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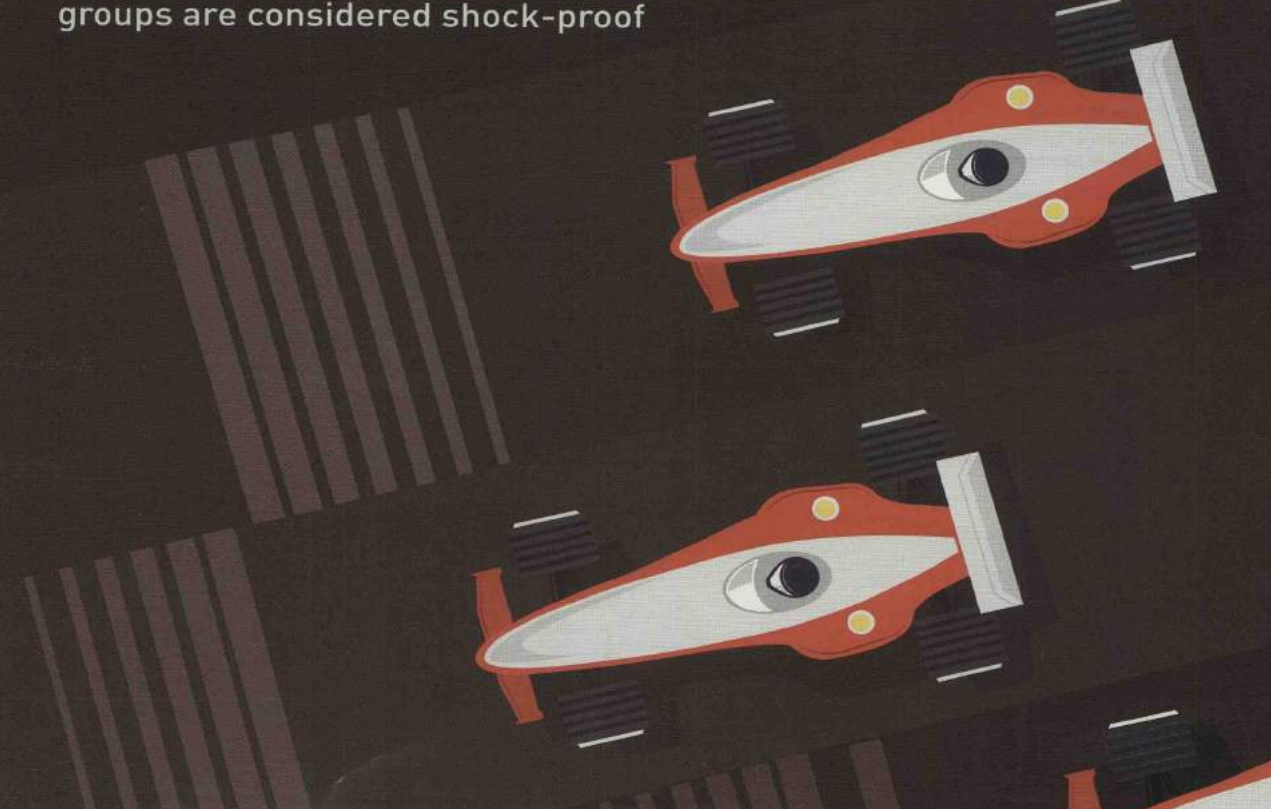
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Enduring Flagships

Companies at the pole position in their groups are considered shock-proof



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Stocks

In perpetuity

Unlike group entities, the headline company faces no uncertainty of being restructured or sold to overcome economic or company-specific challenges

The stock market seems to be at a crossroads. The US Federal Reserve increased interest rates 0.25% mid December 2018. The fourth ramp-up in the calendar year (CY) 2018 has pushed up interest rates to the 2.25% to 2.5% level, the highest since September 2008. Angered by the hike, US president Donald Trump pronounced: "The only problem our economy has is the Fed." Media reports indicated he had even contemplating sacking his hand-picked nominee Chairman Jerome Powell.

Interest rates in the US have a direct impact on global liquidity. Funds prefer to invest in high-yielding safe-haven US treasuries over emerging market instruments. As a result, central banks in these economies tend to push up domestic interest rates to prevent foreign investors from fleeing and weakening the local currency. The fallout is borrowers and consumers everywhere have to pay more.

Fears of a global economic slowdown are mounting. Signs are visible in several countries including the US, Germany and China. The European Central Bank has blamed the higher borrowing cost of dollar debtors and trade tensions.

A global tariff war remains a big concern. At the moment, the scope is restricted between the US and China. Both the countries blow hot and cold in turns. Europe is in a wait-and-watch mode after negotiating a temporary truce with the US.

End December 2018, the US government partially shut down owing to the showdown between Trump and the Democrats in Congress over funding for a wall along the US-Mexico border. The impasse, however, is expected to have a marginal impact on the US economy. Nonetheless, the US stock market has lost around 19% from its peak in September 2018. A fall by another percentage point will take equities in bear territory.

