



HIDDEN GEMS

SPECIAL REPORT

6 HIDDEN GEMS STOCKS TO BUY / ACCUMULATE

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Saral Gyan

Investors guide providing insight to equity market

Saral Gyan Capital Services



Dear Member,

Since beginning of 2018, we have seen severe correction in broader indices. BSE Small Cap & Nifty Small Cap Index have fallen the most by 28.5% & 36.3% respectively from their all time high made in Jan 2018. Steep fall in broader indices have hurt sentiments and created panic for many of retail investors who got into market last year or during this year. Its important to know, whether you would be able to hold on your equity investments in case stock market tanks further?

Below are some of the major reasons of continuous downfall in small & mid cap stocks in 2018

- i) Rejig in Portfolio by Mutual Funds to meet guidelines defined by SEBI.
- ii) Dampening of sentiments due to introduction of ASM (Additional Surveillance Measures) by SEBI
- iii) Auditors exit from companies with poor corporate governance on fear of action from authorities
- iv) Unfavourable macros with rising crude oil prices and depreciating rupee
- v) Trade war fears between US and China, increasing interest rates, continuous selling by FIIs
- vi) Panic in market due to liquidity concerns, IL&FS default on debt repayments

Its important to understand that long term gains come in equities only if you bear short term pain. With recent fall in stock prices, small caps valuations are turning attractive to reasonable. Moreover, once the markets bottom out and form a base, we can see renewed buying interest in small & mid caps. Bad sentiments will not last for ever, its time for long term investors (2-3 years) to start accumulating good quality stocks which after a long time are becoming available at attractive valuations.

FROM THE DESK OF OUR RESEARCH TEAM



HIDDEN GEMS

Post recent correction in small cap stocks, we have reviewed all our past recommended Hidden Gems and short-listed 6 Hidden Gems stocks which offer good long term investment opportunity and have potential to give excellent returns on your investment during next 2 – 3 years. While short listing these 6 stocks, we evaluated each company on the basis of I-B-M-V-E-D parameters (Industry, Business, Management, Valuations, Earnings Growth & Debt Management) and rated every parameter using a rating scale – E,V,G,F,P (E=Excellent, V=Very Good, G=Good, F=Fair, P=Poor)

One of the important key to successful investing is to pick the right business at decent valuations. We finalized these 6 stocks with a long term view (2-3 years) and find them superior over other Hidden Gems stocks in terms of valuations, earning visibility, debt management and integrity of promoters towards their business and interest of minority share holders.

These 6 Hidden Gems stocks have a market capital below 600 crores and seen a price correction between 25% to 50% from their 52 week high without any major change in business fundamentals. We believe these stocks will outperform giving much better returns compared to broader indices in medium to long term. Our members can add these stocks in their portfolio with long term view (2 to 3 years). We suggest our members to start investing in these 6 Hidden Gems stocks with initial allocation of 2% and increase allocation gradually to 3-5% in staggered way in case stock prices of these companies falls by another 10% to 20% or more during ongoing market correction.

Team – Saral Gyan

FROM THE DESK OF OUR RESEARCH TEAM

**HIDDEN GEMS**

Important parameters which we looked into while finalizing stocks are as under:

1. **Industry** – Operating in Industry / sector which is expected to grow > 10% CAGR during next 3 years
2. **Business** – Leadership position in the business or one of its business segment in certain geography
3. **Management** – Prudent & trustworthy management keeping interest of minority share holders
4. **Valuations** – Reasonable / attractive valuations compared to peer group companies
5. **Earnings** – Consistent past performance & strong earning visibility with planned / recent expansion
6. **Debt Management** – Company is able to generate cash flows with low or reducing debt on books

