	1,071	1,727	591	748	891	1,640	2,485	3,435
Add Cash	3,446	5,118	6,430	6,867	8,596	10,614	13,596	17,092	21,183
Net Debt	-3,147	-4,047	-4,703	-6,276	-7,848	-9,724	-11,956	-14,607	-17,748
Net Debt per share	-43	-55	-64	-86	-107	-132	-163	-199	-242
Total equity value	14,898	16,984	21,619	20,299	24,066	28,476	33,631	39,647	46,656
Shares Outstanding (year-end)	73.4	73.4	73.4	73.4	73.4	73.4	73.4	73.4	73.4
PMV per share (INR)	203	231	295	277	328	388	458	540	636
Current Market - Discount to PMV	-36.4%	-19.7%	6.0%	-0.1%	15.5%	28.6%	39.6%	48.7%	56.4%

Source: Horizon Research, Company data

HMVL – Price chart



Source: Horizon Research, BSE

Bajaj Auto (BJAUT IN – INR 2,870 - BSE)

Riding on operating leverage

Year	EPS	P/E	PMV	Dividend:	INR 55.0
2019E	157.7	18.2	3,680	Shares O/S:	289.4 Million
2018E	143.6	20.0	3,361	52 week range:	INR 3,122 – INR 2,510.0
2017E	138.9	20.7	3,064		
2016A	130.8	21.9	3,001		

BACKGROUND

BJAUT, headquartered in Pune, India, is a leading Indian motorcycle manufacturer. In addition to selling in India, BJAUT exports to 78 countries and holds market-leading positions (top 2) in around twenty of these countries. BJAUT sold 1.9 million motorcycles in India and exported 1.5 million motorcycles in FY16. BJAUT also sold 1.1 million 3-wheelers in FY16. BJAUT generated INR 239.8 billion of revenue and INR 47.8 billion of EBITDA in 2016.

Asset light business model

An asset light business model ensures that BJAUT capex spend is the lowest amongst its peers. Manufacturing related capex cost is borne by vendors with BJAUT investing in R&D and final assembly. BJAUT runs on a negative working capital cycle. This has helped BJAUT maintain high levels of return on equity (31% in FY16) and return on capital employed (36% in FY16).

Market Share and product categories

BJAUT has a market leading position in most of their product categories.

- In the super-sports segment, with two bikes, The KTM and Pulsar RS 200, BJAUT increased its market share from 35% in FY15 to 60% in FY16.
- BJAUT commands a 49% market share in the sports or performance segment with their two bikes The Pulsar and the Avenger. BJAUT sold 729,304 such bikes in FY16 and increased its market share from 41% in Q4 FY15 to 49% in Q4 FY16.
- BJAUT has a 35% market share in the entry or utility segment with their two bikes the CT and the Platina. BJAUT sold 865,366 bikes in the utility segment in FY16.
- BJAUT aims to create product categories for their motorcycles by making a motorcycle brand occupy a distinct position, relative to competing brands, in the mind of the customer:
 - In February 2016, BJAUT launched a new bike, the V15, a 150 cc model to create a new segment within the mass commuter segment, which is currently dominated by 100 cc and 125 cc bikes. The fuel tank assembly of V15 contains metal from India's flagship aircraft carrier, the INS Vikrant to signify the robustness of the engine. The V15 is expected to create a differentiated segment and improve BJAUT's market share in commuter category.
 - BJAUT introduced the 400 cc DOMINAR model in FY17 and is targeting sales of motorcycles 10,000 per month of this model. The DOMINAR targets the higher margin midsize engine segment currently dominated by Eicher Motors (EIM:IN).

Table 1: BJAUT capitalization & earnings model

(INR million, except per-share data)

Capitalization	Financial Data	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E
Balance Sheet as of:	3/31/2016								
Fully Diluted Shares	289	Revenue	211,677	225,236	239,811	231,854	253,269	276,264	301,409
		% Growth		6.4%	6.5%	-3.3%	9.2%	9.1%	9.1%
Market Price	2,870	EBITDA	41,552.0	41,132.4	47,786.9	45,507.7	49,616.2	54,002.1	58,786.3
Equity Mkt Capitalization	830,368	% Margin	19.6%	18.3%	19.9%	19.6%	19.6%	19.5%	19.5%
		% Growth		-1.0%	16.2%	-4.8%	9.0%	8.8%	8.9%
Plus: Debt	1,625	EPS, continuing ops (INR)	117.9	116.3	130.8	138.9	143.6	157.7	173.6
Less: Cash	20,854	% Growth		-1.3%	12.4%	6.3%	3.4%	9.8%	10.1%
Investments (KTM AV)	37,020	Revenue Multiple	3.3	3.1	2.9	3.0	2.7	2.5	2.3
Add: Minority interest	-	EBITDA Multiple	16.6	16.8	14.4	15.2	13.9	12.8	11.7
Other investments	84,449	P/E Multiple	24.3	24.7	21.9	20.7	20.0	18.2	16.5
Total Capitalization	689,670								

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 2,870, BJAUT trades at 12.8x FY19E EBITDA of INR 54 billion. We recommend buying BJAUT as it trades at a 22% discount to our FY19 PMV of INR 3,680. We have applied a median trading EV/EBITDA multiple of 16x of two wheeler companies globally.