Coming to India, the S&P BSE Sensex climbed up 6.6% in CY 2018. In the process, it scaled an all-time high of 38,989 in

What the market tells

The earnings and book value discounting of large caps are at a premium to mid and small caps. Even after correction, large and mid caps continue to remain expensive



August 2018. Subsequently, it came under bear attack and lost 13.9% to report a low of 33,349. The benchmark recovered to 36,077, mainly on support from sliding prices of crude oil and a strengthening rupee. Brent crude dipped below the psychologically crucial benchmark of US\$ 50 per barrel end December for the first time since July 2017. From a recent peak of US\$ 85.6 per barrel in October 2018, it is down around 42%. In the process, the Indian rupee has bounced back to the 70 per US dollar level compared with its all-time low of 74.45 in October 2018.

The Central government slashed the rate of goods and services tax (GST) on 22 items including monitors, televisions, movie tickets, power banks, retreaded tyres and digital cameras in December 2018. Except for sin goods, it is contemplating lower GST rates for other products as well. The 12% and 18% slabs are likely to be merged to move towards a single-tax regime. Also, the tax filing process is set to be simplified.

Bad debts continue to haunt the banking system and impair their ability to lend. The liquidity problem faced by non-bank-

ing financial companies (NBFCs) as banks shy from lending to them following the collapse of IL&FS is expected to lower availability of credit to various segments of the economy. NBFCs are largely set to witness deceleration in growth rates from the December 2018 quarter.

However, the Insolvency and Bankruptcy Code (IBC) is delivering results. Bad assets are being sold. As per the government estimates, banks are expected to exceed the targeted recovery amount of Rs 1.8 lakh crore in the current fiscal year ending March 2019 (FY 2019) as against recovery of Rs 74562 crore in FY 2018. Significant capital is expected to be freed up under IBC.

Congress has won the key states of Madhya Pradesh and Rajasthan and resources-rich Chhattisgarh in the recently held assembly elections. The results indicate the mood of the voters as the country prepares to go in for general elections mid CY 2019. A close finish is expected, throwing up new political equations at the Centre. The three states have announced farm loan waivers as promised in the election manifesto. The opposition is gunning for a nationwide write-off. Any such move will have an adverse

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impact on the fiscal health of the Central and state governments apart from spoiling the credit culture.

Foreign portfolio investors are not able to take a firm call on Indian equities. They net sold Rs 33553 crore in CY 2018. Though, FPIs were net buyers in November and December 2018. Considering the clout enjoyed by FPIs in the domestic market, their actions and reactions to global and domestic events will have to be keenly watched.

Equities are once under pressure on account of global sell-off in the equity markets. At the current level, the Sensex is little over 7% off of its historic milestone. It is

Preparing to spring

Arvind's textile business is projected to grow 10%, while the branded apparel business 20% in FY 2019. Profitability is expected to increase in FY 2019



CMP Rs 95 as on 04 January 2019. One-year return: -39.23%
S&P BSE Mid-cap Index one-year return: -16.16%

available at price-to-earnings (P/E) multiple of 23.7, price-to-book value (P/BV) of 3 times and dividend yield of 1.16%. Considering the long-term median P/E valuation of 18, stocks are certainly not cheap. The BSE Mid-Cap index is trading at a P/E multiple of 32.9 and P/BV of 2.65 times. The BSE Small-Cap index's P/E is negative 95.7 and P/BV 2.17 times.

Newer industries emerge, flourish, reach their prime, mature and subsequently die or become unexciting. The phenomenon is natural but difficult to predict. Every industry has its ups and downs. Software is one of the prime examples. Tech solutions providers have generated immense wealth over the last two decades, driven by a significant growth in business with profitability. The

The mother ship

Many flagships are holding ventures for group companies, apart from running independent businesses, offering a significant cushion to equity investors

