Morning Insight

AUGUST 1, 2018

		% Chg		
	31-Jul	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,607	0.3	6.2	7.0
NIFTY Index	11,357	0.3	6.0	5.7
NSEBANK Index	27,764	(0.3)	5.3	8.7
NIFTY 500 Index	9,651	0.3	5.3	1.6
CNXMcap Index	18,877	0.4	3.8	(7.0)
BSESMCAP Index	16,584	0.3	3.4	(9.9)
World Indices				
Dow Jones	25,415	0.4	4.7	5.5
Nasdaq	7,672	0.5	2.2	7.6
FTSE	7,749	0.6	1.5	3.0
NIKKEI	22,554	0.0	1.6	0.7
Hangseng	22,554	0.0	1.6	0.7
Shanghai	28,583	(0.5)	(0.7)	(6.7)

Value traded (Rs cr)	31-Jul	% Chg Day
Cash BSE	3,711	13.4
Cash NSE	34,992	4.0
Derivatives	529,372	2.6

Net inflows (Rs cr)	30-Jul	MTD	YTD
FII	(145)	526	(4,314)
Mutual Fund	(199)	5,512	74,115

Nifty Gainers & Losers	Price	Chg	Vol
31-Jul	(Rs)	(%)	(mn)
Gainers			
Tech Mahindra	681	3.9	9.7
Reliance Ind	1,186	3.0	13.9
Dr. Reddy's	2,128	2.9	1.5
Losers			
Axis Bank	550	(3.4)	21.7
Indiabulls Housing	1,297	(3.3)	1.2
Eicher Motor	27,799	(2.8)	0.1

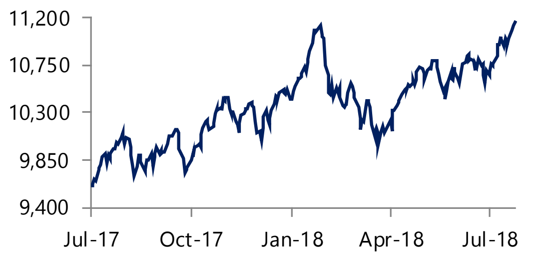
Advances / Declines (BSE)

31-Jul	A	B	T	Total	% total
Advances	211	635	65	911	100
Declines	175	471	48	694	76
Unchanged	1	21	9	31	3

Commodity		% Chg		
	31-Jul	1 Day	1 Mth	3 Mths
Crude (US$/BBL)	73.9	(0.5)	(7.0)	1.0
Gold (US$/OZ)	1,224	0.2	(2.4)	(6.1)
Silver (US$/OZ)	15.5	0.2	(3.7)	(4.0)

Debt / forex market	31-Jul	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.8	7.9	7.8
Re/US$	68.5	68.7	68.8	66.7

Nifty



News Highlights

- Core sector growth rose to a seven-month high of 6.7 per cent in June due to double-digit expansion in coal, cement and refinery products. On the other hand, crude oil and natural gas continued to contract. (BS)
- In a major blow to the government in the gas migration dispute between **Reliance Industries (RIL)** and state-owned **ONGC**, an international arbitration tribunal ruled in favour of RIL led consortium. The tribunal rejected the government's claim of illegal gas production by the consortium from the neighbouring block of ONGC in the Krishna-Godavari (KG) basin. (BS)
- **Biocon** is aiming to register a 66 per cent growth in its biologics business this fiscal, which the company hopes will help it clock a revenue of $200 mn on the back of emerging markets growth. (BS)
- **Emami** is set to enter Iran and is scouting for partners there to begin operations at a time when the country may come under stress on account of impending US sanctions. The company is in talks with five enterprises in Iran and may set up a manufacturing plant to cater to the local market. (BS)
- The committee of creditors (CoC) to **Bhushan Power & Steel** has picked Tata Steel as the highest qualified bidder for the second time after a meeting. (BS)
- **Coal India Ltd (CIL)** is looking to procure mining equipments worth Rs. 120-130 bn in the next two to three years to ramp up its coal production to one billion tonne. Under the MoU that was signed, BEML and HEC will jointly manufacture and supply equipments to cater to the needs of the mining industry. (BL)
- **Lanco Infratech Ltd** is headed for the liquidation process with the Committee of Creditors rejecting the revised resolution plan. (BL)
- **Tata Motors** said it has decided to stop manufacturing operations in Thailand citing viability issues but would continue to sell vehicles in the country through imports. (Mint)
- **Jet Airways** has informed its employees that they will have to take an up to 25% cut in their salaries as cost of operations for airlines is increasing on the back of rising crude and a falling rupee. (ET)
- **NBCC** has emerged as the highest bidder for taking over public sector firms HSCC and Engineering Projects (EPI). The total investment from NBCC towards these acquisitions could be to the tune of about Rs 4 bn. (ToI)

What's Inside

- **Market Strategy:** Monthly Outlook for August 2018
- **Result Update:** Gujarat State Petronet, Supreme Industries, Blue Dart Express, Bharat Electronics, Tata Motors, Jindal Stainless (Hisar).
- **Forthcoming events**

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Market Strategy

MONTHLY OUTLOOK FOR AUGUST 2018

Domestic markets were up by around 6% in July on the back of favourable GST regulation (reduction in GST rate from 28% to 18% on consumption items), strong quarterly results on a low base of Q1FY18, healthy domestic flows at ~$1.5 bn per month, expectation of normal monsoon, correction in crude prices, base metals and industrial metals and improving corporate confidence and capex. Also, the uncertainty of the central government losing support from its alliance partners is now behind us, as the trust vote was won with a high margin with the support of its alliance partners.

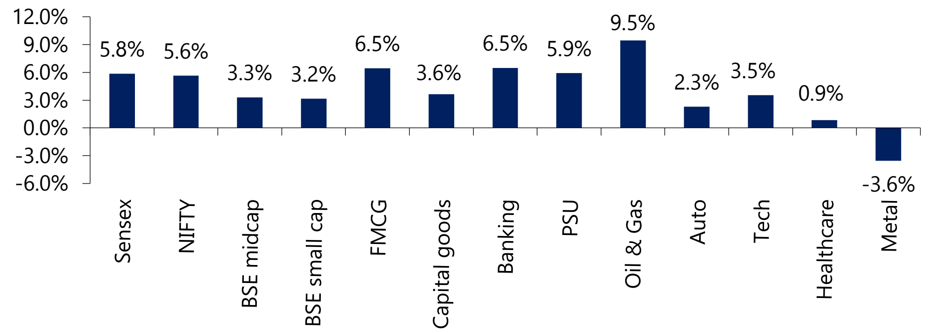
Focus of market would now be on RBI policy stance, future Fed rate hike, implications of global trade war, progress of monsoon, government spending in a pre-election year, strong domestic flows and valuations. India is currently facing weaker macros with higher inflation/interest rates, higher current account deficit (CAD) and weaker INR. Under the above circumstance we recommend investors to focus on companies that are capable of delivering strong earnings growth and with good corporate governance. Nifty and Midcap index are currently trading at 18.2x and 20.8 x one year forward earnings, which is still at a premium to historical five year average on one year forward earnings.

Global growth remains strong with US GDP growing by 4.1% in the second quarter of 2018. The trade war seems to be intensifying with US threatening China with 10% import duty on another USD 200 bn worth of goods. India looks to be better placed in the global trade war as compared to neighbouring China. Since the beginning of trade war commodity prices have corrected materially and we expect them to remain soft in the near future. This could provide relief to many hard core manufacturing sectors. After the recent spurt, inflation looks to have peaked out. We expect CPI inflation to average ~4.6% in FY19 as compared to the print of 5% in June 18. On a YoY basis corporate earnings growth is expected to be better in Q1FY19 due to low base effect caused by destocking of goods in the month of June 17 (due to GST implementation from July 17).

Portfolio strategy - Adding companies which are exhibiting improvement in earnings (IT and banks), companies which are exhibiting strong volume growth and which would benefit from normal monsoons (FMCG and Paints), defensives with lowering regulatory risk (Pharma), companies which would benefit from government spending in a pre-election year (infrastructure companies) and export driven sectors (IT, Pharma, Textiles and Jewellery)

Key risks to our recommendation include unfavorable outcome of forth coming state elections, further increase in Brent crude, INR depreciation, widening trade deficit, increasing inflation and interest rates and waning liquidity from FIIs and domestic mutual funds.

Market performance – sector wise (July 2018)



Source: Bloomberg

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INTERNATIONAL

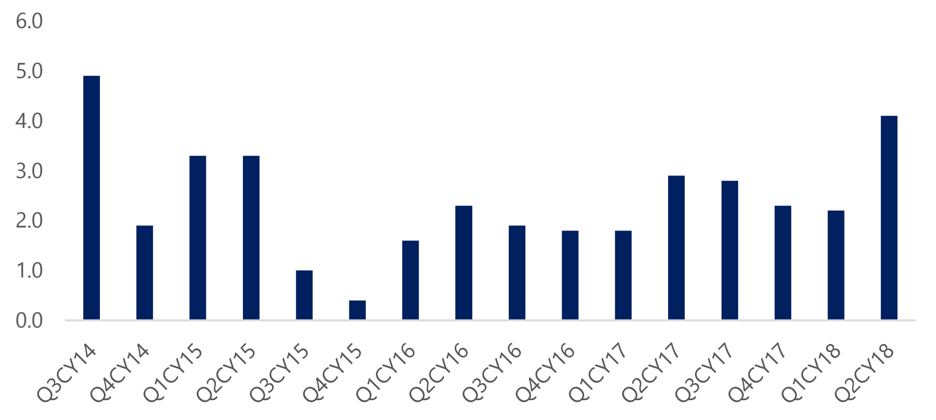
Global markets have remained generally calm in recent weeks and months despite the eruption of a full-blown U.S.-China trade war and a host of other conflicts that Trump has ignited between the United States and key trading partners, including Canada and the European Union.

Strong Q2CY18 US growth

US GDP grew at a solid 4.1% pace in the second quarter of 2018, its best pace since 2014, boosting hopes that the economy is ready to break out of its decade-long slumber. The growth rate for Q2CY19 is also the third-best growth rate since the Great Recession. In addition to the strong second quarter, the Commerce Department revised its first-quarter reading up from 2% to 2.2%. The number matched expectations of economists and was boosted by a surge in consumer spending, business investment, increases in exports and government spending.

The next big question is whether the growth spurt sustainable. We believe that going forward, the pace of expansion will slow as the effects of tax cuts made by the government fades, companies pull back in the face of foreign tariffs, trade war and a strong dollar and the Federal Reserve raises interest rates further. US Fed hiked the interest rates by 25 bps during June and indicated for two more rate hikes in this year, thereby totaling 4 rate hikes during 2018.

US GDP growth in %



Source: Bloomberg

Global trade war – India better placed

After four months of negotiations and tit-for-tat threats, trade war of US on China finally broke out on July 7, when a 25% tariff began to be levied on $34 billion worth of Chinese goods. But the story has not stopped here. The U.S. administration has threatened another $200 billion worth of Chinese imports with a 10% tariff. The Chinese government, which had hit back at the first wave of US tariffs with similar measures, was quick to warn of further retaliation. IMF in its latest report has warned that the protectionist measures could hinder business investment, disrupt global supply chains, slow the spread of productivity-boosting technologies and raise the price of consumer goods costing global economy US$430 billion or 0.5% growth by 2020.

With respect trade war between India and the United States (US), the US is expected to share a list of its trade issues with India shortly with the two countries positively moving towards removing the differences over bilateral trade that have arisen from tit-for-tat tariff actions in the last few months. The two countries are keen to resolve the issues before Indian retaliatory tariffs worth $235 million on 29 American products, in response to the US' decision to raise import duties on Indian steel and aluminum, come into effect on August 4. India has also demanded market access in agriculture, automobiles, auto components and engineering goods, and pressed for resumption of duty cuts for $5.6-billion worth of goods under US Generalized System of Preferences (GSP). This bodes well for India's export sector. India's exports to the US in FY18 were $47.9 billion, while imports stood at $26.7 billion.

Assessing the impact from the recent fall in commodity prices

Since the beginning of the year in 2018 till May end, we saw an inverse relationship between the dollar and various commodities with significant rally in commodities including base metals and crude which benefitted metal companies and upstream oil companies.

However since May end, in the international commodity space, we have seen sharp volatility caused by geopolitical issues and US President Donald Trump can be seen as the instigator. Trump initiated the US-China trade war, threatened to pull out of Iran's nuclear deal, imposed sanctions on Russian companies and conducted airstrikes on Syria for its alleged use of chemical weapons. Since, the beginning of trade war till date, the Dollar index (DXY) is up around 0.5% while industrial metals are down 10.9%, agri index is down 13.8% and crude is down 9%. Within industrial metals, copper is down 8%, zinc 20% and lead 12%.