Table 2:

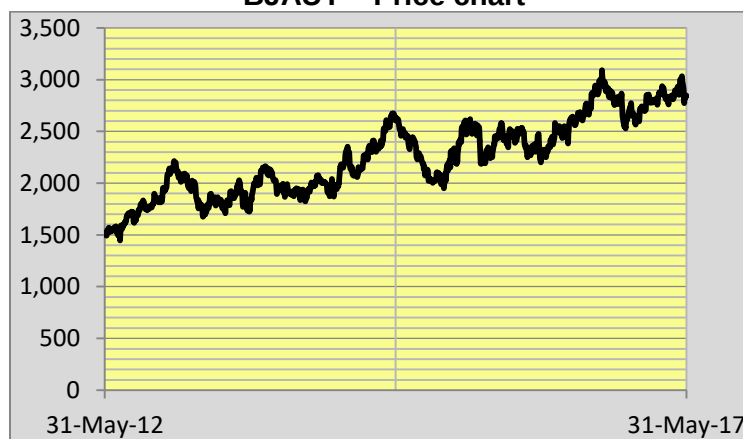
BJAUT – Private Market Value Analysis

(INR million, except per-share data)

PMV Analysis	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
Revenues	211,677	225,236	239,811	231,854	253,269	276,264	301,409	328,491	358,068
EBITDA	41,552	41,132	47,787	45,508	49,616	54,002	58,786	63,912	69,494
Valuation Multiple (EV/EBITDA)	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Segment value	664,832	658,118	764,590	728,124	793,860	864,033	940,582	1,022,586	1,111,904
Segment value per share	2,298	2,274	2,642	2,516	2,743	2,986	3,250	3,534	3,843
Less Debt	592	1,118	1,625	3,868	0	0	0	0	0
Add Cash	27,906	63,933	20,854	40,987	57,109	79,362	104,455	132,769	164,797
Net Debt	-27,314	-62,815	-19,229	-37,119	-57,109	-79,362	-104,455	-132,769	-164,797
Net Debt per share	-94	-217	-66	-128	-197	-274	-361	-459	-570
Investments (48% in KTM AG)				37,020	37,020	37,020	37,020	37,020	37,020
Net Debt per share	0	0	0	128	128	128	128	128	128
Add other investments (long term)	60,940	31,847	84,449	84,449	84,449	84,449	84,449	84,449	84,449
Per share of BJAUT	211	110	292	292	292	292	292	292	292
Total equity value	753,086	752,781	868,269	886,711	972,438	1,064,864	1,166,506	1,276,824	1,398,170
Shares Outstanding (year-end)	289.4	289.4	289.4	289.4	289.4	289.4	289.4	289.4	289.4
PMV per share (INR)	2,603	2,601	3,001	3,064	3,361	3,680	4,031	4,412	4,832
Current Market - Discount to PMV	-10%	-10%	4%	6%	15%	22%	29%	35%	41%

Source: Horizon Research, Company data

BJAUT – Price chart



Source: Horizon Research, BSE

Max Financial Services (MAXF IN – INR 584 - BSE)

Consolidate to grow

Year		EPS	P/E		PMV		
2019E	INR	NA	NM	x	INR 699	Dividend:	NA
2018E		NA	NM		631	Shares O/S:	NA
2017E		NA	NM		571	52 week range:	INR 683.0 – INR 373.0
2016A		NA	NM		511		

BACKGROUND

MAXF, headquartered in Gurgaon, India, is a life insurance company. In 2015, MAXF spun off their health insurance, healthcare, senior living segments into Max India (MAXI) and plastic packaging segments into Max Ventures (MVIL) and reduced itself to a single operating segment, life insurance. MAXF owns the life Insurance business through a subsidiary Max Life Insurance. MAXF owns a 70% stake in Max Life Insurance with the remaining 30% owned by Mitsui Sumitomo (25%) and Axis Bank (5%).

Merger with HDFC Standard Life Insurance

On June 17, 2016, MAXF announced that the Board of Directors of the company approved entering into an agreement to evaluate potential benefits of merging with HDFC Standard Life Insurance (HDFCSLIC). HDFCSLIC is a joint venture between Housing Development Finance Corporation (HDFC IN) and Standard Life (SL LN). HDFC owns a 61.6% stake and SL owns a 35% stake in HDFCSLIC.

On August 8, 2016, MAXF announced the merger of MAXF and HDFCSLIC in a three step process.