COMPANY	HIGHLIGHTS
Larsen & Toubro	There is presence in the business segments of engineering-procurement-and-construction, defence, manufacturing and services in 30 countries. The order book of Rs 263107 crore end March 2018 is twice the revenues in FY 2018. The infrastructure segment accounted for 74% of the consolidated order book. The group consists of 93 subsidiaries, eight associates and 34 joint ventures. The listed companies include L&T Finance Holdings in the non-banking financial services space, Larsen & Toubro Infotech in the software business and L&T Technology Services in the engineering research and development services field.
Tata Consultancy Services	The Tata group company is the country's largest software solutions provider, with revenues of US\$ 19 billion and over four-lakh employees end FY 2018. Operations span information technology services, consulting and business solutions. The delivery infrastructure includes 190 solution centers in 18 countries. There is presence in 46 countries. Key verticals served are banking-financial services-and-insurance, retail and consumer business, communication, media and technology and manufacturing. Cash of US\$ 4.1 billion was generated in FY 2018.
Ramco Cements	The flagship of the Ramco group makes Portland cement at eight facilities that include integrated plants and grinding units, with a current total production capacity of 16.45 million tonnes per annum (mtpa). The product is sold as Ramco Grade. The fifth largest cement manufacturer also produces ready-mix concrete and dry mortar products and operates one of the largest wind farms in India. An additional clinker capacity of 1.5 mtpa and with 27-MW wind power is being set up. The investment is Rs 830 crore. Also, the total capacities of the facilities at Vizag in Andhra Pradesh and at Kolaghat in West Bengal are being expanded to two mtpa from 0.9 mtpa. Also, a new green-field unit, with capacity of 0.9 mtpa, is coming up in Odisha. The capital outlay is Rs 1100 crore.
Apollo Tyres	The Apollo group of Onkar Kanwar, established in 1972, markets tyres in over 100 countries under two global brands: Apollo and Vredestein. These products are available across the globe through a vast network of branded, exclusive and multi-product outlets. There are multiple manufacturing units in India, the Netherlands and Hungary. The Chennai truck and bus radial capacity is being doubled. A green-field facility is under execution in Andhra Pradesh to maintain leadership and capitalize on market growth. Production commenced at the Hungary green-field plant in CY 2017.
Eveready Industries	The Khaitan group is the leader in the domestic battery and flashlight market. Production of 1.2 billion batteries has resulted in a share of 50% and of around 25 million flashlights into a share of 75% in the organized market. The basket of products includes led-based luminaries, lamps and other lighting products, packet tea and home appliances. An extensive network of 42 distribution centers, 18 branch offices and 4,000 distributors reaches towns with 5,000 and more population. Apart from flagship Eveready, other brands are Tez, Lava and PowerCel.
Cadila Healthcare	The Gujarat-based Zydus group company is the fourth largest Indian pharmaceutical producer by sales, with a 4.2% share in the domestic market. There is presence in the therapy segments of anti-infective, cardiac, gastro intestinal, respiratory, pain management, gynaecology and dermatology. The US contributed 50%, followed by India 29%, to the total revenues in FY 2018. Manufacturing capabilities across the entire pharmaceutical value chain include formulations, bulk drugs, vaccines, biosimilars and complex, animal health and wellness products. Total product filings in the US stood at 330. Of these, 144 are pending approval.

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industry seems to have matured over the last few years.

Telecommunication is another sunrise industry that has created thousands of direct and indirect jobs. However, it is facing massive headwinds with hyper competition owing to the advent of Reliance Jio. A sharp decline in pricing has triggered industry consolidation. Tata Sons sold its consumer mobile business to the country's largest telecom operator Bharti Airtel virtually for free in October 2017.

Like several others, the pharmaceutical industry had two back-to-back jolts in the domestic market in the form of demonetization and implementation of GST. These disruptions were transitional unlike the structural issues that it is fac-

Growing strength

Emami started a third-party unit in Sri Lanka to manufacture country-specific products. A manufacturing unit was commissioned in Assam in FY 2018



ing in the US, where consolidation among buyers (wholesalers), faster product approvals and new entrants have intensified competition, triggering decline in the prices of generics.

After a promising start, real estate has been a disaster over the last one decade, particularly after the global financial crisis, except for a few exceptions. The power sector remains under stress. Infrastructure and construction have been a mixed bag. Cement has done reasonably well over the last several years owing to discipline and stability in prices. Fast moving consumer goods (FMCG) companies continue to be largely a stable play. On the back of firm prices, the steel industry has bounced back. But its fortunes are tied with the prices of