Price performance of Commodities

Commodity	27-Jul-18	31-Mar-18	% Change
Sugar Rs/quintal	3,501	3,232	8.3
Soybean Rs/quintal	3,365	3,797	-11.4
Cotton Rs/quintal	22,310	20,185	10.5
Copper $/tonne	6,123	6,679	-8.3
Aluminum $/tonne	2,079	1,987	4.6
Lead $/tonne	2,116	2,395	-11.6
Zinc $/tonne	2,618	3,284	-20.3
Gold Rs/10 gram	29,780	30,400	-2.0
Silver Rs/ kg	38,326	38,360	-0.1

Source; Bloomberg, Industry

We expect commodities to remain soft in near term which will provide some relief (at least temporarily) to the bond/rupee markets while lifting sentiments in equity markets. The near term fall in commodity prices is estimated to benefit sectors like Oil Marketing, Paints, FMCG, Tyre and Packaging.

Oil Prices – we are bullish in the long term

In 2018 YTD, Brent crude oil price has increased ~10.5% to US$ 74/barrel and can further spike to touch US$80-90/barrel for the following reasons:

- Average oil production per rig from seven major U.S. shale regions peaked at 16,703 barrels a day in May 2016 and has since declined to 7,614 barrels a day in June 2018, according to data provided by the U.S. Energy Information Administration. This 55% drop in over two years indicates significant decline in rig productivity and also means shale production is not increasing as much as expected.

- Chronic underinvestment in new supply while energy demand continues to remain strong. This is because of a deceleration in the oil industry's reserves and the reserve replacement ratio. The reserve replacement ratio, measured as total oil and gas discoveries relative to production, declined to 11% in 2017 from over 50% in 2012, according to energy research firm Rystad Energy. In 2019, as per International Energy Agency (IEA) global oil demand is expected to increase by 1.5 million barrels/day, reaching 99.3 million barrels/day, from the estimated 97.8 million barrels/day in 2018.

- The U.S. said the world should stop importing oil from Iran by early November 2018. Instead, American President Donald Trump has been pressing Saudi Arabia to increase production. Saudi Arabia has already increased its production to 10.5 million barrels a day, close to its highest annual average production clocked in 2016, and maintains a spare capacity of 2 million barrel a day. The risk is that if Saudi increases production more, it will further reduce spare capacity, creating the potential for an even bigger oil price spike should there be other supply disruptions because the industry would be running out of spare capacity. It is important to note that Saudi Arabia was not able to increase its oil production in July 2018 as promised to tame crude prices

  Key risk to our assumption of higher crude oil prices are:

- Meaningful jump in crude supply by OPEC
- Relaxation of sanctions on Iran
- Release of crude from US Strategic Petroleum reserves

Higher crude negative for India

India's crude oil import dependence to oil consumption is 81%-83% which makes it highly sensitive to crude oil price movement. India is a net importer of ~3 mn barrels/ day (154 MMT per annum) of crude oil resulting in a sensitivity of US$ 11 bn i.e. 40 bps of GDP for every US$10/bbl. move in oil.

Sensitivity Analysis – Crude oil and Current Account Deficit (CAD)

Particulars	Units	
India's net Imports	MMTPA	154
Assuming crude price rise	$/barrel	10
Import bill rise	$ bn	11.3
Nominal GDP at market prices	$ Trillion	2.8
Sensitivity for every US$10/bbl. move in oil to GDP	bps	40

Source: Kotak Securities – Private Client Research

As per our analysis, every $10 increase in per barrel price of crude has the potential to increase our import bill by $11.3 bn per annum and erode 40 bps of GDP. Higher crude prices would also increase raw material cost, working capital requirements and operating cost for user industries such as lubricant manufacturer, chemicals industry including consumer staples and paints.

China's bond yields can fall despite the falling Yuan – negative for rupee

Trade War causing Yuan to depreciate

The Chinese Yuan is generally considered to be a stable currency by traders all over the world. However, its performance has not been very good in recent times. The Yuan fell to its lowest point in 2018, resulting in its longest losing streak in the past two years. The Chinese Yuan has depreciated by over 8% against the USD in the past three months amid a global trade spat and concerns over an economic slowdown in China.

Fall in Yuan is negative for Indian Rupee

Generally, a falling currency does not spell good news for bond yields. When a currency depreciates, inflation rises and global investors tend to keep away from bonds. This causes bond yields to rise up. However, China's bond yields reached their lowest level in more than a year. This has happened despite the falling Yuan. One of the reasons is that foreign investors held just around 2% of Chinese government debt at the end of last year. As a result, this was not large enough to make a big difference in bond yields. A weaker Yuan against the dollar puts pressure on the Indian rupee. If the Yuan continues to slide, it is possible that the rupee gets dragged down too. This could have a negative impact on many fronts including imports.

DOMESTIC

Indian Markets

Indian stocks are currently jostling weak emerging markets, rising rates, higher oil prices, an election year and relatively rich mid-cap valuations.

What is in favor of Indian equities?

- Strong macro stability evident in a positive BOP and backed by a Central Bank that is committed to keeping real rates positive.
- A low and falling beta, which augurs well in a weak global equity market environment.
- India's growth is likely accelerating relative to EM. IMF expects India's GDP growth at 7.3% in 2018 and 7.5% in 2019.
- Improving corporate confidence and capex
- Strong domestic flows, currently averaging around US$1.5billion a month, which we believe is a structural uptrend with SIP contributing almost 2/3rd of domestic flows.
- Expectation of normal monsoons
- Progressive GST reforms- GST compliance expected to improve as rates come down.

What is against Indian equities?

- Rising crude oil prices, which could put pressure on growth.
- Peaking inflation, which is a lead indicator of rate hikes by the RBI
- Pre-election period which brings in a lot of uncertainties.
- Relatively rich mid-cap valuations (even after the recent drawdown).

Events

Trade deficit widens

The double whammy of a weaker rupee and high crude oil prices led to further increase in India's foreign trade deficit in June. While the rupee depreciated 5.2%, the average price of crude oil rose 61% YTD in June18. Exports were reported at USD 27.7bn for the month of June'18 (+17.4% YoY), while imports were reported at USD 44.3bn (+ 21.4% YoY, in which POL imports was reported at USD 12.7bn (+57% YoY) and highest since September 2014. Consequently the trade deficit has jumped to USD 16.6bn (a five year high) and for 1QFY19 the combined trade deficit is at USD 46 bn, highest since June 2013. This threatens our current account deficit (CAD).

Monthly foreign trade aggregates of India

						YTD		
USD bn	**Jun-17**	**May-18**	**Jun-18**	**YoY (%)**	**MoM (%)**	**FY18**	**FY19**	**YoY (%)**
Oil exports	2.7	5.2	4.1	51.9	(21.2)	8.0	12.0	50.0
Non-oil exports	20.9	23.6	23.6	12.9	0.0	64.0	70.0	9.4
Total exports	**23.6**	**28.8**	**27.7**	**17.4**	**(3.8)**	**72.0**	**82.0**	**13.9**
Oil imports	8.1	11.5	12.7	56.8	10.4	23.0	35.0	52.2
Non-oil imports	28.4	32	31.6	11.3	(1.3)	89.0	93.0	4.5
*gold imports	2.5	3.5	2.4	-4.0	(31.4)	11.0	8.0	(27.3)
Total imports	**36.5**	**43.5**	**44.3**	**21.4**	**1.8**	**112.0**	**128.0**	**14.3**
Trade Balance	**(12.9)**	**(14.7)**	**(16.6)**	**28.7**	**12.9**	**-40.0**	**-46.0**	**15.0**

Source: Bloomberg

Update on domestic inflation

WPI inflation has peaked out – we expect 25 bps rate hike in August policy

WPI inflation has increased to 5.77% in June 2018 as against 4.43% in May, partly led by an unfavorable base effect, with increases across the board. We believe that the WPI has likely peaked for FY19. We estimate it to glide down to around 4.1% by March 2019. From a policy perspective, RBI's Monetary Policy Committee (MPC) will continue to focus on CPI inflation. We remain cautious on the inflation trajectory as higher input prices feed into retail inflation over the next few months in addition to the extent of pass-through of MSP prices, and potential lower crop output. We maintain a call for another 25 bps of rate hike in the August policy though it will depend on how/when the RBI factors in risks from higher agriculture prices.

CPI inflation increased marginally

CPI inflation increased marginally, and possibly reached a peak, at 5% in June, in line with street expectations (Consensus: 5.3% for June, Actual for May: 4.87%). Along with unfavorable base effects, the sequential increases in food prices also added to the inflation pressures in June. Food and beverages inflation remained stable at 3.2% (3.3% in May) helped by a sequential increase of 1% against 0.4% in May. Vegetable prices increased 6% MoM while pulses prices fell 0.7% MoM. High-frequency mandi data for July indicates that prices have picked up from June levels. We believe that FY19 CPI inflation trajectory reached its peak in June and will glide down to 4.8% by March 19. We expect CPI inflation to average 4.6% in FY19 (3.6% in FY18).

Positive progress of Monsoon – healthy for the economy

Till July 26, cumulative rainfall was 2.4% below normal with the weekly rainfall 1.9% below normal. On a regional cumulative basis, central, south, and west India has seen a favorable rainfall while east, north-east and parts of north India remain significantly deficient. Out of the 36 sub-divisions across India, till date, seven have received excess rainfall, 19 have received normal rainfall, and 10 have received deficient rainfall. We see this 2.4% deviation as normal with both Indian Meteorological Department (IMD) and SkyMet predicting third consecutive normal monsoon for the four month period from June to September 2018 subject to 5% deviation of the long term average.

Seasonal Rainfall Scenario in mm (01 June to 26 July, 2018)

Region	Actual	Normal	% Deviation from LPA
All India	**395.7**	**405.6**	**(2.4)**
East & Northeast India	501.4	721.6	(30.5)
Northwest India	242.2	249.7	(3.0)
Central India	499.1	434.2	14.9
South Peninsula	372.9	344.5	8.2

Source: IMD

Normal monsoon is critical in the following ways:

- Basin-wise reservoir levels moved in to surplus compared to long-term average levels. Larger river basins of Godavari, Krishna, and Mahanadi are in surplus while Ganga, Indus, and Narmada are in deficit. Overall, basins are around 16% above long-term average for week ending July 26
- Sowing is at normal level and at around the long term average. As of July 26, the total Kharif acreage is 9.3% lower than the same period last year.

- There is an expectation that farmers will continue to have a bumper crop this year and would drive rural growth. Farm loan waivers, hike in prices of minimum support prices for farmer produce of select crops are all expected to boost rural income and spending. The above has the potential to drive rural consumption and would be healthy for companies concentrating on rural markets like two wheelers, FMCG, consumer durables, paints and retail.
- Normal monsoon is a downside risk to inflation and provides RBI with plenty of cushion against rising WPI and CPI in FY19
- Normal monsoon also leads to high farm production which will lower raw material costs for companies that make packaged foods in rest of FY19, for instance, Britannia, GSK Consumer, ITC and Nestle.
- Normal monsoon can lead to good times for farmers, which in turn can influence voters in favour of the incumbent government in a pre-election year.

State of domestic economic recovery

Annual industrial production growth decelerated to 3.2% in May from April's revised 4.8% (previously reported: +4.9 YoY), undershooting market expectations of 4.4% and representing a seven-month low. The reading in May was weighed on by a slow expansion in the manufacturing sector but supported by strong growth in the mining and electricity sectors. Manufacturing sector production grew 2.8%, owing to contraction in consumer non-durables (-2.6% due to unfavorable base effect) even as capital goods growth remained steady at 7.6% (likely contribution from CV production) .Electricity sector increased to 4.2% (2.1% in April), while mining grew 5.7% (4% in April). The May IIP performance indicates that there is a risk that the industrial economic recovery may be prolonged.

While there is slight deterioration in macro factors, the economy is on a much stronger footing today with narrowing fiscal and current account deficit, long-term positive real interest rate (we can expect FII outflow reversal), healthy forex reserves at $405bn and outperforming INR vs. other emerging market currencies.

YTD performance of key emerging market currencies versus the USD

Currency	Depreciation
Indian Rupee	(8.1)
Argentina Peso	(46.9)
Turkish Lira	(28.6)
Brazilian Real	(12.1)
South African Rand	(6.8)
Russian Ruble	(8.7)
Indonesian Rupiah	(7.0)
Chinese Yuan	(4.9)
Mexican Peso	4.6

Source: Bloomberg

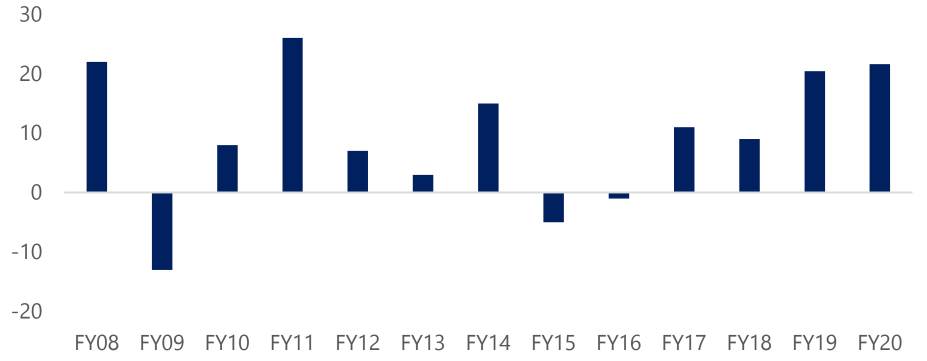
Corporate earnings growth has also started to look up. Based on the results declared by 110 companies (both large and small) so far, aggregate PAT for Q1FY19 has increased by 28.1% YoY.