S. NO	HIDDEN GEM STOCK	BSE CODE	MARKET CAPITAL	C.M.P 30-SEPT-18	CORRECTION 52 WK HIGH	P/E RATIO (TTM)	I-B-M-V-E-D MATRIX
1	CONTROL PRINT	522295	561 CR	343.7	-38.0%	16.8	E-E-V-V-G-E
2	BHAGERIA INDUSTRIES	530803	513 CR	235.3	-35.5%	9.9	V-V-G-E-V-V
3	GLOBUS SPIRITS	533104	422 CR	146.7	-31.8%	32.6	V-E-V-G-E-F
4	TALBROS AUTOMOTIVES	505160	302 CR	244.6	-30.8%	12.3	V-V-V-V-E-G
5	ACRYSIL INDIA	524091	265 CR	509.9	-25.6%	20.6	E-E-G-G-E-G
6	SAHYADRI INDUSTRIES	532841	156 CR	163.4	-49.9%	5.5	G-G-G-E-E-F

Rating Scale: E=Excellent, V=Very Good, G=Good, F=Fair, P=Poor

1. CONTROL PRINT

**HIDDEN GEMS****C.M.P: 343.65****MARKET CAP: 561 CR**

QUARTERLY RESULTS ANALYSIS

- Net profit of Control Print rose 0.23% to Rs 8.60 crore in the quarter ended June 2018 as against Rs 8.58 crore during the previous quarter ended June 2017.
- Sales declined 3.27% to Rs 43.53 crore in the quarter ended June 2018 as against Rs 45.00 crore during the previous quarter ended June 2017.

CURRENT VALUATIONS & EXPECTED EARNINGS

- Control Print has registered sales CAGR of 16.9%, profit CAGR of 23.6% with ROE of 20.3% over last 5 years with zero debt on books.
- As per our estimates, Control Print can deliver PAT of 45.80 crores for full financial year 2019-20 with annualized EPS of Rs 28. At current market price of Rs. 343.65, stock is available at forward P/E ratio of 12.3X based on FY19-20 earnings. Company's valuation looks attractive considering strong growth outlook of coding and marking Industry driven by stringent legal requirements on display of essential product information details.

SARAL GYAN RECOMMENDATION & BUYING STRATEGY

- Given that the Coding and Marking Industry is driven by legal requirements to provide product information to customers and for traceability of products, Control Print with ~20% market share is well positioned to take advantage of the growing industry.
- We suggest to invest in Control Print at current price and accumulate more if stock price falls by another 10-15% with maximum portfolio allocation of 4-5%.

2. BHAGERIA INDUSTRIES



HIDDEN GEMS

C.M.P: 235.30



MARKET CAP: 513 CR

QUARTERLY RESULTS ANALYSIS

- Net profit of Bhageria Industries rose 262.80% to Rs 17.85 crore in the quarter ended June 2018 as against Rs 4.92 crore during the previous quarter ended June 2017.
- Sales rose 37.94% to Rs 113.29 crore in the quarter ended June 2018 as against Rs 82.13 crore during the previous quarter ended June 2017.

CURRENT VALUATIONS & EXPECTED EARNINGS

- Promoters seem to be confident about their business growth prospects, the same is reflected with increase in promoters shareholding over last one year, promoters stake is increased in the company by ~18% since Sept'17 quarter.
- As per our estimates, Bhageria Industries can deliver PAT of Rs. 64 crores in FY19-20 with annualized EPS of Rs 40.20. At current price of 235.30, stock is available at forward P/E multiple of 5.8X based on FY19-20 earnings. Company's valuation looks attractive considering robust growth outlook of dye intermediates in coming years.

SARAL GYAN RECOMMENDATION & BUYING STRATEGY

- Reduction in imports from China due to structural changes in environmental regulations has increased sales volume and sales prices for domestic dyes intermediate players. Moreover, increase in effluent handling cost, prices fluctuations of intermediates and implementation of GST are expected to provide competitive edge to the organized integrated players over un-organized dyes manufacturers lacking backward integration. We suggest to invest in Bhageria Industries with initial allocation of 3% and increase it to 4-5% in case of fall in stock price by 12-20% from current levels during market correction.