- Step One: Max Life Insurance will merge with MAXF. Shareholders will get one share of MAXF for every five shares that they hold in Max Life Insurance. As a result, Mitsui Sumitomo will receive 95.9 million shares of MAXF and will own a 25.1% stake in MAXF by the end of step one.
- Step Two: Shareholders will receive seven shares of HDFCSLIC for every three shares that they hold in MAXF. As a result, HDFCSLIC will issue 892.2million shares (or 30.9% of 2,887.5 million shares outstanding) to MAXF shareholders.
- Step Three: Shareholders will receive one share of Max India (MAXI IN) for every five hundred shares that they hold in MAXF. As a result, MAXI will issue 0.8 million shares (or 0.3% of 267.8 million shares outstanding) to MAXF shareholders.

Post completion of the above three step, HDFCSLIC will be listed on BSE and NSE. The whole process is likely to be completed in 12 to 15 months and will act as a long term catalyst that will help surface the underlying value of MAXF. The merger is likely to be completed by the end of FY18.

Table 1: Merger process and change in ownership

(INR million, except per-share data)

	Step 1: Merger of Max Life with Max Financials // share exchange 1:5				Step 2: Get 7 shares of HDFC Life for every 3 shares in MAXF				Step 3: Get 1 shares of Max India for every 500 shares in MAXF			
	Max Financials (MAXF IN)		Max Financials (MAXF IN)		HDFC Life (not listed)		HDFC Life (not listed)		Max India (MAXI IN)			
(in INR million, except per share data)	Marked to Mkt		Marked to Mkt		Marked to Model		Marked to Model		Marked to Mkt			
Capitalization												
Balance Sheet as of:	3/31/2016		3/31/2016		3/31/2016		3/31/2016		3/31/2016			
Common shares (Million)	267.3		267.3		1,995.3		1,995.3		267.0			
New share issue(Million)			115.1				892.2		0.8			
Fully Diluted Shares Outstanding (Million)	267.3		382.4		1,995.3		2,887.5		267.7			
Share Price for Mark to Mkt // PMV for Mark to Model	583.8		583.8		288.2		299.4		149.5			
Equity Market Capitalization	156,032.3		223,222.1		575,017.0		864,470.8		40,015.1			
Ownership	Shares (Mn)	% stake	Shares (Mn)	% stake	Shares (Mn)	% stake	Shares (Mn)	% stake	Shares (Mn)	% stake		
Majority (Aniljit Singh & Family)	81.3	30.4%	81.3	21.3%			189.7	6.6%	109.5	40.9%		
Mitsui Sumitomo Insurance Co			95.9	25.1%			223.9	7.8%	0.2	0.1%		
Axis Bank (AXSB IN)			19.1	5.0%			44.7	1.5%	0.0	0.0%		
Other shareholders of MAXF	186.0	69.6%	186.0	48.6%			433.9	15.0%	0.4	0.1%		
Others									157.7	58.9%		
Housing Development Finance Corp. (HDFC IN)					1229.8	61.6%	1229.8	42.6%				
Standard Life (Mauritius Holdings)					698.2	35.0%	698.2	24.2%				
Other shareholders of HDFCSLIC					67.3	3.4%	67.3	2.3%				

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 584, MAXF trades at 2.2x FY19E embedded value of INR 72.4 billion. We recommend buying MAXF as it trades at a 16% discount to FY19 PMV of INR 699 of HDFCSLIC (Pro-forma) (Table 2&3). Our estimate of PMV is based on 4x embedded value which is slightly higher than the median transaction market value to embedded value of recent transactions in India: 1) In April 2012, New York Life sold a 26% in Max New York Life to Mitsui Sumitomo at 3.3x embedded value. 2) In March 2016, Reliance Life sold 26% stake to Nippon Life at ~3x embedded value. 3) In August 2015, SL increased their stake in HDFC Standard Life from 26% currently to 35% valuing the company at an EV of INR 187.7 billion or 3.1x FY15 embedded value of INR 60.2 billion. ICICI Prudential (IPRU IN), listed in September 2016, trades at 3.8x embedded value.