COMPANY	HIGHLIGHTS
HEG	The LNJ Bhilwara group entity manufactures two grades of ultra high power and high power graphite electrodes. These are used in the electric arc furnaces deployed to produce steel. About 70% of the output is exported to 30 countries. A large proportion of the volumes go to the top 20 global steel makers. The 80,000-tonne per annum plant at Mandideep in Madhya Pradesh is the largest single site facility in the world. Captive power generation capacity stood at 76.5 MW.
Ashok Leyland	The flagship of the Hinduja group is the second largest manufacturer of commercial vehicles in India, the fourth largest producer of buses in the world and the 12th largest maker of trucks. The product range consists of 2.5-tonne (t) and 49-t gross vehicle weight trucks, 16- to 80-seater buses, vehicles for defence and special applications, and diesel engines for industrial, genset and marine applications. Customers are served through an all-India sales and service network, supplemented by close to 3,000 touch points. Nine manufacturing plants give an international footprint: seven plants are in India, a bus manufacturing facility is at Ras Al Khaimah in the UAE and the other is at Leeds in the United Kingdom.
Great Eastern Shipping	The country's largest private sector shipper has a fleet of crude carriers (16.09 deadweight tonnes or dwt), product carriers (9.87 dwt), gas carriers (2.73 dwt) and dry bulk carriers (11.06 dwt). The Sheth group's offshore business comprising logistics and drilling is run by wholly owned subsidiary Greatship India. Key offshore assets include four jack-up rigs, four platform supply vessels, eight anchor-handling-tug-cum-supply vessels, two multipurpose platform supply and support vessels and five remotely operated underwater vehicle support vessels.
EID Parry	The Murugappa group company is one of the oldest and one of the top five sugar producers in the country. Operations are in promising areas of bio-pesticides and nutraceuticals. Nine sugar plants, spread across south India, have an aggregate capacity to crush 45,800 t of cane per day and generate 160 MW of power. Four distilleries have a capacity of 234 kilo litres per day. Listed subsidiary Coromandel International manufactures and markets a wide range of fertilizers and is the second largest phosphatic fertilizer player in the domestic market.
Godrej Industries	One of the oldest companies in the Godrej group has presence in the chemicals, estate management, finance and investment space. Interests in animal feeds, poultry, dairy and agro-products, oil palm plantation, property development and personal and home care are through subsidiaries and associates. Major listed subsidiaries and associates are Godrej Consumer Products, with equity stake of 23.8%, Godrej Properties 56.7% and Godrej Agrovet 58%.
Shree Cement	The Bangur group company is among the leading manufacturers of cement in north India. The aggregate capacity of 37.9 million tonnes per annum (mtpa) makes it among the largest producers of power based on waste heat recovery, with capacity of 646 MW. A grinding unit, with capacity of 2.6 mtpa, was commissioned at Sri Ganganagar in Rajasthan and another, with capacity of 3.6 mtpa, in Bihar in FY 2018. Work on an integrated cement project of three mtpa at Kodla in Karnataka is progressing as per schedule.
Excel Industries	Established in 1941, the Shroff group company manufactures chemicals. These find applications in agriculture, specialty chemicals, polymer inputs and pharmaceutical bulk drugs and intermediates. There are plans to expand capacities of various products. Necessary regulatory approvals are being obtained.
Elgi Equipments	The Elgi group company offers a complete range of compressed air solutions comprising oil-lubricated and oil-free rotary screw compressors, oil-lubricated and oil-free reciprocating compressors and centrifugal compressors to dryers, filters and downstream accessories. The portfolio consists of over 400 products. Pulford Air and Gas, based in Sydney, Australia, was bought in CY 2018. The acquisition will help to expand footprints in Australia.

Source: Companies

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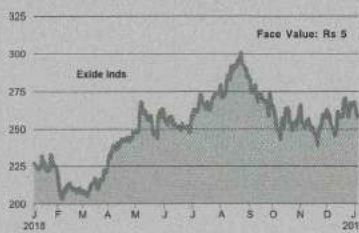
the end product. In all, it is extremely difficult to take a long-term call on a host of industries.

India's economy grew 7.1% in CY 2016 and 6.7% in CY 2017. Going forward, the domestic economy is expected to clock an expansion of 7.4% in CY 2018 and 7.8% in CY 2019, as per the International Monetary Fund. It is a reasonably good projection in comparison with the global economy. However, India needs to gallop much faster to take care of its poverty. Thus, more policy changes are required to spur higher investment. Even at the current growth rate, India is among the fastest-growing economies in the world, presenting an opportunity to equity investors.

It is essential for retail investors to not be swayed by short-term events.

Charged up for the challenge

Exide Industries has formed a joint venture with Swiss-based Leclanché SA to build lithium-ion batteries and energy storage systems for India's EV market



With the market hovering near its all-time peak, the task becomes even tougher. The probability of losing money is on the higher side. Visibility is of utmost important to commit money with a long-term view. Investors should be reasonably sure that companies they take exposure to survive for at least a decade. All other things such as earnings and valuations become secondary.

There are many hindrances that companies have to overcome to sustain and prosper. They could be delisted, either through voluntary actions such as mergers and acquisitions and open offer or owing to the regulatory actions rising from non-compliance with the Securities and Exchange Board of India regulations and stock exchanges' listing agreements.

Leading the flock

Mainline companies shortlisted based on the year of establishment, promoter holding, profitability of group enterprises, equity stake held in other group companies, size of revenues and market capitalization, management commentary and market perception

