A TURNAROUND IN PROSPECTS

10 Stocks with High Upside Potential in Next Two Years

About two-dozen companies, mostly midcaps, from BSE 500, such as ITD Cementation, Rallis India, Heidelberg Cement, Navneet Education, Chambal Fertilisers and Navin Fluoro among others have reported half-year profits that are more than the profits of the whole of last financial year, signalling a turnaround in their prospects though the Indian economy is still struggling. Here are 10 such stocks that have high upside potential and are expected to deliver healthy earnings growth over FY16-18

—Compiled by Rajesh Mascarenhas

CHAMBAL FERTILISERS

Chambal's current valuations at 5.5 times FY19 estimated earnings with a dividend yield of 3.3% looks attractive given that its EPS is likely to double in the first full year of operation in FY20 of the new urea plant, say analysts. "While the stock is pricing in the execution risk of the new plant and lack of improvement in subsidy payment cycle, it is ignoring company's renewed focus on core business as it continues sale of non-core operations" said Prakash Gaurav of ICICI Securities. "It is more than pricing in all concerns."

HEIDELBERG CEMENT

The stock is trading at EV per tonne of $89 on FY18 estimated capacity. For the September quarter, EBITDA per tonne stood at ₹598 against ₹415 last year and ₹655 in the previous quarter. The central region, where Heidelberg's plants are based, is attractive from a long-term perceptive, says analysts. "In the next few years, no major integrated plant is likely to come on stream there and, thus, its utilisation levels would increase from 80% in FY16 to close to 90% in FY18," said, Ravi Sodah, analyst, Elara Capital. "As a result, margin is likely to improve."

ITD CEMENTATION

The stock has been trading at 18-20 times one-year forward PE, a 15-20% premium to peers like KNR Construction and J Kumar Infra. The company, with MNC parentage, high corporate governance and sustained balance sheet improvement, may justify a higher P/E multiple, according to analysts. "The balance sheet is in a repair mode and working capital intensity is improving, which justify higher P/E multiple," said Parikshit D Kandpal, analyst, HDFC Securities.

MCX

MCX's market share was up at 89.2% in the first half of FY17 from 82.4% in first half of the previous year. While SEBI has allowed options trading in commodities, full-fledged implementation is only likely in the last quarter of FY17. Improvement in the ADTV, introduction of options trading, including currency derivatives, and institutional participation on commodity exchanges are key triggers for MCX, say analysts. "We expect sales and earnings to grow at CAGRs of 26% and 30%, respectively over FY16-FY19 without including any upside from options," said Nimit Shah, analyst, ICICI Securities.

ANIRBAN BORA

Name	CMP (₹)	YTD Return (%)	Target Price (₹) *	PAT ₹Cr (Apr-Sep '17)	PAT FY16 (₹Cr)	PAT FY15 (₹Cr)
Chambal Fertilisers	67.80	8.65	76.40	267.77	86.30	236.78
EID Parry India	245.80	23.86	310.00	141.28	45.04	116.79
HeidelbergCement India	110.00	36.14	129.63	42.76	38.65	59.53
ITD Cementation	146.60	34.00	167.86	28.23	-59.31	19.41
MCX India	1,198.50	29.46	1,443.89	70.46	41.83	125.05
Navin Fluorine Intl	2,295.95	22.99	3,036.80	84.04	82.47	49.38
Navneet Education	108.10	12.14	128.33	132.14	127.80	129.30
Phoenix Mills	383.00	14.09	421.25	97.33	81.55	35.43
Rallis India	199.65	12.29	231.86	240.72	143.03	157.22
Shree Cement	15,105.30	31.36	16,822.29	799.17	454.93	426.33

* Bloomberg Consensus

NAVIN FLUORINE INTL

Navin Fluorine has a strong balance sheet with minimum debt and robust return ratios. Analysts expect it to sustain its growth momentum. "Its strategy to focus on high-margin business through innovation, expanding market base and strong footprints in traditional business will drive overall sales," said Kishor Kumar, analyst, Karvy Stock Broking. Currently, the stock trades at a PE of 18.6 times FY18 estimated EPS of ₹130.6.

NAVNEET EDUCATION

After tepid FY16, H1FY17 performance was robust with both publishing and stationery segments performing well. Navneet has taken many initiatives like entry into CBSE books business and enhancing its presence in digital content to drive growth. Through its enhanced content, it is looking to enter new states in India. "We expect Navneet to register steady revenue growth driven by geographical expansion, entry into CBSE curriculum and government orders," said Bharat Chhoda of ICICI Securities.

PHOENIX MILLS

The company achieved group rental income of ₹730 crore in FY16 with High Street Phoenix and Pune driving growth. Analyst expect this to rise to ₹810 crore in FY17 and ₹870 crore in FY18, driven by rental renegotiations. "While we have retained our earlier FY17 estimated NAV based target price of ₹408, we are upgrading our rating to 'accumulate' from 'reduce' post the 20% fall in stock price from its 52-week high," said Adhidev Chattopadhyay, analyst, Elara Securities.

SHREE CEMENT

The company has consistently gained market share due to timely capacity additions when the sector is seeing limited fresh supply. Its cost leadership and strong balance sheet can protect downsides even if demand/price disappoints, according to analysts. "While valuations at EV/t of $224 (50% above replacement cost) does seem rich, the benefits of strong operating leverage and market share gains heading into a demand supply period in the next 12-24 months can drive strong cash flows and sustain valuation gap to peers," said Chockalingam Narayanan, analyst, Deutsche Bank.

RALLIS INDIA

A normal monsoon pushed sales of agrochemicals in the domestic market for the company in the second quarter. The international division, too, reported a pickup in sales. Last year's low base also helped strong growth in volume. "We expect Rallis' topline growth to remain strong in H2FY17, led by low base since, in the second half of FY16, its revenues were down by 7% driven by weakness in both domestic market as well as exports," said Rohan Gupta, analyst, Emkay Global. "On the back of a low base, supported by a strong Rabi season, company's earnings growth will remain robust."

EID PARRY

It reported a net profit of ₹81.7 crore in September quarter against ₹37 crore loss a year ago. "The results are playing out as per our expectation of a positive swing for the company FY17 onwards on rising sugar prices, higher downstream contribution, turnaround in refinery operations and growth prospects for nutraceuticals," said Axis Securities. It has valued the company's sugar operations at ₹60 per share, based on six times FY18 estimated EV/EBITDA, Coromandel International at ₹250 per share, based on 62% shareholding and 20% holding company discount, and bio-products at ₹40 per share.