Table 2: Return analysis

	<u>Company</u>	<u>No. of shares</u>	<u>Share price</u>	<u>PMV FY19</u>	<u>Discount (%)</u>
Buy	MAXF	1.0	584		
Receive	HDFC Life	2.3		299	
	MAXI	0.0	149	149	
	PMV to Max Financials			699	16%

Source: Horizon Research

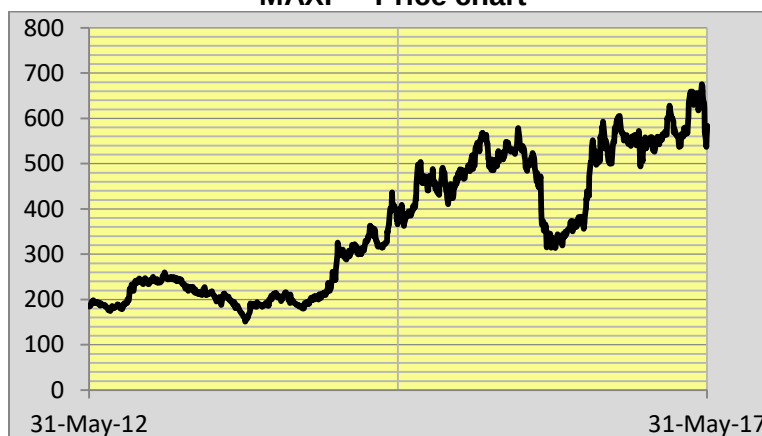
Table 3: MAXF – Private Market Value Analysis (pro-forma)

(INR million, except per-share data)

<u>PMV Analysis</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17E</u>	<u>FY18E</u>	<u>FY19E</u>	<u>FY20E</u>	<u>FY21E</u>	<u>FY22E</u>
MAXF									
Embedded value	39,520	52,320	56,170	62,040	67,003	72,363	78,153	84,405	91,157
Valuation Multiple (Embedded value)	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x
Segment Value	158,080	209,280	224,680	248,160	268,013	289,454	312,610	337,619	364,628
Segment value per share	55	72	78	86	93	100	108	117	126
HDFCSLIC									
Embedded value	69,900	88,100	102,050	114,600	128,352	143,754	161,005	180,325	201,964
Valuation Multiple (Embedded value)	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x
Segment Value	279,600	352,400	408,200	458,400	513,408	575,017	644,019	721,301	807,857
Segment value per share	97	122	141	159	178	199	223	250	280
Total equity value	437,680	561,680	632,880	706,560	781,421	864,471	956,629	1,058,920	1,172,486
Shares Outstanding (year-end)	2,887	2,887	2,887	2,887	2,887	2,887	2,887	2,887	2,887
PMV per share of HDFCSLIC	152	195	219	245	271	299	331	367	406
Share exchange (7 HDFCSLIC for 3 MAXF)	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
PMV per share to MAXF	354	454	511	571	631	699	773	856	947
Current Market (Common Stock) - Discount to PMV	-65%	-29%	-14%	-2%	8%	16%	24%	32%	38%

Source: Horizon Research, Company data

MAXF – Price chart



Source: Horizon Research, BSE

Jain Irrigation (JI IN – INR 101 - BSE)

Climate change warrior

Year		EPS	P/E		PMV		
2019E	INR	4.1	15.7	x	INR 145	Dividend:	INR 1.7
2018E		3.6	18.0		129	Shares O/S:	515.7 Million
2017A		3.5	18.4		116	52 week range:	INR 119.8 – INR 63.6
2016A		1.0	64.1		100		

BACKGROUND

JI is the world's second largest producer of drip irrigation systems. Through recent acquisitions, Jain USA has become the largest micro irrigation company in the US. JI is also the world's 3rd largest producer of dehydrated onion and vegetables. JI operates in the following segments – Hi-tech agri input products (micro irrigation systems or MIS), food processing, PE piping & PVC sheets and green energy. JI generated INR 69.4 billion of revenue and INR 9.4 billion of EBITDA in 2017.

Water Stress in India: India is a water stressed country and repeated failure of monsoon rains in India have led to increased focus on drip irrigation. Federal and state budgets now allocate significant funding to drip irrigation projects and this has provided additional impetus to JI sales. JI has a large institutional shareholding as it meets the investment mandates of institutions focused on sustainability, water preservation, reducing carbon footprint, supporting rural communities and preventing migration.

Change in business model has reduced working capital: The MIS business is dependent upon subsidies provided by the Government (Central and State), which makes the business working capital intensive. JI has been able to reduce average receivables days from 157 days in FY12 to 116 days in FY17 by changing their business model. Earlier JI used to collect subsidy payments from the government agencies directly but now JI sells their products to channel partners or dealers who pay JI upfront or within a minimal credit period. JI Dealers in turn sell MIS products to farmers and after completion of installation and verification, receive subsidy payments from government agencies.

Catalyst

Mid 2014, JI announced that they would segment and possibly spin off their financing subsidiary, Sustainable Agro-Commercial Finance Limited (SAFL). SAFL has received 2 separate equity infusions, USD 1.8 million by IFC in April 2012 and USD 18 million by Mandala Capital in April 2015. On March 11, 2016, Mandala Capital invested INR 2,896 million through CCD's in JI (convertible at INR 80 per share by June 2017). On March 30, 2016, Mandala Capital invested INR 4,022 million through a combination of equity and compulsory convertible debentures (CCD) for a 14%-17% stake in JI's food processing business (JFFFL) (implied EV: INR 23.2 billion to INR 28.2 billion; forward EV/EBITDA multiple : ~12.5x). We believe that the acquisition of a stake in JFFFL by Mandala may eventually result in segmentation of the food processing business. Segmentation of SAFL and JFFFL are long term catalysts that will help surfacing the underlying value of JI.