Corporate earnings growth in Q1FY19 (till 30th July 2018)

	Q1FY18		Q1FY19	
(Rs bn)	**Sales**	**PAT**	**Sales**	**PAT**
All sectors (excluding banks)	4154	394	4957	506
Banks	745	73	873	92
Total	**4899**	**467**	**5830**	**598**
YoY change (%)			**19.0**	**28.1**

Source: Equitymaster

Nifty Earnings growth (%)



Source: Bloomberg

Forex outlook - Strength in USD to remain intact

After a strong performance in CY17, the INR has depreciated by more than 8% YTD in CY18 (from 63.85) due to factors like: (1) trade wars translating into currency wars, (2) escalating geopolitical tensions, (3) strong uptrend in Brent: (4) Strong US economy and hawkish US Fed (5) domestic political uncertainty in a pre-election year and (6) weak domestic trade. The unrelenting capital outflow from EMs is a reflection of the increasing global risks as DM monetary policies normalize and trade war threatens to derail the global economic recovery.

Another source of INR volatility has been policy dissonance across global central banks with the Fed signaling faster policy normalization while ECB postponing its rate hike decision to mid-2019. We expect another 50 bps of rate hike by the Fed in CY18 and 75 bps in CY19. The divergence in global monetary policy along with geopolitical risks should continue to provide a case for a strong USD in the medium term. The spillover from these uncertainties has led to the worst quarter for the EM currencies since CY15. Such swings in EM currencies have prompted several central banks to use interest rate hike as a defense mechanism.

Adverse global backdrop, deteriorating domestic political uncertainty could continue to keep the INR under pressure. We expect USD-INR to range 67.5-71.0 for the rest of FY19. Rupee depreciation is likely to be positive for sectors like IT and Pharma, which have majority of their revenues in USD.

Increase in MSP prices

Average MSP increased by ~17.4% in FY19

Minimum Support Prices (MSPs) for FY19 kharif production were increased 3.7-52.5% to remunerate farmers with a minimum of 1.5X of their cost of production. This is the biggest increase in MSP over the past few years. The MSP for paddy - the most important Kharif crop - has been increased by Rs 200 per quintal (13%). This is much higher than the 5.4% increase last year. Other crops that received a booster dose were Ragi (52%), Jowar (43%) and Bajra (37%). On a productionweighted basis, overall MSP was increased by around 17.4% in FY19 against around 5.6% in FY18.

Impact on the economy – We expect another rate hike in August policy

The implementation of MSP could boost rural demand. However, it has the potential to stoke inflation too. This rise in inflation, in addition to the rising crude oil prices and depreciating currency, could have a negative impact on the financial arithmetic of the country. With near-term inflation expected to increase, we believe that another rate hike by the RBI could on the cards during the next monetary policy meeting on 1st August, 2018.

GST – progressive reforms continue

Rationalization of GST rates

The GST Council in its meeting on July 21 reduced tax rate on key consumer durables such as paints, refrigerators, washing machines, domestic electrical appliances such as food processors, shavers, televisions, along with trailers, semi-trailers, etc., to 18% from 28%. Further, tax rates were also lowered for select other goods in other tax slabs. The first big change to GST rate structure and ensuing rationalization was on Nov 10th, 2017 when GST rates on a large set of FMCG products, housing products and some categories of capital goods was brought down from 28% to 18%. Subsequently, minor tweaking continued based on industry feedback and was followed up with another big announcement on 21st July to further cut rates on mid-ticket consumption items. As per rough analysis, the likely loss to exchequer is estimated at around Rs 70 bn per annum. However, we assess the event as positive on the following grounds:

- The losses can be absorbed by way of higher consumption, widening tax base and greater compliance as rates come down.
- These changes are demand positive and at 18% the GST rate on these products and are below the excise + VAT combined rate of 25-28% from the pre-GST days.
- The tweaking is a lead indicator that the system has stabilized to a level which gives comfort to states and center to bring down rates.
- These steps opens up the possibility that in future too, as comfort from revenues increase, states will be more amenable to GST cuts to other products in 28% category like cement, ACs and 2-wheelers as well.

Ease of filing

Apart from rate rationalization the rates, the Council has also proposed to ease the compliance burden by (1) extending the optional filing frequency mechanism for smaller tax payers having turnover below Rs 50mn to a quarterly duration (Earlier limit was Rs 15mn) (2) approving a simple return filing form for monthly returns with two main tables with an option of live 'checking' from both seller and buyer, ensuring that returns are automatically checked (3) Further deferring the Reverse Charge Mechanism or RCM (in case of supplies made by unregistered persons to registered persons)

Progress of the monsoon Session of Parliament and upcoming state elections

The Monsoon Session of Parliament began on 18th July and wound extend till 10th August with an estimated total of 18 sittings. In the current Session, 25 bills - out of total 60 bills pending in the Parliament - are listed for consideration and passage, and three for withdrawal during the session. Apart from this, 18 new bills are listed for introduction, consideration, and passage. In the current session, the Congress has also moved a privilege motion against Prime Minister Narendra Modi and defence minister Nirmala Sitharaman in the Lok Sabha over the Rafale deal.

Of all the bills, we are listing the bills which would have economic and market implications

List of important bills from economy and stock market perspective

Bill	Lok Sabha	Rajya Sabha	Implication
The Motor Vehicles (Amendment) Bill	Passed	Passed	Positive for trucking industry
The Negotiable Instruments Bill	Passed	Passed	Prevents bouncing of cheques, promotes trade
Prevention of Corruption Bill	Passed	Passed	Prevent corruption in government departments
Fugitive Economic Offenders Bill	Passed	Passed	Prevent economic offences

Source: Government of India

What to look out for in Industry Specific developments in Q2FY19

Two wheelers – Price cut by Bajaj Auto has negative implications for the two-wheeler industry

Bajaj Auto indicated that they will pursue market share in the domestic motorcycle segment through CT100 and Platina over the next 2-3 years. They want to reach a market share of 24% in domestic motorcycle segment from current market share of 16% in the next 2-3 years. This has implications for the industry, Hero and TVS will also get impacted as they defend their market share in the economy segment. If industry growth is driven by the economy segment, industry profitability will decline. Our analysis suggests that in CT100 and Platina segment, Bajaj Auto is making negative 10% EBITDA margin and it forms 15% of Bajaj Auto's revenues. Post the price cut, we have turned negative on Bajaj Auto and lowered our rating to Accumulate from BUY for Hero MotoCorp.

Overall market share of top two wheeler companies

(In %)	1QFY18	4QFY18	1QFY19
Bajaj Auto	8.7	9.7	10.5
Hero MotoCorp	37.0	37.8	36.3
TVS Motors	13.8	14.1	12.9

Source: Companies

Government increases axle load of trucks, trailers - Positive for trucking industry

Government of India recently released a notification on increase in load bearing capacity of the truck. As per rough calculations, government has increased the load bearing capacity of the truck by 10-25% depending on the number of axle and tyres in the vehicle. Also gross vehicle weight shall not exceed total permissible safe axle weight and in no case exceed 49 tons for rigid vehicles and 55 tons in case of truck trailers.

It is not clear as per notification whether these rules apply only for vehicles registered post this notification or it is applicable to the entire population of trucks. If it is only on new vehicles as indicated by truck manufacturers, then it will actually have a positive impact on new truck demand and re-sale prices of old trucks may get impacted.

Another point to note is that overloading is quite prevalent in the truck industry, though the extent of overloading is not known. The implication on the industry will depend on the strict implementation of this notification, which is also questionable. In our view, government needs to give more clarity on this issue before we can ascertain any impact on truck sales.

However, our first impression is that the notification is:

- Positive for companies in the trucking space including VRL Logistics, Transport Corporation of India and Gati as it lower their capex and also requirement of drivers.
- Will not impact CV demand structurally due to the prevalence of overloading PAN India. However, due to an increase in load carrying capacity by 10-25%, buying decisions could be deferred as fleet operators would wait for the cut-off date for implementation to get the benefit of extra load.

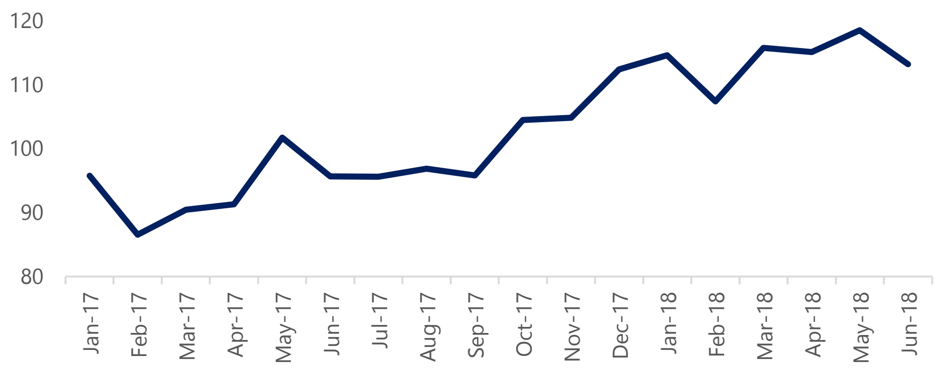
Aviation Industry showing strong traffic – INR depreciation and higher ATF may play spoilsport

The domestic passenger traffic to continue to grow at a healthy pace of ~15% per annum due to conducive factors like relatively low penetration levels, favourable macro-economic environment, support from regulatory environment (i.e. regional connectivity scheme) and development of new airports. The growth will also be supported by phase-wise capacity addition by airlines as reflected by their large order book. However, airport infrastructure continues to remain a key bottleneck for the industry’s growth potential.

The available seat kilometers (ASKM) growth in FY19 is estimated to be ~15-17%. The key driver for the industry capacity growth continues to be the sizeable order backlog of the industry. As on date, approximately 1,033 aircraft of various sizes and configurations, are on order by Indian airlines.

While growth prospects remain favourable, sharp rise in crude oil price and rupee depreciation are likely to exert pressure on operating profitability of airlines in the near-term. While the strong passenger traffic growth will allow airlines to improve yields to offset cost pressures to some extent, the increase may not be adequate. Thus, the revenue per available seat kilometre (RASK) – cost per available seat kilometre (CASK) spread is expected to get squeezed. *Indigo reported another set of weak results for Q1FY19 with EBITDA at Rs 10.3 bn (-47% YoY) and PAT of Rs278 mn (-97% YoY). The weak numbers by the market leader is a lead indicator of performance estimated in Q1FY19 & Q2FY19 for the entire airline industry.* Furthermore, some of the airlines have large capacity expansion plans, which may be either owned (through debt funding) or on operating lease. Thus, the aggregate industry debt level is expected to increase going forward (current debt of the industry is Rs 750 bn).

Performance of domestic airlines (lakh passengers flown)



Source: Bloomberg

Cement – CCI penalty creates an overhang

The National Company Law Appellate Tribunal (NCLAT) has upheld the Competition Commission of India's (CCI) earlier order which imposed a penalty of Rs67 bn on 11 cement companies. We highlight that the order pertains to potential price collusion for the period May 2009 to March 2011. The companies may file an appeal with the Supreme Court now. Among the large cement companies—ACC (Rs11.5 bn), Ambuja Cement (Rs11.6 bn), Ultratech (Rs11.8 bn) and Jaiprakash (Rs13.2 bn) contribute the bulk of the penalties. In terms of impact, the quantum of penalty accounts for 1-4% of the market cap of most pan-India companies, though it is a substantial part of the market cap of Jaiprakash Associates.

We believe the order by NCLAT can lead to higher provisioning in FY19 impacting profitability. This would result in de-rating of the sector. Consequently, we have turned cautious on the sector. However, we continue to remain positive on companies where growth is likely to be led by volume uptick such as Ultratech Cements and Shree Cements.

FMCG and Paints – strong volume growth and outlook

For FMCG and Paint companies: (1) trade conditions have normalized across channels, (2) they are witnessing gradual improvement in demand and positive trend in urban and rural growth. Rural growth has outpaced urban demand; (3) have favourable GST regime ;(4) are experiencing soft commodity prices and may exhibit margin expansion in Q2FY19; (5) Management commentary has been positive. We expect most of the companies in the consumer space to report strong numbers in FY19. We like ITC, Marico, Britannia, Colgate, Nestle and Kanai Nerolac.