COMPANY	MCAP (Rs cr)	CMP (Rs)	52-WEEK		MF (%)	TOTAL DEBT (Rs cr)	D-E RATIO (TIMES)	TTM NET SALES		TTM APAT		P/E RATIO	P/BV (TIMES)	DY (%)
			HIGH (Rs)	LOW (Rs)				(Rs cr)	CHG (%)	(Rs cr)	CHG (%)			
Apollo Tyres	13180.0	230.4	307.2	192.1	20.37	4661.1	0.47	16439.7	22.9%	922.9	22.7%	14.28	1.31	1.3
Arvind	2489.2	96.3	168.1	90.3	14.83	3323.1	0.85	9405.7	4.7%	347.5	13.2%	7.16	0.66	2.49
Ashok Leyland	29370.0	100.1	167.5	97.7	5.89	15791.0	2.10	29346.0	37.5%	1973.0	36.9%	16.93	3.96	2.42
Bharat Forge	23051.3	495.1	799.7	489.4	7.09	3257.0	0.73	6016.0	32.9%	851.8	23.9%	28.21	4.96	0.40
Cadila Healthcare	35472.7	346.5	456.1	330.7	5.29	5406.7	0.68	11945.3	20.6%	2012.1	48.9%	17.63	3.98	1.01
CESC	8841.6	667.0	926.1	624.7	21.84	15631.8	1.44	7886.0	5.7%	901.0	3.3%	7.66	0.79	0.18
EID Parry	3634.6	205.4	392.0	177.0	0.73	4469.9	1.47	16123.5	6.2%	21.4	-96.3%	170.08	1.23	1.46
Elgi Equipments	4073.9	257.1	350.0	218.5	11.25	266.2	0.40	1742.9	21.6%	99.2	31.8%	41.07	5.63	0.47
Emami	19160.6	422.1	714.0	386.1	6.78	325.9	0.21	2614.6	7.1%	316.5	-0.3%	60.54	10.22	0.83
Eveready Industries	1334.0	183.6	465.0	175.5	11.82	264.0	0.76	1486.2	8.4%	47.8	-49.9%	27.09	3.89	0.82
Excel Industries	1826.0	1452.6	1907.0	603.0	0.01	10.0	0.08	727.8	58.2%	135.7	547.8%	24.53	3.43	0.86
Exide Industries	22185.0	261.0	304.7	192.9	15.45	59.7	0.02	10230.5	26.0%	744.5	11.5%	30.76	4.09	0.61
Godrej Industries	18058.8	536.9	656.9	434.1	0.89	6897.0	2.03	10118.0	11.6%	439.3	57.3%	41.11	4.30	0.33
Grasim Industries	53662.7	816.1	1258.4	756.0	6.33	67069.8	0.86	66100.7	57.3%	2869.8	-3.8%	18.7	0.96	0.76
GE Shipping	4816.6	319.5	482.4	266.1	19.50	6213.3	0.92	3145.5	8.4%	-412.7	PL	0	0.74	2.25
HEG	14702.1	3679.2	4950.0	2214.7	1.53	297.5	0.34	5516.3	394.8%	2635.3	2580.9%	13.4	7.71	0.82
Hero MotoCorp	60835.5	3046.1	3862.0	2648.7	6.10	227.9	0.02	33779.0	14.0%	3658.3	7.1%	17.02	5.08	1.81
HDFC	340283.4	1979.0	2051.0	1646.0	7.46	336630.4	4.30	NA	NA	NA	NA	24.93	3.24	0.87
JK Lakshmi Cement	3681.3	312.9	484.0	249.6	15.80	2546.5	1.84	3509.24	11.2%	63.99	-8.6%	104.73	2.55	0.24
Larsen & Toubro	200012.7	1426.4	1469.6	1183.4	14.60	107524.1	1.90	129789.8	14.9%	7890.4	15.8%	25.35	3.55	1.12
Mahindra & Mahindra	92182.7	741.5	992.0	695.2	9.41	55897.9	1.57	51394.1	11.7%	4696.2	37.3%	16.09	2.50	1.01
Piramal Enterprises	42933.1	2340.8	3302.6	1796.8	0.51	44160.8	1.81	11896.0	24.4%	5118.4	263.8%	8.39	1.61	1.05
Shree Cement	58999.6	16934.5	19842.3	13125.0	6.16	3403.0	0.28	10770.3	19.4%	1208.0	1.4%	43.52	6.63	0.12
TCS	721639.9	1923.2	2273.0	1311.4	2.20	247.0	0	134084.0	12.2%	28676.0	11.2%	25.17	9.49	0.73
Ramco Cements	15007.4	637.1	879.0	546.3	20.92	1120.6	0.32	4625.5	16.7%	470.8	-22.9%	26.58	3.66	0.47

CMP (current market price) is closing as on 2 January 2019. MF (mutual fund) holding end September 2018. Financial year ended March 2018. Consolidated financials considered wherever available. Debt and debt-to-equity ratio for FY 2018, except CESC (FY2017). TTM Apat : Trailing 12-month adjusted profit after tax for the period ended September 2018. Change in TTM net sales and TTM Apat is over the previous corresponding period. P/E : Price to earnings ratio. P/BV : Price to book value. DY : Dividend yield. Source: Capitaline Databases

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Against this backdrop, one of the simple methods is to invest in flagship companies. The Indian market is dominated by business families. They are emotionally attached to their businesses. The basic premise of the investment theme is that promoters will protect their headline company at any cost. There is likelihood of group entities being merged, demerged or sold to overcome economic or company-specific challenges such high leverage or wrong business calls.

Many flagships are holding ventures for group companies, apart from running independent businesses, offering a significant cushion to equity investors.

Capital Market explored mainline companies for long-term investment. The exercise is not simple as picking those that are among the oldest in the group. Vintage is likely to be misleading in certain instances. Indian Hotels is among the oldest in the Tata group. However, Tata Consultancy Services has emerged as a flagship over the years. Incorporated 1995, it is the most valuable Tata group company. The market value exceeds that of the remainder of the Tata companies.