Table 1: JI capitalization & earnings model

(INR million, except per-share data)

Capitalization		Financial Data	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
Balance Sheet as of:	3/31/2017									
Common shares	460.2	Revenue	59,859.5	63,092.6	64,864.6	69,393.2	83,428.0	90,597.8	98,409.8	106,924.6
DVRs	19.3	% Growth		5.4%	2.8%	7.0%	20.2%	8.6%	8.6%	8.7%
Convertibles	36.2									
		EBITDA	7,699.7	7,797.1	8,183.1	9,402.4	10,856.8	11,736.8	12,689.5	13,721.2
Mkt price - common share	100.9	% Margin	12.9%	12.4%	12.6%	13.5%	13.0%	13.0%	12.9%	12.8%
Market Price - DVR	65.1	% Growth		1.3%	5.0%	14.9%	15.5%	8.1%	8.1%	8.1%
Equity Mkt Capitalization	51,339.4									
		EPS, continuing ops (INR)	4.1	2.9	1.0	3.5	3.6	4.1	5.1	6.1
Plus: Debt	42,778.9	% Growth		-30.5%	-64.5%	248.2%	2.3%	14.4%	22.8%	21.0%
Less: Cash	2,660.8									
Less: Investments	-	Revenue Multiple	1.5	1.4	1.4	1.3	1.1	1.0	0.9	0.9
Add: Minority interest	-	EBITDA Multiple	11.9	11.7	11.2	9.7	8.4	7.8	7.2	6.7
Total Capitalization	91,457.5	P/E Multiple	NA	NA	64.1	18.4	18.0	15.7	12.8	10.6

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 101, JI trades at 7.9x FY19E EBITDA of INR 11.7 billion. We recommend buying JI as it trades at a 30% discount to our FY19 PMV of INR 145 (Table 2).

Table 2: JI – Private Market Value Analysis

(INR million, except per-share data)

<u>PMV analysis</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18E</u>	<u>FY19E</u>	<u>FY20E</u>	<u>FY21E</u>	<u>FY22E</u>
1. Hi-Tech Agri Input Products									
Revenues	36,347	38,369	37,741	32,245	42,603	45,719	49,060	52,642	56,482
EBITDA	6,260	6,595	6,547	7,227	8,670	9,281	9,935	10,634	11,381
Valuation Multiple (EBITDA) (a)	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x
Segment EV	56,337	59,357	58,925	65,043	78,028	83,529	89,412	95,703	102,430
Segment value per share	122	128	124	136	151	162	173	186	199
2. Plastics (earlier clubbed under industrial)									
Revenues	8,080	7,433	8,258	17,968	19,405	20,958	22,634	24,445	26,401
EBITDA	404	372	413	1,743	1,843	1,991	2,150	2,322	2,508
Valuation Multiple (EBITDA) (a)	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x
Segment EV	3,636	3,345	3,716	15,686	16,591	17,919	19,352	20,900	22,573
Segment value per share	8	7	8	33	32	35	38	41	44
3. Agro processing (earlier clubbed under industrial)									
Revenues	12,085	14,511	15,568	16,045	17,971	20,127	22,542	25,247	28,277
EBITDA	2,144	2,559	3,174	2,502	2,669	2,959	3,280	3,636	4,029
Valuation Multiple (EBITDA) (b)	12.5x	12.5x	12.5x	12.5x	12.5x	12.5x	12.5x	12.5x	12.5x
Segment EV	26,800	31,991	39,681	31,278	33,358	36,984	40,999	45,445	50,369
Segment value per share	58	69	83	65	65	72	80	88	98
4. Others (earlier Green Energy)									
Revenues	1,770	1,266	1,350	3,135	3,449	3,794	4,173	4,591	5,050
EBITDA	497	401	430	477	427	469	516	568	625
Valuation Multiple (EBITDA) (a)	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x
Segment EV	4,470	3,612	3,872	4,289	3,841	4,225	4,648	5,113	5,624
Segment value per share	10	8	8	9	7	8	9	10	11
5. Corporate									
Revenues	1,578	1,513	1,948	(0)	0	0	0	0	0
EBITDA	(1,605)	(2,130)	(2,382)	(2,546)	(2,752)	(2,963)	(3,192)	(3,438)	(3,705)
Valuation Multiple (EBITDA) (a)	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x	9.0x
Segment EV	(14,442)	(19,174)	(21,436)	(22,917)	(24,767)	(26,670)	(28,725)	(30,946)	(33,345)
Segment value per share	-31	-41	-45	-48	-48	-52	-56	-60	-65
6. SACF (Integral part of the Hi-Tech Agri Input Products)									
Per share value		2,100	2,205	2,315	2,431	2,553	2,680	2,814	2,955
Less Debt	40,583	42,301	43,414	42,779	46,556	47,553	48,430	49,176	49,782
Add Cash	1,968	3,041	4,145	2,661	3,337	3,624	3,936	4,277	4,648
Net Debt	38,615	39,260	39,269	40,118	43,219	43,929	44,493	44,899	45,134
Per share Value	84	85	82	84	84	85	86	87	88
Total equity value	38,186	41,972	47,695	55,577	66,263	74,610	83,872	94,130	105,471
Shares Outstanding (year-end)	462	462	477	479	516	516	516	516	516
PMV per share	83	91	100	116	129	145	163	183	205
Current Market (Common Stock) - Discount to PMV	-22%	-11%	-1%	13%	21%	30%	38%	45%	51%
Current Market (DVR) - Discount to PMV	21%	28%	35%	44%	49%	55%	60%	64%	68%