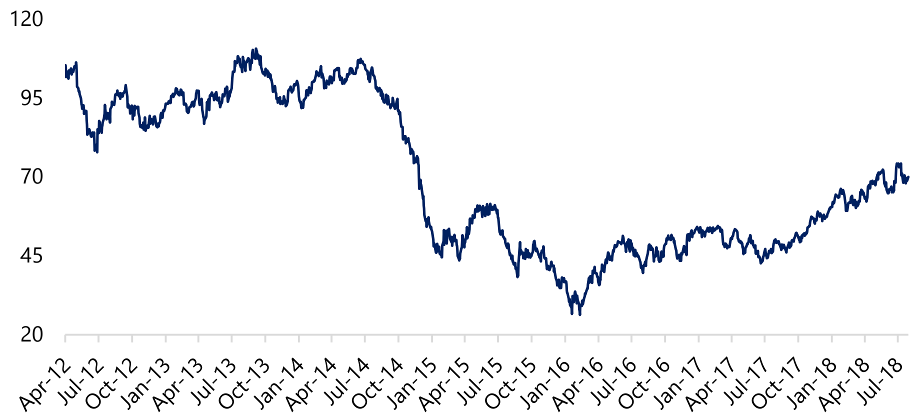
Metal prices and performance of metal companies

Base metals continue to fall since May 2018 on the back of rising trade tensions between US and China. Industrial metals also remain under pressure from a higher US dollar, which makes dollar-denominated commodities more expensive for non-US firms. Looking ahead, a strong US dollar and trade war could continue to weigh on base metals and industrial metals. Demand from India and China has slowed down with weak domestic capex. However, going ahead, with expectation of higher government spending on infra in a pre-election year might giving some respite to domestic demand and prices, which will augur well for domestic metal companies. However, we feel Q2FY19 to be weak for metal companies.

Oil and Gas – we are bullish on crude in the long run and positive on upstream companies

Brent Crude prices have corrected from US$ 79 per barrel on July 1st 2018 to US$ 74 till date on the back weaker than expected demand from China and increase in supply from Saudi. However, we believe that the crude could retest the $80 to $90 a barrel amidst uncertainties of increase in supply from Shale and by Saudi, disruption of supply from Iran and strong global demand for crude as estimated by IEA at 99.3 million barrels/day in 2019, from the estimated 97.8 million barrels/day in 2018. Higher crude prices and depreciating rupee is positive for upstream oil companies (like ONGC and OIL India)

Brent Crude (US$/barrel)



Source: Bloomberg

IT- we are positive on large cap companies

Strong cash generation and a lack of alternative opportunities for investment have prompted Indian IT companies like TCS and HCL tech to resort to buy-back which we reckon is a logical way to reward shareholders. These buy-backs are happening at a significant premium to market prices with an average acceptance ratio of over 35% for retail investors. Also management commentary of most IT companies indicate that the future cash flow generation would be healthy and share buy-back would be the way to reward share-holders in the future. Considering the current volatile equity markets, rising global concerns and limited attractive investment opportunities in the large-cap space, we believe IT companies including TCS and HCL tech offers low risk and moderate returns to investors who intend to tender shares in the ongoing buyback. We are also positive on Infosys which would be rewarding shareholders with bonus shares in the ratio of 1:1

Looking at the performance and revenue guidance of large IT companies it is certain that the industry spending environment is healthy which makes us believe that industry-wide acceleration in growth rates is possible in FY19 as there are lesser drags and more deal closures. We are positive on Persistent systems, Infosys, L&T InfoTech, Tech Mahindra and Mindtree.

Pharma – prefer companies with specialty filing in US and with good domestic share

The sector has finally started seeing the positive news flows on the expected lines. Stable outlook in US business and strong growth in domestic business given the weak base due to GST implementation previous year. The compliance risk is almost settled for most of the players (except DRL and Lupin) and complex and specialty approvals should add more value. Most of the management have indicated that the US market outlook is stable and would expect maximum a high single digit price erosion. The buyer's consolidation is also behind us for the US market. The GST implementation has also settled well in the domestic market and we look forward to healthy double digit growth in domestic market going ahead. Overall, the sector should reflect better earnings growth driven by good specialty and complex approvals in US, along with domestic market and rupee depreciation aiding the earnings. The under-ownership of the sector also should correct as we move ahead. We prefer the players focused on complex and specialty filing in US and with good domestic share. In Large Caps, we prefer -Sun Pharma, Dr Reddy; in CRAMs we prefer - Divis, Dishman, Suven and in Domestic MNC we prefer – Sanofi, GSK Pharma.

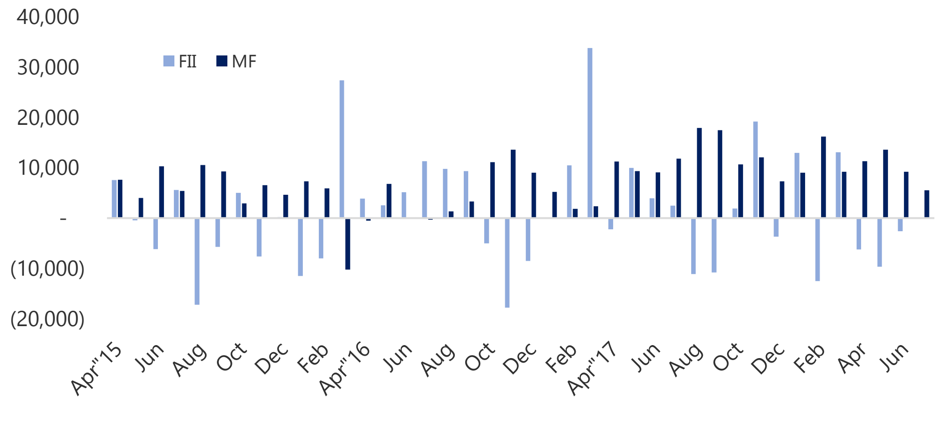
Telecom – Competition to lower post Idea and Vodafone Merger

The approval for the merger of Vodafone and Idea Cellular is expected shortly, post payment of dues totaling ~Rs 72 bn by both the companies to Department of Telecom. Once approved, Vodafone Idea Ltd (as the merged entity will be called) will be the largest telecom company with around 436 million customers and 35% market share, surpassing Bharti Airtel with 344 million customers. The merger is estimated to move the telecom industry to the lower end of Oligopoly market with 3 big players including Reliance Jio, Bharti Airtel and Vodafone Cellular controlling the market. Lesser number of players is estimated to bring down pricing war and competition in the industry. This can cap (or even increase) the falling average revenue per user (ARPU) going forward. This augurs well for Bharti Airtel and Vodafone Idea.

DIIs remain strong net buyers for July

FIIs have bought shares worth Rs.6.7 bn only (till 27th July) primarily due to sharp rise in the bond yields coupled with rupee depreciation. On the other hand, buying from mutual funds remained strong and stood at Rs.55.1bn (till 20th July). For YTD, FII's remained net sellers to the tune of Rs41.7bn and MFs remained net buyers to the tune of Rs741.15 bn.

FII & Mutual Fund investment (Rs cr)

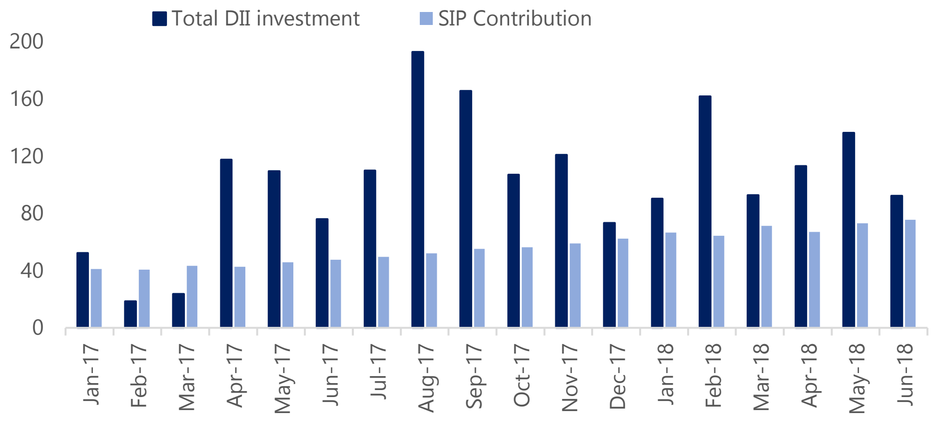


Source: Bloomberg

Strong SIP inflows

Larger awareness, discipline and stability in investments, tax benefits, small ticket investment size (investments can be as small as Rs 500 per month) and attractive returns have resulted strong investments in mutual funds through the SIP route, which we believe are more stable domestic investments made by retail investors. Recent data from AMFI highlighted that, contributions to SIP's in Q1FY19 was reported at Rs 215.5 bn (+58% YoY) and for June 2018 it was reported at Rs 75.5 bn (+59% YoY). The SIP flow of Rs 215.5 bn in Q1FY19 is more than 60% of the DII flows in the market, which indicates significant strength of domestic flows.

DII investment vs. SIP flow (Rs bn)

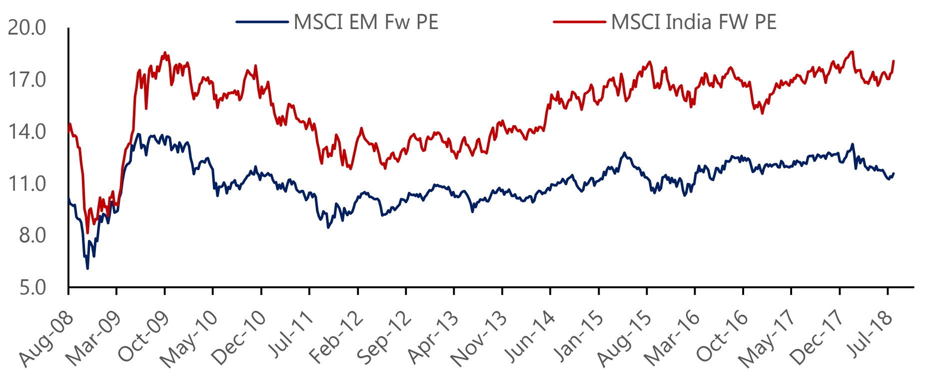


Source: Bloomberg & AMFI

MSCI emerging market vs. MSCI India

Post the trade war most of the emerging market currencies have depreciated against the Dollar. China has allowed the Yuan to depreciate against the Dollar which has also put pressure on other emerging market currencies. Most of the emerging markets have seen FPI outflows in this calendar year. India has seen the least outflows of USD 1 bn in this CYTD as compared to ~USD 3.5 bn outflows from S.Korea, USD 9 bn from Taiwan, USD 6 bn from Thailand and USD 3.5 bn from Indonesia. This relative lesser outflows from FPI coupled with strong domestic inflows into Indian markets has widened the premium of MSCI India Vs. the MSCI Emerging Markets. On a one a year forward basis the MSCI Emerging market Index trades at 11.6x as compared to 18.1x of MSCI India Index. The valuation premium of MSCI India over that of MSCI Emerging Markets has widened to 56% and is close to its previous peaks. The premium of 56% is far higher than the 10 year average premium of 38%

MSCI Emerging Market Vs MSCI India 1 Yr rolling FW PE



Source: Bloomberg

MSCI India Vs MSCI EM - Premium (on FW PE basis)

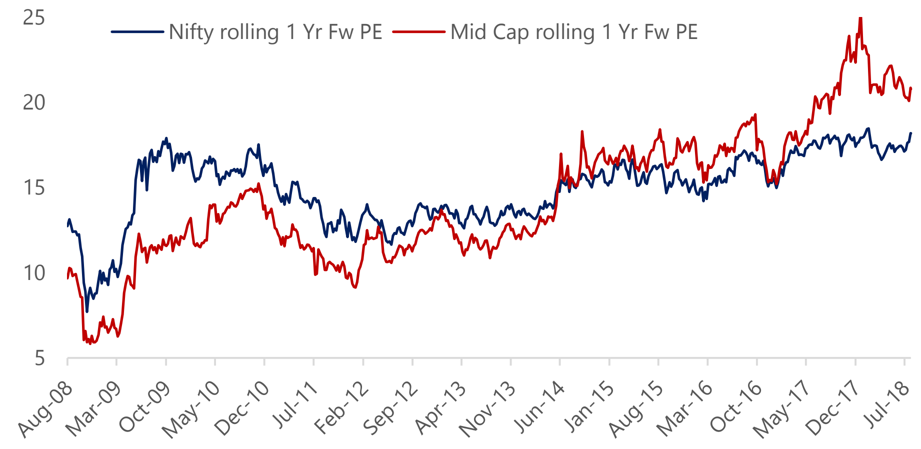
Source: Bloomberg

Market valuations and recommendation

The government has actively taken steps to lower GST rates & ease of filing GST returns. It is a positive step and will help the business & economy to grow with ease. Also, the uncertainty of the central government losing support from its alliance partners is now behind us, as the trust vote was won with a high margin with the support of its alliance partners. Given this, the market will focus on macro-economic data points (Crude oil, base and industrial metals, Inflation data, INR movement and GST collections), IIP numbers, CAD, RBI policy stance, US GDP growth, Fed rate hike, implications for India of global trade war and valuations. Latest trends indicate that India will have to contend with a weaker macros with higher inflation/interest rates, higher CAD and weaker INR. Focus of market would also be on progress of monsoon and government spending in a pre-election year.