3. GLOBUS SPIRITS



HIDDEN GEMS

C.M.P: 146.70



MARKET CAP: 422 CR

QUARTERLY RESULTS ANALYSIS

- Net profit of Globus Spirits rose 380.25% to Rs 7.54 crore in the quarter ended June 2018 as against Rs 1.57 crore during the previous quarter ended June 2017.
- Sales declined 0.37% to Rs 231.51 crore in the quarter ended June 2018 as against Rs 232.37 crore during the previous quarter ended June 2017.

CURRENT VALUATIONS & EXPECTED EARNINGS

- Globus Spirits performance was poor in past, however we believe with recent expansion in capacity, favourable High Court decision for commencing operation at Bihar's plant and entry into high margin IMFL category will improve company's performance over next 2 years.
- As per our estimates, Globus Spirits Ltd can deliver net profit of Rs. 39 crores in FY 2019-20 with annualized EPS of Rs. 13.5. At current price of 146.70, stock is available at forward P/E multiple of 10.9X based on FY19-20 earnings. Company's valuation looks very attractive when compared to other listed players in Alco-beverage industry.

SARAL GYAN RECOMMENDATION & BUYING STRATEGY

- With significant improvement in margins on the back of robust growth in the IMIL segment, increase in PAT of the company with decrease in depreciation and interest costs, improvement in capacity utilization of West Bengal plant and recommencement of production at Bihar plant by end of this FY, we suggest our members to invest in Globus Spirits with initial allocation of 3% at CMP and increase allocation to 4-5% in case of correction in stock price by another 10-20% from current levels.

4. TALBROS AUTOMOTIVE

**HIDDEN GEMS****C.M.P: 244.60****MARKET CAP: 302 CR**

QUARTERLY RESULTS ANALYSIS

- Net profit of Talbros Automotive Components rose 127.47% to Rs 6.21 crore in the quarter ended June 2018 as against Rs 2.73 crore during the previous quarter ended June 2017.
- Sales rose 53.94% to Rs 123.18 crore in the quarter ended June 2018 as against Rs 80.02 crore during the previous quarter ended June 2017.

CURRENT VALUATIONS & EXPECTED EARNINGS

- Talbros Automotive continue to report robust top line as well as bottom line growth. The company is expected to deliver PAT of Rs. 29 crores in FY19-20 with annualized EPS of Rs. 23.5.
- At current price of 244.60, stock is available at forward P/E multiple of 10.4X based on FY19-20 earnings estimates. Valuation looks attractive considering strong earning visibility on account of major order wins and addition of new clients.

SARAL GYAN RECOMMENDATION & BUYING STRATEGY

- As per management, the company's vision is to achieve turnover of close to Rs. 700 crores and generate EBITDA and PAT margins of 14% and 5% respectively by effectively earning a ROCE of above 20% over next 2-3 years.
- We believe Talbros Automotive is attractively valued at current levels and offers good investment opportunity for long term investors. We recommend buy at current price with initial allocation of 3% which can be increased gradually to 4-5% on dips.

5. ACRYLIL INDIA



HIDDEN GEMS

C.M.P: 509.90



MARKET CAP: 265 CR

RECENT QUARTERLY RESULTS

- Net profit of Acrysil rose 17.93% to Rs 4.34 crore in the quarter ended June 2018 as against Rs 3.68 crore during the previous quarter ended June 2017.
- Sales rose 30.66% to Rs 60.22 crore in the quarter ended June 2018 as against Rs 46.09 crore during the previous quarter ended June 2017.

CURRENT VALUATIONS & EXPECTED EARNINGS

- Management is quite ambitious and confident of achieving medium term growth milestone of Rs 500 crore revenue and long term growth milestone of Rs 1000 crore revenue.
- Acrysil India is currently trading at PE multiple of 19 based on FY18-19 earnings and looks attractive considering robust product portfolio with introduction of new and innovative products in kitchen ware segment.

SARAL GYAN RECOMMENDATION & BUYING STRATEGY

- Future prospects of the company looks bright with management focus on an innovative and sustaining product portfolio. Valuations look reasonable considering that the company is operating in a high growth market with comfortable debt to equity ratio of 0.7, having leadership and brand recognition in niche segment of kitchen sinks.
- Acrysil India offers good long term investment opportunity, hence we suggest Buy on the stock with initial allocation of 2% which can be increased to 3-4% at lower levels.