Note a: Median trading forward EV/EBITDA multiple of JI; **Note b:** Forward EV/EBITDA multiple paid by Mandala Capital

Source: Horizon Research, Company data

JI – Price chart



Source: Horizon Research, BSE

Claris Lifesciences (CLAR IN – INR 327 - BSE)
A unique formulation

<u>Year</u>		<u>EPS</u>	<u>P/E</u>		<u>PMV</u>		
2017E	INR	17.6	18.5	x	INR 612	Dividend:	INR 2.0
2016A		-10.6	NA		602	Shares O/S:	54.6 Million
2015A		27.4	11.9		642	52 week range:	INR 430.1 – INR 188.0
2013A		13.2	24.7		586		

BACKGROUND

CLAR, based in Ahmedabad, India, is a specialty pharmaceuticals company that manufactures injectable formulations for therapeutic areas such as anaesthesia, renal & transplant, oncology, etc. CLAR generated INR 7.5 billion of revenue and INR 1.5 billion of EBITDA in 2016.

Sale of injectable segment: On December 15, 2016, CLAR announced that they would sell their injectable segment for USD 625 million (~INR 42.4 billion; INR/USD: 67.82) to Baxter International Inc. (BAX US). The deal implied a forward EV/EBITDA multiple of 19.8x.

Major deal milestone crossed: In April 2017 the FIPB gave their approval for the deal. On December 16, 2016, CLAR in a conference call with analysts had announced a timeline of 4 to 6 months to get required approvals and complete the deal. A further 6 to 8 months will be required to distribute the proceeds to shareholders (Table 1).

Table 1: Timeline

Steps	Earliest by	Latest by	Day 1	12/16	01/17	02/17	03/17	04/17	05/17	06/17	07/17	08/17	09/17	10/17	11/17	12/17	01/18	02/18	03/18
Deal announcement	12/15/2016																		
FIPB approval	04/18/2017																		
FTC, US	04/15/2017	06/15/2017																	
Distribution to shareholders	12/15/2017	03/15/2018																	

Note: Green colour indicates completion of a milestone

Sale of residual business: On May 8, 2017, CLAR announced that the Board of Directors of the company approved selling CLAR's 20% stake in Claris Otsuka for USD 20 million (INR 1,280 million at INR/USD: 64) to Otsuka Pharmaceutical Factory. The transaction is subject to FIPB, India approval.

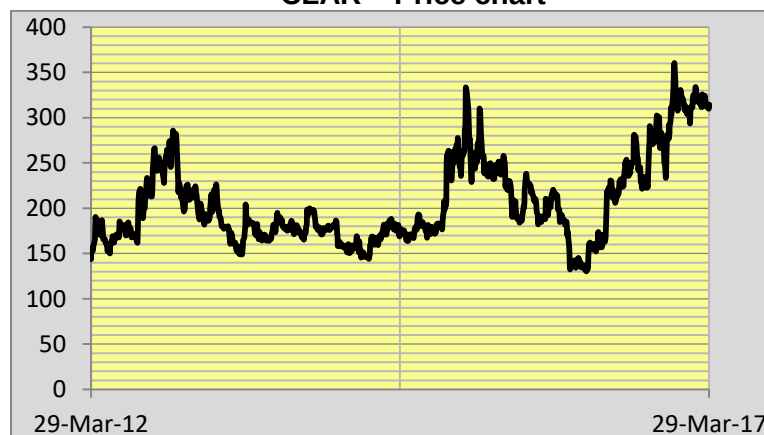
Distribution to shareholders: After the sale of injectable business and CLAR's 20% stake in Claris Otsuka, there would be no other operating business left. Management of CLAR has stated that they will distribute most of the proceeds from sale of injectable business to shareholders.