Under the above circumstance we would recommend investors to focus companies that are capable of delivering strong earnings growth and with good corporate governance. Nifty and Midcap index are currently trading at 18.2x and 20.8 x one year forward earnings, which is still at a premium to historical five year average one year forward earnings amidst falling rupee, increasing CAD, volatile commodity prices and peaking inflation.

Nifty and Midcap One Year Forward Valuation



Source: Bloomberg

We recommend investors to add cash rich companies (IT), companies which are exhibiting improvement in earnings (IT and banks), companies which are exhibiting strong volume growth and which would benefit from normal monsoons (FMCG and Paints), defensives with lowering regulatory risk (Pharma), companies which would benefit from government spending in a pre-election year (infrastructure companies), rural spending (tractors, farm products), favourable taxation environment (Paint companies and ITC), favourable regulatory environment (trucking companies) and export driven sectors (IT, Pharma, Textiles and Jewellery)

Key risks to our recommendation include unfavorable outcome of forth coming state elections, further increase in Brent crude, INR depreciation, widening trade deficit, increasing inflation and interest rates and waning liquidity from FIIs and domestic mutual funds.

Preferred picks

Domestic Cyclicals / Investment oriented sectors

Sector	Stocks
Automobiles	Mahindra & Mahindra, Maruti Suzuki
Building Material	Kajaria Ceramics, Century Plyboards, Greenply Ind, Shankara Building Products
Capital Goods, Engineering	Carborundum Universal, Genus Power Infra, L&T, Voltamp.
Cement	UltraTech Cement, Shree Cements
Construction	Dilip Buildcon, Nagarjuna Construction, PNC Infratech
Logistics, Transportation	Adani Port, Container Corp, VRL Logistics and Cochin Shipyard
Metals & Mining	Jindal Stainless (Hisar), MOIL Ltd, National Aluminium
Oil & Gas	Mahanagar Gas
Others	CDSL, Mold-tek Packing Ltd, Insecticides India, Mahindra Holidays & Resorts India, VIP Industries, Wonderla Holidays and Quess Corp
Real Estate	Phoenix Mills

Source: Kotak Securities - Private Client Research

Export oriented / Defensive sectors

Sector	Stocks
FMCG	ITC
IT	Cyient, Quess Corp
Paints	Akzo Nobel India, Kansai Nerolac Paints

Source: Kotak Securities - Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	111647
52-wk Hi/Lo (Rs)	:	236 / 165
Face Value (Rs)	:	10
3M Avg. daily volume	:	581,559
Shares o/s (mn)	:	564

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	13,317	16,016	15,157
Growth (%)	29.6	20.3	-5.4
EBITDA	11,478	13,856	13,123
EBITDA margin (%)	86.2	86.5	86.6
PAT	6,684	6,292	6,205
EPS	11.9	11.2	11.0
EPS Growth (%)	34.5	(5.9)	(1.4)
BV (Rs/share)	89.8	99.0	108.0
Dividend/share (Rs)	1.7	1.7	1.7
ROE (%)	13.8	11.7	10.5
ROCE (%)	10.3	10.6	10.2
P/E (x)	16.7	17.7	18.0
EV/EBITDA (x)	12.2	9.8	10.1
P/BV (x)	2.2	2.0	1.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	37.7	37.7	37.7
FII	16.2	16.6	16.4
DII	20.7	19.5	19.6
Others	14.5	15.1	15.3

Source: Company

Price Performance (%)

(%)	1M	3M	6M
GSPL	10.0	11.0	(2.4)
Nifty	6.0	5.7	3.0

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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GUJARAT STATE PETRONET LTD (GSPL)

PRICE RS.198 **TARGET RS.182** **SELL**

Dismal performance: Despite higher gas transmission volume and higher tariffs, GSPL's PAT has declined by 8% qoq due to higher taxes paid, lower other income and higher interest cost. Lack of tax benefit on interest paid on loan taken for acquisition of Gujarat Gas led to higher tax rate of 41%. We continue to remain worried about its less remunerative/expensive investments in cross-country pipelines, new LNG terminals and city gas distribution.

Key Highlights

- GSPL's Q1FY19 result is lower than our estimates. GSPL reported PAT of Rs.1.45 bn, lower 8% qoq mainly on account of higher taxes, higher interest cost and lower other income.
- GSPL's reported higher gas transmission volume at 36.5 mmscm (8% qoq and 36% yoy). GSPL's volume increased due to higher gas demand from the power sector.
- GSPL reported marginally better implied tariffs at Rs. 1.14/ scm higher by 1% sequentially.

Valuation & outlook

We expect GSPL to report an EPS of Rs.11.2 for FY19E (earlier Rs.12.8) and an EPS of Rs.11 (earlier Rs.13.9) for FY20E. We have lowered our estimates to reflect higher taxes, higher interest cost and lower volumes due to ramp-up of RIL's petcoke gasifiers. Post our previous reduce recommendation the stock has corrected significantly. We do not expect any meaningful upside in the stock in the near future and hence we now recommend SELL (earlier REDUCE) on GSPL with a DCF based unchanged price target of Rs.182/share.

Quarterly performance table

Particulars (Rs Mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Income from ops	**3,912**	**3,504**	**2,963**	**32**	**12**
Total Expenditure	474	612	204	133	(23)
EBIDTA	**3,438**	**2,892**	**2,760**	**25**	**19**
Depreciation	448	440	430	4	2
EBIT	**2,990**	**2,452**	**2,330**	**28**	**22**
Other income	55	171	164	(67)	(68)
Interest-net	579	103	106	448	462
PBT	**2,466**	**2,520**	**2,389**	**3**	**(2)**
Extra ordinary Exp/(Inc)					
Tax	1,021	946	864	18	8
PAT	**1,445**	**1,574**	**1,525**	**(5)**	**(8)**
Basic EPS	2.56	2.79	2.71	(5)	(8)

Source: Company.

Quarterly result analysis – Q1FY19

- **Revenue growth**: GSPL's net total revenue increased 12% qoq to Rs.3.9 bn (+32% yoy) supported by both higher gas transmission volume (8% qoq and 36% yoy) and marginally better implied tariffs (1% qoq). Revenue from sale of electricity has also increased 165% qoq to Rs. 136 mn (-5% yoy).

- **Staff Cost:** Employee cost decreased by 18% qoq (despite lower base) to Rs.87 bn (+8% yoy) in Q1FY19. Similarly, staff cost to sales (%) declined 1% qoq to 2.2%.
- **Other expenses:** The Company's other operating expenses decreased by 24% qoq to Rs.387 mn. In Q4FY18, the operating cost increased significantly by 20% to Rs.506 mn.

Margin Ratio (%)

	Q1FY19	Q4FY18	Q1FY18	YoY (ppt)	QoQ (ppt)
EBITDA Margin	88	82.5	93	(5)	5
EBIT Margin	76	70.0	79	(2)	6
Adj PAT Margin	37	44.9	51	(15)	(8)
Other Income/PBT	2	6.8	7	(5)	(5)
Tax/PBT	41	37.5	36	5	4

Source: company

Expenses (Rs. Mn)

	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Staff costs	87	106	81	8	(18)
Other Expenditure	387	506	123	214	(24)
Total	474	612	204	133	(23)

Source: company

Expenses Ratio (%)

	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Staff to Sales	2.2	3.0	2.7	(0)	(1)
Other expenses to Sales	9.9	14.4	4.2	6	(5)

Source: company

- **Operating profit (Rs mn):** Operational profits increased 19% qoq to Rs. 3.44 bn (+25% yoy) supported by higher revenues and better efficiency.
- **Operating margin:** The Company's operating margin increased to 87.9% in Q1FY19, up 500 bps qoq due to decrease in expenses and higher revenues.
- **Finance cost:** Interest cost increased 462% qoq to Rs.579 mn due to increase in total debt.
- **Depreciation charge:** Depreciation cost increased 2% qoq to Rs. 448 mn (4% yoy). Net fixed asset stood lower at Rs.31.1 bn as on 31st March 2018 as against Rs.31.7 bn as on 31st March 2017.
- **Other income:** Other income decreased significantly by 68% qoq (base effect) to Rs.55 mn (-67% yoy). In Q4FY18, GSPL received higher dividend income and the same is missing in Q1FY19. Other income mainly consist of dividend and interest income.
- **Profit before tax (PBT):** Despite significant jump in operating profit, GSPL's PBT decreased 2% qoq to Rs.2.5 bn due to lower other income and higher finance cost.
- **PAT:** GSPL reported lower PAT at Rs.1.45 bn lower 8% qoq and 5% qoq basis due to higher tax paid resulting in quarterly EPS of Rs.2.56 and CEPS Rs.3.36. Higher tax due to lack of deduction for interest cost on debt pertaining to acquisition of stake in Gujarat Gas.

Maintain SELL

We expect GSPL to report an EPS of Rs.11.2 for FY19E (earlier Rs.12.8) and an EPS of Rs.11 (earlier Rs.13.9) for FY20E. We have lowered our estimates to reflect higher taxes, higher interest cost and lower volumes due to ramp-up of RIL's petcoke gasifiers. Post our previous reduce recommendation the stock has corrected significantly. We do not expect any meaningful upside in the stock in the near future and hence we now recommend SELL (earlier REDUCE) on GSPL with a DCF based unchanged price target of Rs.182/share.

Key Risk and Concerns

- Project execution risk
- Lower than expected gas off-take by consumers
- Delay in expected tariff hike by PNGRB
- Going forward the major growth in GSPL is expected to come from inter-state pipelines across Gujarat, Rajasthan, Maharashtra and Andhra Pradesh. Thus its returns are expected to be capped in the near term.

Company Background

Gujarat State Petronet Limited (GSPL) was set up by GSPC. While GSPC harnesses and procures natural gas, GSPL is building the infrastructure that transmits the gas across the state of Gujarat and ultimately allows last-mile linkage to the end-user. GSPL is laying a gas grid, to facilitate gas transmission from supply points to demand centres.

GSPL has already put in place a pipeline network of about 2600 km and further extension of pipeline network is going on. The company has signed gas transmission agreements with various industries for the transportation of natural gas from various supply sources in Gujarat.

Presently, the company transmits over 22 MMSCMD of natural gas.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**10,276**	**13,317**	**16,016**	**15,157**
% change YoY	3.6	29.6	20.3	(5.4)
EBITDA	**8,883**	**11,478**	**13,856**	**13,123**
% change YoY	2.6	29.2	20.7	(5.3)
Other Income	882	735	750	850
Depreciation	1,791	1,750	1,846	1,895
EBIT	**7,973**	**10,462**	**12,760**	**12,079**
% change YoY	9.3	31.2	22.0	-5.3
Net interest	596	354	2,445	2,230
Profit before tax	7,377	10,108	10,315	9,849
% change YoY	13.1	37.0	2.1	-4.5
Tax	2,411	3,424	4,023	3,644
as % of PBT	32.7	33.9	39.0	37.0
Profit after tax	**4,966**	**6,684**	**6,292**	**6,205**
Minority interest	0	0	0	0
Share of profit of associates				
Net income	4,966	6,684	6,292	6,205
% change YoY	6.9	34.6	(5.9)	(1.4)
Shares outstanding (m)	564	564	564	564
EPS (reported) (Rs)	**8.8**	**11.9**	**11.2**	**11.0**
CEPS (Rs)	12.0	15.0	14.4	14.4
DPS (Rs)	1.5	1.7	1.7	1.7

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	8,026	3,645	264	249
Accounts receivable	1,189	1,235	1,485	1,329
Inventories	1,123	1,235	1,485	1,405
Loans and Adv & Others	1,819	1,456	1,456	1,456
Current assets	12,158	7,571	4,690	4,438
Misc exp.	0	0	0	0
LT investments	7,655	41,814	41,814	41,814
Net fixed assets	38,521	40,101	41,601	43,101
Total assets	**58,334**	**89,485**	**88,105**	**89,353**
Payables	138	185	223	211
Others	987	1,338	1,572	1,488
Current liabilities	1,125	1,524	1,795	1,699
Provisions	124	138	164	156
LT debt	7,406	32,189	25,332	21,607
Min. int and def tax liabilities	4,719	4,984	4,984	4,984
Equity	5,636	5,638	5,639	5,639
Reserves	39,324	45,012	50,191	55,269
Total liabilities	**58,334**	**89,485**	**88,105**	**89,353**
BVPS (Rs)	80	90	99	108