Various parameters examined include the year of establishment, promoter holding, profitability of group enterprise, equity stake held in other group companies, size of revenues and market capitalization, management commentary and market perception. It is a subjective call. Investors have to undertake their own assessment to determine the flagships of a group.

Housing Development Finance Corporation (HDFC), incorporated in 1977 as the first specialized mortgage lender, has emerged as a financial conglomerate. The flagship's loan outstanding stood at Rs 430,210 crore and outlets at 332 end September 2018. The share of individuals was 73%, followed by construction finance 12%, lease rental discounting 9% and corporate 6%. Key sources of borrowings include debentures and securities, accounting for 54% of the total, deposits 28% and term loans 18%. The gross non-performing loans stood at 1.13% end September 2018. The loan spread remained stable at 2.28% in H1 of FY2019 compared with 2.29% in FY 2018. The capital adequacy ratio remained high at 18.4% end FY 2018.

Key associates and subsidiaries comprise HDFC Bank, with equity stake of 21.4%, HDFC Standard Life Insurance

A shake-up in the offing

CESC's restructuring plan envisages turning the business into four separate entities of power generation, power distribution, retail and other businesses



Company 51.6%, HDFC Asset Management 52.8%, HDFC Ergo General Insurance Company 50.5%, Gruh Finance 57.9% and HDFC Credila (90.8%). HDFC Bank is among the leading private sector banks, with a deposit base of Rs 833,360 crore, 4,825 branches and 13,018 ATMs. HDFC Standard Life reported a market share of 21% of total new business premium among the private sector. Assets under management stood at Rs 113230 crore end September 2018. HDFC Asset Management manages assets worth about US\$ 40 billion. Among private sector general insurance players, HDFC Ergo commands a market share of 9.8%. Housing finance company Gruh Finance has a loan portfolio of Rs 16700 crore.

Automobile maker **Mahindra & Mahindra** commanded a market share of 10.9% end FY 2018. The Mahindra group company operates in diverse industries including aerospace and defence, automobile aftermarkets, agri, farm equipment, financial services, hospitality, information technology, real estate, organized retail, logistics and two-wheelers.

The largest utility player, with a domestic market share of 25.4% end FY 2018, is also the second-largest commercial vehicle (CV) producer and the largest small CV maker. The country's largest tractor manufacturer, with a market share of 42.9%, operates 16 plants in India and six in the US, seven in Africa, two in Australia, two in Turkey and two in South Korea. There is presence in over 100 countries. The focus is on developing new products and enhancing capacity.

Stocks

Several companies have been promoted across industries. Major listed subsidiaries and associate companies are Tech Mahindra, Mahindra Holidays, Mahindra & Mahindra Financial Services, Mahindra Lifespaces, Swaraj Engines, EPC Industries and Mahindra Logistics. Associate company Tech Mahindra, with 26.15% equity stake, provides software solutions. Subsidiary Mahindra & Mahindra Financial Services undertakes financing of automobiles. Subsidiary SsangYong Motor Company is the fourth largest South Korean-based automobile producer.

Lalbhai group company **Arvind** is the largest textiles, apparel and fashion player, with revenues of US\$ 1.7 billion and production capacity of over 100 million meters in denim and 132 million meters in woven fabric in FY 2018. The full supply-chain partner to world's leading fashion brands converts around 10% of the fabrics manufactured into garments and aims to grow the business 30-40% as global fashion brands seek complete solutions. The domestic fashion business consists of brands such as US Polo Association, Tommy Hilfiger, Calvin Klein, Arrow, Flying Machine, Gap and Sephora. With over 1,200 standalone stores and large third-party distribution network, brands are present across the country.

The branded apparel and engineering divisions are being demerged into separate companies. Post demerger, the flagship will take care of the textile business, Arvind Fashions will housed branded apparels and Anup Engineering the engineering business. All the three businesses will be listed. The textile business is projected to grow 10%, while the branded apparel business 20% in FY 2019. Profitability is expected to increase for both the businesses in FY 2019.

Exide Industries is the country's largest manufacturer of lead acid storage batteries and power storage solutions provider. The seven production units in India offer one of the widest ranges of batteries for application in the automotive and industrial segments. User industries comprise automotive, two-wheelers, inverters, uninterrupted power supply (UPS), power, telecom, fork-lift trucks and railways. There are two captive lead smelting units and two UPS plants. Technical collaborators are Shin Kobe and Furukawa of Japan, East Penn of the US and Moura of Brazil.

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Also, there are manufacturing facilities in Sri Lanka. The global business is carried out through subsidiaries and international affiliates. Products are sold worldwide, particularly in Australia, Japan and Western Europe, under own brands. The non-conventional energy business consists of designing solar and wind power solutions for use in remote areas.

The Rajan Raheja group company in June 2018 formed a joint venture with Switzerland-based Leclanché SA, one of the world's largest energy storage solution provider, to build lithium-ion batteries and make available energy storage systems for India's electric vehicle (EV) market. Life insurance subsidiary Exide Life Insurance Company managed assets worth Rs 12500 crore end FY 2018.