Recommendation

We recommend buying CLAR at the current share price of INR 327 as it trades at 47% discount to our FY17 PMV of INR 612. The estimated annualized return from the position will vary from 50% to 87% depending on how cash received from BAX is distributed to shareholders (Table 2).

Table 2: PMV calculation and return to shareholder

	Total value (INR Mn)	Value per share (INR)	Remarks
EV of injectable business	42,388	777	EV paid by BAX to CLAR
Less tax liability	6,878	126	20% long term capital gains tax on the difference between EV paid by Baxter and book value of ~INR 8 billion of the injectable segment ~USD 15 million
Less legal fee/transaction charges	1,017	19	
Less Debt	6,029	110	
Add cash	3,632	67	
Add 20% stake in Claris Otsuka	1,280	23	On May 8, 2017, CLAR announced selling their 20% stake in Claris Otsuka for USD 20 million.
Total equity value	<u>33,376</u>		
Shares outstanding (million)	54.6		
PMV		<u>612</u>	
Stock price (05/31/2017)		327	
Current Market - Discount to PMV		47%	
Return to shareholders if distribution takes place			
+ Through share buyback		87%	
+ By way of dividend		50%	Will attract 20% distribution tax

CLAR – Price chart


Source: Horizon Research, BSE

Hinduja Global Solutions (HGSL IN – INR 524 - BSE)

Back in the game

Year		EPS	P/E		PMV		
2019E	INR	113.1	4.6	x	INR 1,199	Dividend:	INR 20.2
2018E		93.7	5.6		995	Shares O/S:	20.8 Million
2017E		80.9	6.5		832	52 week range:	INR 638 – INR 377
2016A		45.7	11.5		535		

BACKGROUND

HGSL, based in Mumbai, India, is the 7th largest BPM service provider in India. HGSL has 43,750 employees (December 2016) and generated INR 33.3 billion of revenue and INR 3.1 billion of EBITDA in 2016. The majority shareholders of HGSL are the UK based Hinduja family.

Turnaround Story

- **Turnaround in Canadian operations:** Inability to find employees in rural areas of Canada had forced HGSL to shift operations to high cost urban centres thereby increasing the HGSL cost structure. Apprentice tax credit given as grants by the Government of Canada to HGSL had also been withdrawn. These two factors along with a slowdown in the Canadian economy and a significant decline in Canadian currency resulted in HGSL's Canadian operations running into losses through most of FY16. HGSL has been able to turnaround the Canadian operations by successfully re-pricing contracts in H2FY16 and stabilized operations.
- **Trump effect insignificant:** Donald Trump's stand on bringing back jobs to the US lost to outsourcing is likely to have an insignificant effect on HGSL due to their strong clientele, global presence, and large onshore presence. HGSL's clientele include five of the top ten US healthcare payers and providers group, telecom companies in Canada, India, UK and US and over thirty consumer brands. HGSL has sixty seven delivery centres located in Canada, France, Germany, India, Italy, Jamaica, Netherlands, Philippines, UAE, UK and US. As an extreme bearish case, we estimate total revenue at risk is ~INR 16 billion (~34% of FY19E revenue of INR 47 billion). Our estimate is based on the number of offshore employees in India (9,353) and Philippines (6,688) and their respective average revenue per month of INR 68,833 and INR 89,244 per employee.
- **Sizable addressable market and growth potential:** According to Nasscom, global BPM spending is expected to grow by 6% to 7% per year and reach USD 233 billion by 2020. India has a 37.6% share in the BPM offshoring market. The total addressable market for the Indian BPM sector is expected to grow by 8% to 9% per year from USD 28 billion in 2016 to USD 54 billion by 2025. HGSL, which has seen sales grow at a CAGR of 25.4% from INR 10.7 billion in FY11 to INR 33.3 billion in FY16, is well placed to exploit this opportunity.
- **New areas of opportunity:** According to an Everest Group research, robotic process automation (RPA) adoption in BPM is growing at a CAGR of over 100 percent and is likely to impact 30% to 40% of BPM spend in the long run. HGSL has already started working on Automation with several clients through gain-share commercial models.

Table 1: HGSL capitalization & earnings model

(INR million, except per-share data)

Capitalization		Financial Data	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E
Balance Sheet as of:	03/31/2016									
Fully Diluted Shares	20.8	Revenue	25,048.5	28,075.8	33,282.1	37,543.9	42,119.1	47,057.9	52,385.3	58,127.8
		% Growth		12.1%	18.5%	12.8%	12.2%	11.7%	11.3%	11.0%
Market Price	524.2	EBITDA	3,219.0	3,127.6	3,130.3	4,317.5	4,843.7	5,482.2	6,181.5	6,946.3
Equity Mkt Capitalization	10,884.0	% Margin	12.9%	11.1%	9.4%	11.5%	11.5%	11.7%	11.8%	12.0%
Plus: Debt	8,399.5	% Growth		-2.8%	0.1%	37.9%	12.2%	13.2%	12.8%	12.4%
Less: Cash	3,748.1	EPS, continuing ops (INR)	78.5	74.8	45.7	80.9	93.7	113.1	135.3	160.3
		% Growth		-4.7%	-38.9%	77.0%	15.9%	20.7%	19.6%	18.5%
Less: Treasury investments	102.1	Revenue Multiple	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Add: Minority interest		EBITDA Multiple	4.8	4.9	4.9	3.6	3.2	2.8	2.5	2.2
Total Capitalization	15,433.3	P/E Multiple	6.7	7.0	11.5	6.5	5.6	4.6	3.9	3.3