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	7,973	10,462	12,760	12,079
Depreciation	1,791	1,750	1,846	1,895
Change in working capital	883	884	(203)	132
Chgs in other net current assets				
Operating cash flow	10,647	13,097	14,403	14,105
Interest	(596)	(354)	(2,445)	(2,230)
Tax	(2,411)	(3,424)	(4,023)	(3,644)
Cash flow from operations	**7,641**	**9,319**	**7,935**	**8,231**
Capex	1,825	(3,331)	(3,346)	(3,395)
(Inc)/dec in investments	(2,059)	(34,159)	-	-
Cash flow from investments	**(234)**	**(37,489)**	**(3,346)**	**(3,395)**
Proceeds from issue of equity	(843)	193	8	-
Increase/(decrease) in debt	(3,191)	24,783	(6,857)	(3,725)
Proceeds from share premium	-	-	-	-
Dividends	(1,016)	(1,187)	(1,121)	(1,128)
Cash flow from financing	**(5,051)**	**23,789**	**(7,970)**	**(4,852)**
Opening cash	5,670	8,026	3,645	264
Closing cash	8,026	3,645	264	249

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	86.4	86.2	86.5	86.6
EBIT margin (%)	77.6	78.6	79.7	79.7
Net profit margin (%)	48.3	50.2	39.3	40.9
Receivables (days)	42.2	33.9	33.9	32.0
Inventory (days)	39.9	33.8	33.8	33.8
Sales/gross assets(x)	0.2	0.2	0.2	0.2
Interest coverage (x)	14.9	32.4	5.7	NM
Debt/equity ratio(x)	0.2	0.6	0.5	0.4
ROE (%)	11.6	13.8	11.7	10.5
ROCE (%)	10.5	10.3	10.6	10.2
EV/ Sales	10.8	10.5	8.5	8.8
EV/EBITDA	12.5	12.2	9.8	10.1
Price to earnings (P/E)	22.5	16.7	17.7	18.0
Price to book value (P/B)	2.5	2.2	2.0	1.8

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	152934
52-wk Hi/Lo (Rs)	:	1490 / 1018
Face Value (Rs)	:	2
3M Avg. daily volume	:	73,838
Shares o/s (mn)	:	127

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	49,663	57,844	69,079
Growth (%)	11.3	16.5	19.4
EBITDA	7,871	9,003	11,059
EBITDA margin (%)	15.8	15.6	16.0
PAT	3,971	4,555	5,798
EPS	31.3	35.9	45.6
EPS Growth (%)	5.4	14.7	27.3
BV (Rs/share)	149	171	203
Dividend/share (Rs)	12.0	12.0	12.0
ROE (%)	22.1	22.4	24.4
ROCE (%)	30.1	31.1	35.2
P/E (x)	38.5	33.6	26.4
EV/EBITDA (x)	19.7	17.2	13.8
P/BV (x)	8.1	7.0	5.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	49.7	49.7	49.7
FII	7.3	10.3	10.9
DII	21.2	18.9	18.7
Others	21.8	21.0	20.7

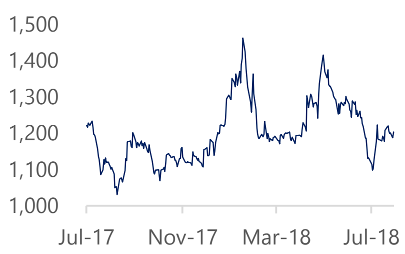
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Supreme Industries	6.4	(13.1)	(7.6)
Nifty	6.0	5.7	3.0

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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SUPREME INDUSTRIES LTD

PRICE RS.1204 TARGET RS.1324 ACCUMULATE

Supreme Industries Q1FY19 results was broadly inline with estimates with volume grew by 8.4% largely on account of strong performance in packaging, industrial and consumer segments.

Key Highlights

- The company reported 15.8% yoy growth in revenue which was driven by 8.4% yoy growth in volume and 7.2% yoy growth in realization. The volume growth was better than our estimates due to strong growth in consumer, industrial and packaging segment.
- EBITDA margins at 13.8% was broadly inline with our estimates. The company expects EBITDA margins to be around ~15.5-16% in FY19E.
- The company is positive on industrial, consumer and packaging segment. The company is not positive on agri pipes due to lower demand and margins but maintains positive demand outlook on pipe from real estate sector. Based on this, the company has reduced volume growth guidance from 12-15% to 10-12% for FY19E.

Valuation & outlook

- We have maintained our FY19E & FY20E estimates. We expect earnings to grow at faster pace in FY19E and FY20E on company's ability to maintain strong margins.
- The stock is presently trading at PE of 33.6x and 26.4x on FY19E and FY20E EPS of Rs 35.9 and 45.6 per share, respectively.
- We upgrade our rating on the stock to Accumulate (Vs Reduce earlier) with unchanged target price of Rs 1324, valuing the stock at 29x on FY20E earnings.

Quarterly performance table

(Rs mn)	Jun-18	Jun-17	YoY (%)	Mar-18	QoQ (%)
Net Sales	**13,457**	**11,617**	**15.8**	**14,713**	**(8.5)**
Expenditure	11,600	10,030	15.7	11,845	(2.1)
RM Cost	9,223	7,940	16.2	9,454	(2.4)
Employee Cost	600	537	11.7	705	(14.9)
Other Expenditure	1,777	1,553	14.4	1,686	5.4
EBITDA	**1,857**	**1,587**	**17.0**	**2,868**	**(35.2)**
EBITDAM (%)	13.8	13.7		19.5	
Other Income	6	4	37.2	37	(84.1)
PBIDT	**1,863**	**1,591**	**17.1**	**2,905**	**(35.9)**
Depreciation	427	406	5.1	414	3.1
Interest	39	33	18.7	56	(29.5)
PBT	**1,397**	**1,152**	**21.3**	**2,435**	**(42.6)**
Exceptional Items	559	0		0	
PBT (Aft exceptional items)	**1,956**	**1,152**	**69.8**	**2,435**	**(19.7)**
Tax	652	399	63.5	774	(15.7)
PAT	**1,304**	**753**	**73.1**	**1,661**	**(21.5)**
Equity Capital	254.1	254.1	0.0	254.1	0.0
EPS (Rs)	**10.3**	**5.9**	**73.1**	**13.1**	**(21.5)**

Source: Company

Volume ahead of estimates

SIL reported 15.8% yoy growth in net sales to Rs 13.5 bn (Vs estimates of Rs13.1 bn) driven by 1) 8.4% yoy growth in volume (Vs estimates of 5.9% yoy growth) and 2) 7.2% yoy growth in average realization (Vs estimates of 7.6% yoy growth). The revenue growth was contributed by strong volume growth in industrial, consumer and packaging segment which was up 23% yoy, 15.1% yoy and 10.3% yoy respectively. The pipes segment witnessed slower volume growth of 5.2% yoy due to weakness in demand in Maharashtra in agri pipes segment and lower volume in Polyethylene pipes in eastern market. Packaging, consumer and industrial segment are expected to remain strong in FY19E. SIL is increasing capacity across segments which would help in maintaining volume growth in FY19E.

Segment-wise sales break up

Sales Rs mn	Jun-18	Jun-17	YoY (%)	Mar-18	QoQ (%)
Plastic Pipes	7,475	6,649	12.4	8,288	-9.8
Packaging	2,598	2,387	8.8	2,464	5.4
Industrial	2,281	1,661	37.3	2,558	-10.8
Consumer	1,000	809	23.6	953	4.8

Source: Company

Segment-wise volume of plastic products business

Sales tonnes	Jun-18	Jun-17	YoY (%)	Mar-18	QoQ (%)
Plastic Pipes	69,619	66,149	5.2	72,779	(4.3)
Packaging	12,647	11,469	10.3	11,905	6.2
Industrial	12,278	9,979	23.0	12,600	(2.6)
Consumer	5,275	4,584	15.1	5,909	(10.7)
Total	**99,905**	**92,196**	**8.4**	**103,214**	**(3.2)**

Source: Company

Segment wise realization of plastic products business

Realization Per Kg	Jun-18	Jun-17	YoY (%)	Mar-18	QoQ (%)
Plastic Pipes	134	125	7.2	143	(6.0)
Packaging	107	101	6.8	114	(5.7)
Industrial	205	208	(1.3)	207	(0.8)
Consumer	186	166	11.6	203	(8.5)
Total	**189**	**176**	**7.4**	**161**	**17.4**

Source: Company

Q1FY19 EBITDA margins was flattish, maintains guidance of 15.5-16% margins

EBITDA margins for the quarter was flattish yoy at 13.8% and was inline with estimates. The company has maintained earlier guidance of ~15.5%-16% EBITDA margins in FY19E which would be driven by increased conrtribution from real estate pipeing segment, improved performance in high margin packaging film and increased share of other value added product. PBT for the quarter grew by 21% yoy to Rs 1.4 bn as against our estimates of Rs 1.37 bn. PAT for the quarter grew by 73.1% yoy to Rs 1.3 bn due to exceptional item of Rs 559 mn related to sale of assets.

Segmental EBITDA margins in plastic products business

	Jun-18	Jun-17	Mar-18
Plastic Pipes	13.1%	12.6%	17.2%
Packaging	17.8%	18.7%	22.4%
Industrial	11.4%	11.1%	14.4%
Consumer durables	15.3%	16.3%	28.6%

Source: Company

Focus on margins, Reduces volume guidance to 10-12%

SIL management has reduced FY19E volume growth guidance to 10-12% Vs 12-15% guided earlier. In Q1FY19, the company could register 8.8% volume growth on account of slower growth in pipes segment which grew at 5.2%. As per management, the volume got affected due to slower demand in agri pipes in Maharashtra. The company is focusing on housing segment where it has strong presence and the margins are also higher.

Status of capex plan

The company has guided for Rs 3-3.5 bn capex in FY19E. The company's green field plant at (Ghiloth) Rajasthan is now complete and will go in production in Q2FY19. The production will also start in other green field plant at Jadcherla in Telangana where first phase may start in Q3FY19. This would increase the capacity of the company by 50,000 tonne to over 600,000 tonnes in FY19E and another 50,000 in FY20E, with incremental revenue potential of Rs 11 bn.

Other highlights

- The company is positive on composite cylinder business in FY19E and expects order from domestic as well as international market. It has got an order from Bangladesh for supply of 40,000 composite cylinders. In domestic market, it is supplying composite cylinders to two private gas bottlers and the response is positive. The company is negotiating with other private bottlers in different cities to supply LPG gas in its cylinders.

- The company has negotiated sale of 38,717 sq. ft. premises at Supreme Chambers at Andheri (West), Mumbai. It has received initial deposits and expected to complete the transactions before September 2019. The company has sold 38,000 sqft of real estate at Supreme Chambers in Mumbai for Rs 780 mn. It has unsold inventory of 12,000 sqft.

- In the quarter, the company booked exceptional item of Rs 559 mn as gain from transfer of its Khushkhera Unit engaged in manufacture of Plastic Automotive Components as a going concern to a newly formed JV company Kumi Supreme India Pvt Ltd on a slump sale basis. SIL has entered into a definitive agreement with the Kumi Kasei Co., Ltd. (Kumi), Japan to form a JV company namely Kumi Supreme India and holds 20.67% in the JV.

- The gross debt at the end of the quarter stood at Rs 2.15 bn with average cost of borrowing reduced to 6.83%. The company has comfortable debt to equity ratio of 0.1x.

- The share of value added products was 33% in Q1FY19 as against 32% in Q1FY18. The company intends to increase this share in FY19E.

- The PVC prices have reduced on account of supply from new capacities came in from US, Gulf, etc. The company does not expect any raw material price pressure in near terms.

- SIL would not be affected by plastic ban in some of the states as it is not making any such banned products.

Outlook and valuation

SIL management believes that the plastic demand across most of the segment will be robust. We like SIL for its track record of profitable growth with high returns ratios and believe that its strong product profile and long term benefits from GST will support its growth in a longer run. We have maintained our FY19E & FY20E estimates. We expect earnings to grow at faster pace in next two years on improved volume growth outlook for the company, focus on increasing share of value added products and its ability to pass on increase in raw material prices.

The stock is presently trading at PE of 33.6x and 26.4x on FY19E and FY20E EPS of Rs 35.9 and 45.6 per share, respectively. We upgrade our rating on the stock to Accumulate (Vs Reduce earlier) with unchanged target price of Rs 1324, valuing the stock at 29x on FY20E earnings.