Munjal group company **Hero MotoCorp** commands 50% share in the domestic motorcycle market and 35% share in the domestic two-wheeler market. Indeed, the largest two-wheeler company by volumes in the world for the last 17 years has a wide distribution reach, with 6,500 pan-India touch points and presence in over one lakh villages. The product portfolio comprises 20 two-wheeler models comprising 100cc, 110cc, 125cc and 200cc premium motorcycles and scooters. Key two-wheeler brands are Splendor, HF, Passion and Glamour. Two new products are to be launched in the faster growing 125cc scooter segment.

The technology centre at Jaipur in Rajasthan was commissioned with an investment of US\$ 125 million. Operations began in March 2016. Global presence was expanded in FY 2017 to 37 countries across Asia, Africa and South and Central America. A new manufacturing unit coming up at Chittoor in Andhra Pradesh will help efficiently serve the southern markets. Also, one manufacturing facility each is being constructed in Sri Lanka and Bangladesh. Once operational in two years, new capacities will take the overall installed capacity to about 11 million units from nine million units.

Established in 1974, **Emami** is the flagship of the Emami group and one of the leading FMCG players operating in the beauty and healthcare spaces. The product portfolio of over 300 products is mainly based on Ayurvedic formulations. Popular household brands are BoroPlus, Navratna, Fair and Handsome, Zandu balm, Mentho Plus balm and Fast Relief. Zandu Pharma-

Adding capability, shedding weight

Grasim Industries has added capacity of 42 mtpa through acquisitions. Aditya Birla Nuvo was merged in July 2017 and the financial services business demerged



ceutical Works, acquired in CY 2008, was merged with in CY 2009. Entry into the Ayurvedic hair- and scalp-care segments was through the buying of the business of Kesh King in Sri Lanka in June 2015. A network of 3,150 distributors services over four million retail outlets.

Products are sold in over 60 countries including Gulf Cooperation Council, Europe, Africa, Commonwealth of Independent States and the South Asian Association for Regional Cooperation. A third-party unit was started in Sri Lanka to manufacture country-specific products. A manufacturing unit was commissioned at Pacharia in Assam in FY 2018. Established at the cost of Rs 300 crore, the facility will enjoy fiscal benefits for 10 years. Balance-sheet leverage is negligible, with debt-to-equity ratio of 0.21 times end FY 2018.

Grasim Industries started textile manufacturing in 1947. Among the oldest group companies in the Aditya Birla group's viscose staple fiber production accounts for 17% of the global output. The largest chlor-alkali and cement producer in India has diversified into financial services by setting up an NBFC, an asset management company and a life insurance venture in India. The caustic soda business has grown multi-fold through organic and inorganic means. The largest caustic soda producer in the domestic market had a capacity of 938 kilo tonnes per annum end FY2018.

Subsidiary UltraTech Cement's 96.5-million-tonne per annum (mtpa) capacity includes four mtpa overseas and 5.7 mtpa to be commissioned by March 2019.

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UltraTech in June 2017 completed the acquisition of cement plants, with total capacity of 21.2 mtpa, from Jaiprakash Associates and Jaypee Cement Corporations. Capacity of 42 mtpa has been added through acquisitions since inception. Group entity Aditya Birla Nuvo was merged in July 2017. Subsequently the financial services business was demerged from the merged entity and was listed as Aditya Birla Capital in September 2017.

The RP-Sanjiv Goenka group company **CESC** is the sole distributor of electricity within an area of 567 square kilometers of Kolkata and Howrah, serving 2.9 million domestic, industrial and commercial users. The owner-and-operator of three thermal power plants generates 1125 MW of power. In-house power generation takes care of 88% of the electricity requirement. Over half of the coal used for electricity generation is sourced from captive mines. The owned-and-operated transmission and distribution system comprises 474-km circuit of transmission lines. The two thermal power plants, one at Chandrapur in Maharashtra and the second at Haldia in West Bengal, have capacity of 600 MW each.

A restructuring plan envisages turning the business into four separate entities, with each focusing on power generation, power distribution, retail and other businesses. The aim is to unlock shareholder value, provide greater flexibility in accessing capital and prepare focused strategies for growth across businesses. As per the proposal, every 10 shares held will entitle five shares of the power generation arm, five of the distribution company, six of the retail firm and two of the residual business. All four companies will be listed.

Ajay Piramal group company **Piramal Enterprises** has diversified businesses of financial services, pharmaceuticals and healthcare insights and analytics. Subsidiary Piramal Capital & Housing Finance is registered with the National Housing Bank as a housing financier, with long-term equity investment of US\$ 1 billion in the Shriram group, a leading financial conglomerate.

Housing finance and other financing solutions are provided across the entire capital stack, ranging from early stage private equity, structured debt, senior secured debt, construction finance and flexi lease rental discounting. The wholesale business in the non-real estate sector includes separate verticals Corporate Finance Group (CFG) and

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Emerging Corporate Lending (ECL). CFG offers customized funding solutions to players in sectors such as infrastructure, renewable energy, roads, industrials, auto components. ECL focuses on lending to small and medium enterprises. The total loan book grew 59% to Rs 52793 crore end September 2018 over a year ago.