6. SAHYADRI INDUSTRIES



HIDDEN GEMS

C.M.P: 163.40



MARKET CAP: 156 CR

QUARTERLY RESULTS ANALYSIS

- Net profit of Sahyadri Industries rose 33.77% to Rs 15.21 crore in the quarter ended June 2018 as against Rs 11.37 crore during the previous quarter ended June 2017.
- Sales rose 19.12% to Rs 111.83 crore in the quarter ended June 2018 as against Rs 93.88 crore during the previous quarter ended June 2017.

CURRENT VALUATIONS & EXPECTED EARNINGS

- Sahyadri Industries has turnaround its performance over last 2 years and significantly reduced its debt. However, stock is available at steep discounted price when compared to its peers. The stock at current price is available at price to book ratio of 1.1 and PE ratio of 5.5 trailing 12 month basis.
- We do not see any slowdown in company's business as steel prices are on rise and cement sheet will be preferred over steel sheets, company is expected to do well over next 12 month considering good monsoon this year and expected increase in rural income.

SARAL GYAN RECOMMENDATION & BUYING STRATEGY

- We find company's valuation attractive at current levels. Sahyadri Industries is expected to deliver EPS of Rs. 31 in FY18-19 and currently available at forward PE multiple of 5.3 which looks much discounted when compared to growth prospects of the company.
- We suggest our members to invest in the stock with initial allocation of 2-3% which can be increased to 4-5% at lower levels during ongoing market correction.

ABOUT SARAL GYAN CAPITAL SERVICES

Saral Gyan Capital Services is an independent equity research firm. We publish unbiased thoroughly researched reports that enhance the visibility of innovative public companies in micro, small & mid cap space. Our reports, [Hidden Gems](#) & [Value Picks](#), are distributed to our subscribers through our website.

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We also offer [15% @ 90 Days](#), which works on buy to sell and gain strategy for short term profits. The stocks under 15% @ 90 DAYS are selected on the basis of technical analysis done by our equity analysts.

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Saral Gyan Capital Services





**Office: 159 B, Near Ganesh Square,
Sadar Cantt, Jabalpur
482001**



www.saralgyan.in

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SARAL GYAN SUBSCRIPTION SERVICES

SERVICE	INVESTMENT HORIZON	MARKET CAP / INDEX	NUMBER OF RECOMMENDATIONS	SELECTION CRITERIA	SUGGESTED ALLOCATION *	1 YEAR SUBSCRIPTION PLAN
 HIDDEN GEMS Know More Sample	1 - 3 Yrs	Small / Micro Cap (BSE Small Cap)	12 per year	Growth / Value (Mkt Cap < Rs. 500 Crs)	10% - 25%	Rs. 10,000 (\$180) SUBSCRIBE!
 VALUE PICKS Know More Sample	1 - 3 Yrs	Mid Cap (BSE Mid Cap)	12 per year	Growth / Value (Mkt Cap: Rs. 1,000 - 10,000 Crs)	20% - 40%	Rs. 6,000 (\$110) SUBSCRIBE!
 15% @ 90 DAYS Know More Sample	3 Months	Mid Cap (BSE - 500)	12 per year	Technical Analysis / Recent Developments	Not Applicable	Rs. 4,000 (\$75) SUBSCRIBE!
 WEALTH-BUILDER <small>An Offline Portfolio Management Service</small> Know More Sample	3 - 7 Yrs	Across Market Caps	12 - 18 Portfolio Updates per year	Long Term Wealth Creation	10 - 15 Stocks	Rs. 20,000 (\$360) SUBSCRIBE!

• Suggested allocation - This is the percentage of funds that you could allocate (out of your total equity portfolio) to each category of stocks. Please note that these allocations are purely indicative.

Looking for guidance on which service to opt for? Or have any other query?

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