Company background

Supreme Industries Ltd (SIL) established in 1942, is engaged in the business of plastic and related products with a long history in Indian plastic industry. It is one of the major players in the plastic pipes business with 14% domestic market share (FY17) with established brand equity. It is largest plastic processor in India processing over 3.4 lakh tonne per annum. The company manufactures and sells diverse range of plastic products broadly categorized across 5 different verticals, plastic piping system, packaging products, industrial products, consumer products, and composite products with FY17 revenue contribution of 56%, 22%, 14%, 7% and 1% respectively. Its products cater to diverse sectors such as Agriculture, Infrastructure, Housing, Packaged Foods, Sports goods, Potable Water Supply & Sanitation, Auto, Electronics, Horticulture, Floriculture, etc. It has 25 plants located across India with gross block of ~Rs 23 bn (FY17) and adding three more plants with capex of Rs 4.25-4.5 bn.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**44,623**	**49,663**	**57,844**	**69,079**
% change yoy	50.7	11.3	16.5	19.4
Direct Cost	28,917	32,858	38,675	46,325
Employee Cost	2,117	2,419	2,709	3,034
Other Expenses	5,970	6,516	7,457	8,661
Total Expenses	37,004	41,792	48,842	58,020
EBITDA	**7,619**	**7,871**	**9,003**	**11,059**
% change yoy	65	3	14	23
Depreciation	1,543	1,672	1,914	2,172
EBIT	**6,076**	**6,200**	**7,089**	**8,887**
Other Income	51	48	48	48
Interest	303	219	221	132
Profit Before Tax	**5,825**	**6,028**	**6,915**	**8,802**
% change yoy	77	3	15	27
Tax	2,058	2,057	2,360	3,004
as % of EBT	35	34	34	34
PAT	3,767	3,971	4,555	5,798
% change yoy	84	5	15	27
Shares outstanding (mn)	127	127	127	127
EPS (Rs)	**29.6**	**31.3**	**35.9**	**45.6**
DPS (Rs)	15.0	12.0	12.0	12.0
CEPS(Rs)	41.8	44.4	50.9	62.7
BVPS(Rs)	133.5	149.1	171.0	202.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	254	254	254	254
Reserves	16,703	18,695	21,467	25,481
Net worth	16,957	18,949	21,721	25,735
Borrowings	2,790	2,484	2,484	484
Net Deferred Tax	1,163	1,134	1,134	1,134
Total Liabilities	**20,910**	**22,567**	**25,338**	**27,353**
Gross Block	22,983	25,521	30,021	33,021
Accumulated Depreciation	10,350	12,058	13,972	16,144
Net block	12,633	13,597	16,050	16,877
Capital work in progress	459	626	626	626
Total fixed assets	13,092	14,223	16,676	17,503
Investments	1,972	2,194	2,194	2,194
Inventories	7,769	6,970	8,583	10,250
Sundry debtors	2,753	3,820	3,828	4,571
Cash and equivalents	762	320	540	890
Loans and advances & Others	67	62	65	68
Total current assets	12,785	12,595	14,439	17,203
Sundry creditors and others	6,767	6,461	8,120	9,697
Provisions	173	204	204	204
Total CL & provisions	6,940	6,664	8,323	9,900
Net current assets	5,845	5,930	6,116	7,303
Other Assets (net)	1	219	353	353
Total Assets	**20,910**	**22,567**	**25,338**	**27,353**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	5,825	6,028	6,915	8,802
Depreciation	1,543	1,672	1,914	2,172
Interest & others	197	219	221	132
Change in WC	(1,209)	(527)	34	(837)
Tax Paid	(1,705)	(2,057)	(2,360)	(3,004)
Operating Cash Flow	**4,650**	**5,335**	**6,725**	**7,266**
Capex	(2,099)	(2,705)	(4,500)	(3,000)
Free Cash Flow	2,551	2,629	2,225	4,266
Investments & others	77	(222)	0	0
Investment cash flow	**(2,022)**	**(2,928)**	**(4,500)**	**(3,000)**
Equity Raised	0	0	0	0
Debt Raised	(1,331)	(306)	0	(2,000)
Dividend	(459)	(1,784)	(1,784)	(1,784)
Interest & other fin activity	(314)	(759)	(221)	(132)
CF from Financing	**(2,104)**	**(2,849)**	**(2,005)**	**(3,916)**
Change in Cash	524	(442)	220	350
Opening Cash	238	762	320	540
Closing Cash	762	320	540	890

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	17.1	15.8	15.6	16.0
EBIT margin (%)	13.6	12.5	12.3	12.9
Net profit margin (%)	8.4	8.0	7.9	8.4
Receivables (days)	21	24	24	24
Inventory (days)	55	54	54	54
Payable (days)	50	49	49	49
Net Working Capital (days)	41	43	38	35
Asset Turnover (x)	2.0	2.0	2.1	2.2
Net Debt/ Equity (x)	0.1	0.1	0.1	(0.0)
RoCE (%)	32.8	30.1	31.1	35.2
RoE (%)	25.0	22.1	22.4	24.4
P/E (x)	40.6	38.5	33.6	26.4
P/BV (x)	9.0	8.1	7.0	5.9
EV/EBITDA (x)	20.3	19.7	17.2	13.8
EV/Sales (x)	3.5	3.1	2.7	2.2

Source: Company, Kotak Securities – Private Client Research

kotak Securities

Result Update

BLUEDART EXPRESS LTD (BLUEDART)

PRICE RS.3690 TARGET RS.3215 SELL

Bluedart has reported weak set of numbers for Q1FY19, post strong quarterly performance in Q4FY18. We attribute the current quarter's performance to a challenging environment with slowing business growth, hyper-active competitive pressures in B2B and B2C, increase in fuel prices, introduction of GST and initial hiccups in e-way bill implementation.

Key Highlights

- Sales was in line with expectation at Rs 7.32 bn (+9.9% YoY). However, operational performance of the company was under pressure on account of increase in freight (including fuel) and Employee cost. Freight and handling cost was high for the company during the quarter at Rs 4.86 bn (+12.9% YoY) primarily due to increasing fuel prices, which we believe the company was not able to pass on to customers completely. The employee cost was higher during the quarter at Rs 1.32 bn (+12% YoY) due to year end provisioning of hikes and variable pay by the company
- Other income and depreciation cost were stable for the company, while interest cost has fallen with one-third redemption of debentures in Q3FY18. Lower tax provisioning net of tax adjustment of prior period supported the PAT. Consequently, company reported PAT of Rs 220 mn (-35.7% YoY) which was below our expectation of Rs 350 mn. We consider the current quarter's performance as weak.

Quarterly Performance

Rs mn	Q1FY18	Q4FY18	Q1FY19	YoY (%)	QoQ (%)
Sales	**6,666**	**7,168**	**7,328**	**9.9**	**2.2**
Freight and Handling cost	4,300	4,659	4,855	12.9	4.2
Employee	1,176	1,148	1,317	12.0	14.7
Other cost	731	793	711	(2.7)	(10.3)
Operating cost	6,207	6,600	6,883	10.9	4.3
EBIDTA	**459**	**568**	**445**	**(3.1)**	**(21.7)**
EBIDTA (%)	6.9	7.9	6.1	(11.8	(23.4)
Depreciation	114	111	112	(1.8)	0.9
Other income	57	53	45	(21.1)	(15.1)
Interest	78	39	39	(50.0)	0.0
PBT	**324**	**471**	**339**	**4.6**	**(28.0)**
Taxes	113	129	119	5.3	(7.8)
ETR	34.9	27.4	35.1		
PAT	**211**	**342**	**220**	**4.3**	**(35.7)**
Equity	239	239	239		
EPS (Rs)	**8.8**	**14.3**	**9.2**	**4.3**	**(35.7)**

Source: Company

Stock Details

Market cap (Rs mn)	:	87954
52-wk Hi/Lo (Rs)	:	4824 / 3179
Face Value (Rs)	:	10
3M Avg. daily volume	:	10,833
Shares o/s (mn)	:	24

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	27,908	29,133	31,231
Growth (%)	3.9	4.4	7.2
EBITDA	2,599	3,054	3,346
EBITDA margin (%)	9.3	10.5	10.7
PAT	1,422	1,754	2,014
EPS	59.7	73.7	84.6
EPS Growth (%)	-2.5	24.5	13.9
BV (Rs/share)	277.9	339.8	413.6
Dividend/share (Rs)	12.5	15.0	15.0
ROE (%)	23.6	23.9	22.5
ROCE (%)	25.9	31.7	33.1
P/E (x)	61.8	50.1	43.6
EV/EBITDA (x)	32.1	26.6	24.4
P/BV (x)	13.3	10.9	8.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	75.0	75.0	75.0
FII	5.6	6.7	7.3
DII	6.6	5.9	4.7
Others	12.8	12.4	13.0

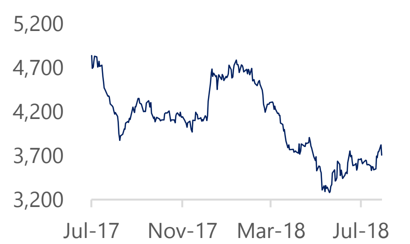
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Blue Dart Exp	1.3	0.5	(20.8)
Nifty	6.0	5.7	3.0

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Valuation and Outlook

- Bluedart is an undisputed market leader in the air express segment, with a dominant market share of ~50%. It is also a strong player in the ground express cargo segment with a market share of ~13%. A fresh strategy under the observation of Mckinsey, implementation of GST and above normal growth in the ecommerce segment are expected to keep the growth momentum healthy for BLUEDART. However, competition and increasing fuel prices have deflated operational performance on a sustained basis including the current quarter.
- We believe that, the company would find it difficult to pass on the increase in fuel prices and other cost and charge a significant premium for its services to other courier companies. We have also seen a slowing trend of business flow from e-commerce companies to private courier companies. We see the changes as structural in nature which is consistent with our view of crude touching $80 to $90 in medium term. In lieu of this developments, we have lowered our earnings and target multiple accorded to Bluedart. We are now recommending a SELL on Bluedart with a reduced target price of Rs 3215 (from Rs 4050) at 38 x FY20 earnings (lowered from 40x).

Current quarter's performance was influenced by the following factors:

Super-normal growth in the e-commerce segment has slowed down

Management of Bluedart indicated that e-commerce companies are incrementally keeping deliveries with them and outsourcing work to third party players like Bluedart only:

1) A small part of their business
2) Only where e-commerce companies have no presence
3) During heavy load time like festival or during special offer times

Also the outsourced work is getting distributed by e-commerce companies to multiple logistics players including players like E-Com express, Xpress Bees, Aramex, Bluedart and many more. We still believe that e-commerce to grow at 20% CAGR for the company over FY18 to FY20E (historically 35% CAGR).

Mainstay BFSI facing stagnant growth

With digitization and "Go Green" push by the corporate World, the BFSI segment, which is the traditional stronghold for BLUEDART has slowed down for the company. BFSI, Pharma, electronics, Auto and E-Commerce remains the top five performing sector for the company.

Rising fuel prices impacting margins

For BDE. 35% of the operating cost is fuel cost and another 35% is ground handling cost which is fixed in nature. From this cost break-up we can interpret that, crude prices and volumes dictate the margins of the company. Volumes continue to be under pressure due to competition, but crude (diesel and ATF) have increased in the last 5 months impacting the margins of the company negatively. Freight cost and handling cost at 65% of the revenues has been the highest for the company in the last 5 years.

Freight and handling cost for Bluedart

(Rs mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Sales	**6,822**	**6,666**	**7,028**	**7,046**	**7,168**	**7,328**
Total Operating cost	6,214	6,207	6,261	6,241	6,600	6,883
Freight and handling cost	4,292	4,300	4,420	4,420	4,659	4,855
% of sales	62.9	64.5	62.9	62.7	65.0	66.3
% of Operating cost	69.1	69.3	70.6	70.8	70.6	70.5

Source; Company

Competition impacting realisations

Historically, Bluedart has charged premium to other players in the industry which enabled the company to have better margins and superior return ratios over peers. On an average, pricing for Bluedart was at 50% premium to other players. Though Bluedart is able to maintain the premium pricing over other players, we believe it is coming at the cost of volumes of non-critical cargo.

Route -Mumbai Delhi for express cargo (Rs/kg)

Company	3 years ago	Current
Bluedart	465	540
Aramex	310	370
DTDC	280	350
First flight	210	270

Source: Industry

Hired Mckinsey to formulize a strategy for the company

BLUEDART had hired Mckinsey & Company and spent a total of Rs 350 mn to prepare a strategy for BLUEDART for developing new products, reduce operating cost, and improve utilization level of assets, geographical expansion and to face competition. Due to demonetisation and implementation of GST, BLUEDART has been going slow with the implementation of the Mckinsey strategy.

Management has started implementing the strategy partially from Q4FY18, with full implementation spreading over FY19E to FY21E with the results expected post only that.

Outlook and Valuation.

We have seen gradual reduction in the premium commanded by Bluedart in its valuation with drop in quality of financial performance reported by the company. The reasons for drop are looking difficult to overcome with increasing competition, higher estimated crude prices and slowing e-commerce segment. We expect the current level of forward valuation (PER 43.6x) to become the cap for the company factoring multiple headwinds faced by the company currently. In lieu of this developments, we have lowered our earnings and target multiple accorded to Bluedart. We are now recommending a SELL on Bluedart with a reduced target price of Rs 3215 (from Rs 4050) at 38 x FY20 earnings (lowered from 40x).