Pharmaceutical manufacturing capabilities include 13 global facilities and a large global distribution network covering over 100 countries. The portfolio comprises niche and differentiated pharmaceutical products and services including injectables. Also, there is presence in the consumer product segment in India. The healthcare insights and analytics business is the premier provider of healthcare analytics, data and insight products and services to the world's leading pharmaceutical, biotech and medical technology players.

The Kalyani group company **Bharat Forge** is the largest exporter of auto components from India. Ten manufacturing locations across five countries have a total forging capacity of 625,000 mtpa. A global workforce of over 5,000 employees caters to marquee customers including leading automotive and industrials original equipment manufacturers and tier I suppliers. The global leader in power train and chassis components caters to the power, oil and gas, construction, mining, rail, marine, aerospace and defence industries. CVs contributed 50% to the revenues, followed by the non-auto 33% and passenger vehicles 17%, while Europe accounted for 40%, followed by India 30% and the US 28% in FY 2018.

A strategic stake of 45% was acquired in EV start-up Tork Motorcycles in FY 2018 to gain technical expertise in EV power train development. Besides, a research and development facility was opened at the Mira Technology Park in the UK to develop components and sub-systems focused on EVs. A center for light weighting technology and a fully automated manufacturing facility have been set up in Andhra Pradesh to design and make components for automotive and industrial applications. Commercial production is expected to start in CY 2019.

JK Lakshmi Cement, the Singhania group company, makes cement, gypsum plaster and ready-mix concrete. Manufacturing plants are in the two distinctive markets of east (comprising Chhattisgarh,

Embracing change

The Kalyani group's **Bharat Forge** is the largest exporter of auto components. A 45% stake was acquired in EV start-up **Tork Motorcycles** in FY 2018



Odisha, Eastern and Central Madhya Pradesh and the Vidarbha region in Maharashtra) and north-west (comprising Rajasthan, Gujarat, Haryana, Delhi, Punjab, Western Uttar Pradesh, Western Madhya Pradesh and some parts of Maharashtra bordering Gujarat). Cement is sold through over 4,000 dealers spread across these territories.

A 1.35-mtpa grinding unit at Surat in Gujarat went on stream in FY 2018. Work on new grinding unit in Odisha, with an annual capacity of 0.8 mtpa, is progressing as per schedule and is likely to go commercial by March 2019. Subsidiary Udaipur Cement Works started production in FY 2018. Consequently, the overall cement capacity increased to 12.5 mtpa end FY 2018. The start of the 7.50-MW waste heat recovery boiler and the expected

Ramping up capability

JK Lakshmi Cement's 1.35-mtpa grinding unit at Surat opened in FY 2018 and the **0.8-mtpa Odisha grinding unit is to begin by March 2019**



CMP Rs 313 as on 04 January 2019. One-year return: -29.85%
S&P BSE Mid-cap Index one-year return: -16.16%

Stocks

commissioning of a 20-MW captive power plant in the current financial year are expected to drastically reduce the power cost per tonne of cement.

With the completion of various projects that have been undertaken in the last three to four years, the focus is on consolidation of presence in operating markets. High balance-sheet leverage is among the major concerns: total debt was Rs 2546.5 crore and the debt-to-equity ratio 1.84 times end March 2018. Mutual funds controlled 15.8% equity stake end September 2018.

Conclusion

Flagship companies have a better chance of survival in the long run. There are several reasons why some have not thrived. Shriram Transport Finance Company, the Shriram group flagship established in 1979, seems to be on the block for quite some time. The leading player in the organized high-yield pre-owned commercial vehicle financing made many merger attempts with other players in the space in the recent past. As per media reports, absence of succession plan is the key reason for promoters' intended exit. Piramal Enterprises owns a 9.96% stake. Governance issues crippled the UB group.

Leverage is negligible in TCS, Ramco Cements, Shree Cement, Hero MotoCorp, HEG, Exide Industries, Excel and Emami. Standalone debt of M&M and L&T is moderate.

Investors need to commit long-term funds. Flagships are found to be slow movers on the trading floor. There are exceptions. Apollo Tyres, Ashok Leyland, Bharat Forge, Cadila Healthcare, Elgi Equipments, Excel, HEG and Piramal Enterprises have reported robust growth, with sales and profit growth of at least 20% in the trailing 12-month period ended September 2018. Arvind, CESC, Grasim Industries and Great Eastern Shipping are available below their book values.

Mutual fund holding is in double digits in Apollo Tyres, Arvind, CESC, Elgi Equipments, Eveready Industries, Exide, Great Eastern Shipping, L&T and Ramco Cements. A high institutional stake offers comfort to investors. Business operations of most have achieved critical scale, thereby empowering them to tide over challenging times such as economy and sector downturns. A few act as holding companies, ensuring support at the lower level.

— Venkatesh S