Source: Horizon Research, Company data

Recommendation

At the current share price of INR 524, HGSL trades at 0.3x FY19E revenue of INR 47.1 billion and 2.8x FY19E EBITDA of INR 5.5 billion. HGSL trades lower than comparable BPM companies such as Firstsource Solutions (FSOL IN), Genpact (G US) and WNS Holdings (WNS US) (Table 2).

Table 2: Operating & valuation metrics of comparable BPM companies

	HGSL IN	FSOL IN	G US	WNS US
EV/revenue (x) (FY18)	0.4x	0.6x	2.1x	2.5x
EV/EBITDA (x) (FY18)	3.2x	5.1x	12.7x	12.4x
EBITDA margin (FY16)	9.4%	12.5%	16.9%	20.2%
ROE (FY16)	12.6%	8.8%	18.5%	15.0%

Source: Horizon Research, Company data

We recommend buying HGSL as it trades at a 56% discount to our FY19 PMV of INR 1,199. We have used a 5x EV/EBITDA multiple for valuing HGSL which is based on the following:

1. EV/EBITDA multiple of 5x to 6x can be applied based on an LBO analysis
2. Trading median EV/EBITDA multiple of HGSL is ~5x.
3. FSOL, a close competitor, trades at a forward EV/EBITDA multiple of 8.8x
4. DCF per share comes to INR 1,407 and implies a forward EV/EBITDA multiple of 7.0x

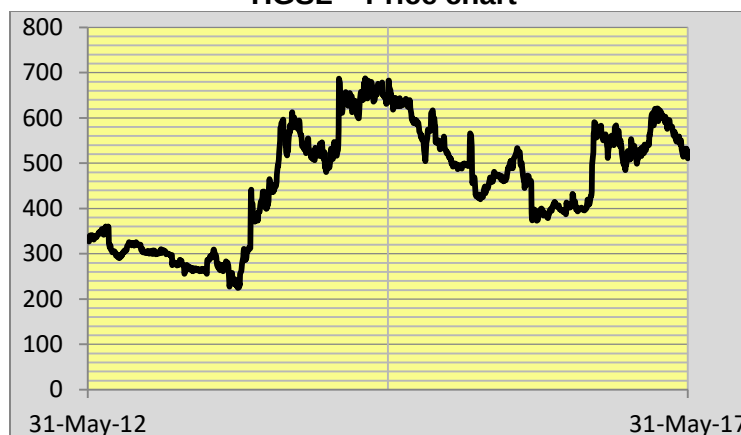
Table 3: HGSL – Private Market Value Analysis

(INR million, except per-share data)

PMV Analysis	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
Revenues	25,049	28,076	33,282	37,544	42,119	47,058	52,385	58,128	64,314
EBITDA	3,219	3,128	3,130	4,318	4,844	5,482	6,181	6,946	7,782
Valuation Multiple (EV/EBITDA)	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x
Segment value	16,095	15,638	15,651	21,588	24,218	27,411	30,907	34,731	38,910
Segment value per share	781	755	754	1,040	1,166	1,320	1,489	1,673	1,874
Less Debt	6,342	6,410	8,399	8,167	7,874	7,445	7,016	6,587	6,257
Add Cash	4,551	3,550	3,748	3,754	4,212	4,824	5,761	7,050	8,821
Net Debt	1,791	2,860	4,651	4,413	3,662	2,621	1,255	-463	-2,565
Net Debt per share	87	138	224	213	176	126	60	-22	-124
Investments	68	80	102	102	102	102	102	102	102
Value per share	3	4	5	5	5	5	5	5	5
Total equity value	14,372	12,859	11,102	17,277	20,659	24,893	29,755	35,297	41,576
Shares Outstanding (year-end)	20.6	20.7	20.8	20.8	20.8	20.8	20.8	20.8	20.8
PMV per share (INR)	697	621	535	832	995	1,199	1,433	1,700	2,002
Current Market - Discount to PMV	25%	16%	2%	37%	47%	56%	63%	69%	74%

Source: Horizon Research, Company data

HGSL – Price chart



Source: Horizon Research, BSE

DISCLOSURES

Anand Rawani, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view trades at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

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