Change in estimates

	FY19E			FY20E		
(Rs mn)	Old	New	% Chg	Old	New	% Chg
Sales	29,133	29,133	0.0	31,231	31,231	0.0
EBIDTA	3,312	3,054	7.8	3,622	3,346	7.6
PAT	2,013	1,754	12.9	2,290	2,014	12.1

Source: Kotak Securities – Private Client Research

Company background

Bluedart is South Asia's premier courier, and integrated express package Distribution Company. The company has the most extensive domestic network covering over 35,000 locations, and service more than 220 countries and territories worldwide through group company DHL, the premier global brand name in express distribution services. The company has the most advanced communications systems and is strongly positioned to offer a consistent, premium, standardized quality of service. The company also has a dedicated aviation system which is focused on carriage of packages as its prime business, rather than as a by-product of a passenger airline. The company also has its own bonded warehouses, ground handling and maintenance capability.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**26,870**	**27,908**	**29,133**	**31,231**
% change YoY	5.2	3.9	4.4	7.2
Freight&handling	18,125	19,235	19,624	20,983
Employee cost	3,625	3,796	3,873	4,141
Other expenses	2,417	2,278	2,582	2,761
Total Operating expd	24,166	25,309	26,079	27,885
EBITDA	**2,704**	**2,599**	**3,054**	**3,346**
Depreciation	439	450	450	460
EBIT	**2,265**	**2,149**	**2,604**	**2,886**
Other income	280	227	350	360
Interest expense	312	257	208	104
Profit before tax	**2,233**	**2,119**	**2,746**	**3,142**
Tax	775	697	991	1,128
ETR (%)	34.7	32.9	36.1	35.9
Profit after tax	**1,458**	**1,422**	**1,754**	**2,014**
Minorities& Associates	0	0	0	0
Net income	1,458	1,422	1,754	2,014
% change YoY	-23.2	-2.5	23.4	14.8
Shares outstanding (m)	24	24	24	24
EPS	**61.3**	**59.7**	**73.7**	**84.6**

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash	1,006	243	208	204
Debtors	3,493	3,628	3,787	4,060
Inventory	50	100	100	100
Other current assets	4,031	4,186	4,370	4,685
Total current assets	7,574	7,914	8,257	8,845
LT investments	250	144	200	200
Net fixed assets	4,743	5,374	5,524	5,814
Total assets	**13,572**	**13,675**	**14,190**	**15,063**
Creditors	3,142	3,290	3,357	3,589
Provisions	483	506	516	552
Other current liabilities	725	759	775	828
Total current liabilities	4,350	4,556	4,648	4,970
LT debt	3,779	2,506	1,453	250
Minority Interest	0	0	0	0
Equity Capital	238	238	238	238
Reserves	5,206	6,375	7,850	9,605
Networth	5,444	6,613	8,088	9,844
Total liabilities	**13,572**	**13,675**	**14,190**	**15,063**
BVPS (Rs)	228.7	277.9	339.8	413.6

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PAT	1,458	1,422	1,754	2,014
Depreciation +DTL	555	555	599	629
Change in working capital	(558)	(135)	(251)	(266)
Cash flow from operations	**1,456**	**1,842**	**2,102**	**2,377**
Capex	(2,772)	(1,081)	(600)	(750)
Investments	(22)	106	(56)	-
Cash flow from investments	**(2,794)**	**(975)**	**(656)**	**(750)**
Equity issuance	-	-	-	-
Debt raised	(253)	(1,273)	(1,053)	(1,203)
Dividend Paid	(428)	(357)	(428)	(428)
Miscellanous items	-	-	-	-
Cash flow from financing	**(682)**	**(1,630)**	**(1,482)**	**(1,632)**
Net cash flow	(2,020)	(763)	(35)	(4)
Opening cash	3,026	1,006	243	208
Closing cash	1,006	243	208	204

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	10.1	9.3	10.5	10.7
EBIT margin (%)	8.4	7.7	8.9	9.2
Net profit margin (%)	5.4	5.1	6.0	6.4
ROE (%)	29.9	23.6	23.9	22.5
ROCE (%)	29.0	25.9	31.7	33.1
DPS	15.0	12.5	15.0	15.0
Dividend payout (%)	29.4	25.1	24.4	21.3
Working capital turnover (days)	40.0	43.0	43.7	43.7
Debt Equity (x)	0.7	0.4	0.2	0.0
PER (x)	60.2	61.8	50.1	43.6
P/C (x)	43.6	44.4	37.3	33.2
Dividend yield (%)	0.4	0.3	0.4	0.4
P/B (x)	16.1	13.3	10.9	8.9
EV/Sales (x)	3.4	3.2	3.1	2.9
EV/ EBITDA (x)	30.4	32.1	26.6	24.4

Source: Company, Kotak Securities – Private Client Research

Result Update

BHARAT ELECTRONICS LTD (BEL)

PRICE RS.116 **TARGET RS.135** **BUY**

BEL reported higher than expected profits for the first quarter of FY19. Execution of orders was driven by EVMs and VVPAT orders which are to be delivered in FY19. Order intake was strong during the quarter.

Stock Details

Market cap (Rs mn)	:	282523
52-wk Hi/Lo (Rs)	:	193 / 97
Face Value (Rs)	:	1
3M Avg. daily volume	:	6,529,605
Shares o/s (mn)	:	2437

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	100,066	115,039	126,394
Growth (%)	13.4	15.0	9.9
EBITDA	19,997	22,133	24,916
EBITDA margin (%)	20.0	19.2	19.7
PAT	13,999	14,569	16,429
EPS	5.7	6.0	6.7
EPS Growth (%)	(9.5)	4.1	12.8
BV (Rs/share)	31.9	35.4	39.2
Dividend/share (Rs)	2.0	2.0	2.5
ROE (%)	18.3	17.8	18.1
ROCE (%)	16.9	16.5	16.9
P/E (x)	20.2	19.4	17.2
EV/EBITDA (x)	13.8	11.3	10.5
P/BV (x)	3.8	3.4	3.0

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	66.0	75.0	75.0
FII	6.1	6.7	7.3
DII	19.0	5.9	4.7
Others	9.0	12.4	13.0

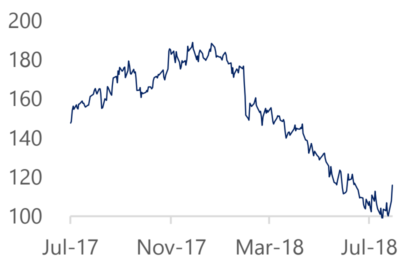
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Bharat Electronics	6.7	(11.6)	(31.5)
Nifty	6.0	5.7	3.0

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Key Highlights

- The company reported revenue of 23% y-o-y led by delivery of EVM/VVPAT orders of ~ Rs 4.5 bn.
- Order intake during the year was strong at Rs 35.8 bn, up 48% on a y-o-y basis. The
- Order book is flat on a y-o-y basis at Rs 416 bn but is strong enough to provide revenue visibility of 48 months of trailing four quarter revenues.

Valuation and Outlook

BEL is trading at 19x and 17x FY19E and FY20E earnings, which is at a discount to recent valuations trends. High order book providing strong revenue visibility, healthy balance sheet and reasonable valuations are comforting factors, which forms the basis of our "BUY" rating. We value the stock at 20x FY20E earnings and arrive at target price of Rs 135

Quarterly performance

(Rs mn)	Q1 FY19E	Q1 FY18	YoY (%)	Q4FY18	QoQ (%)
Net Revenue	**20,778**	**16,946**	**22.6**	**34,280**	**(39.4)**
Other operating income	242	303	(20.0)	1,805	(86.6)
Operating Expenditure	17,916	15,615	14.7	28,123	(36.3)
Raw Material costs	10,097	7,980	26.5	18,621	(45.8)
Purchase of stock in trad	975	1,560	(37.5)	1,389	(29.8)
Staff costs	4,728	4,623	2.3	3,819	23.8)
Other expenditure	2,115	1,452	45.7	4,294	(50.7)
Operating profit	3,105	1,634	90.0	7,962	(61.0)
Depreciation	689	561	22.9	766	(10.0)
Other income	89	723	(87.7)	279	(68.2)
EBIT	**2,505**	**1,796**	**39.5**	**7,475**	**(66.5**)
Interest	3	3	3.8	10	(72.2)
PBT	**2,502**	**1,793**	**39.5**	**7,465**	**(66.5**)
Tax	704.8	539.5	30.6	1,878.0	(62.5)
Adjusted PAT	**1,797.3**	**1,253.7**	**43.4**	**5,587.4**	**(67.8**)
EBITDA (%)	14.9	10		23	
Raw Matl costs to sales (%)	49	47		54	
Trading items to sales (%)	5	9		4	
Staff costs to sales (%)	23	27		11	
Other exp to sales (%)	10	9		13	
Tax rate (%)	28	30		25	
EPS (Rs)	**0.8**	**0.6**		**2.5**	

Source: Company

Reported Vs Estimated results

(Rs mn)	Reported	Estimated
Revenue	20,778	24,934
EBITDA (%)	14.9	11.0
PAT	1,797	1,479

Source: Kotak Securities – Private Client Research

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Result Highlights

- BEL's first quarter revenues came in lower than our estimates which could be attributed to delay in getting requisite clearances from the defence authorities.
- The company also started deliveries of 1) Integrated Air Command Command and Control Control System, 2) EVM and VVPAT 3) Weapon Locating Radar 4) Ship Borne Electronic Warfare System (Varuna) etc.
- Gross margins in the quarter rose 300 bps on a y-o-y basis to 47%. The expansion in gross margins was attributed to product mix changes.
- Employee costs rose at a modest clip of 2.3% y-o-y in the quarter. The management indicated that the employee cost will grow at a tepid place in the coming quarters.
- Most of the provisions related to seventh pay commission has been provided for in the earlier quarters and there wont be any further provisions, the management clarified.
- Other expenditure rose 46% y-o-y in the quarter. This was mainly due to contract worked employed for manufacturing of EVMs and VVPATs.
- Due to higher gross margins and flattish employee costs, EBITDA margins rose 490 bps to 14.9%.
- Other income decreased 87.7% yoy to Rs 89 mn, mainly due to decline in cash and cash equivalent as the company conducted buyback during FY18.
- Tax rate for the quarter decreased to 28% in the quarter vs 30% on y-o-y basis.

Order Book

Order book at the end of Q1FY19 stands at Rs 416 bn (flat on y-o-y basis), but providing enough revenue visibility of 48 months of trailing four quarter revenues.

Order intake for the quarter stood at Rs 35.8 bn as against Rs 24.2 bn on a y-o-y basis.

Orders were received for AMC for Rohini Radar, LCA – Avionics package and Electronic fuze etc.

In the current fiscal, the company is expecting orders for Akash Missile System (7 Sqdn) and Long Range Surface to Air Missile for P17A.

Defence deals are prone to inordinate delays. Notwithstanding this, the management is expecting orders for these two systems to materialize by September 2018.

The company had supplied 0.2 million voting machines in FY17, could supply around 1 million machines in FY18. The company has order book of Rs 35 billion from voting machines, the management indicated.

Management Feedback

The management indicated that during the quarter it delivered around Rs 4.5 bn of orders for the EVMs and VVPAT.

The management reiterated its guidance of Rs 115 bn in revenue and stable margins in FY19.

Order for LRSAM and Akash Missiles are in advanced stage of discussion and should get ordered in current fiscal.

Outlook

The management expects revenue growth of 15% in FY19E (Rs 115 bn in FY19E).

On EBITDA margins, the management expects margins to remain around 19%, more or less in the same range as in FY18.

Future growth areas

Future thrust areas for BEL includes cognitive and artificial intelligence, machine learning, cyber security, cloud computing and data analytics and image analytics among others, the management indicated.

BEL has been shortlisted by India's space agency (ISRO) to assemble satellites as it looks to tap the industry to increase production and bridge the demand-supply gap for remote sensing and communication satellites in the country. There is demand for assembling 45 large satellites from India, while globally, there is estimated requirement of 5000 small and micro satellites.

Earnings Revision – Sharply lower other income leads to earnings revision

	FY19		FY20	
	Earlier	Revised	Earlier	Revised
Revenue	112	115	123	126
EBITDA (%)	19.6	19.2	20.0	19.7
EPS (Rs)	6.4	6.0	7.2	6.7

Source: Kotak Securities – Private Client Research

Stock correction has made valuations reasonable

The BEL stock has been derated in recent months which we understand could be due to

1) Listing of BDL and HAL at attractive valuations has weighed on the valuations of BEL, which until the listing of the two defence PSUs was the only sizeable defence play available for investors and

2) Weak order intake in FY18, which missed the order intake target for the company.

Reiterate BUY

BEL is trading at 19x and 17x FY19E and FY20E earnings, which is at a discount to recent valuations trends. High order book providing strong revenue visibility, healthy balance sheet and reasonable valuations are comforting factors, which forms the basis of our "BUY" rating.

We value the stock at 20x FY20E earnings (earlier 18.1x) and arrive at target price of Rs 135 (Unchanged).

Key Weaknesses

The defence business has long approval cycle as any equipment that needs to be procured needs to go through field-trials and several levels of approvals. Hence, order execution may take much longer resulting in delay in revenue translation.

Competition from private sector is on the rise as the government intends to go for higher indigenization of defence equipments.

Company background

Established by GoI under the Ministry of Defence in 1954 to meet the specialised electronic needs of the Indian defence services, Bharat Electronics Limited (BEL) has grown into a multi-product, multi-technology and multi-unit company, serving the needs of customers in diverse fields in India and abroad. BEL offers products and services in a wide spectrum of technology like radars, military communications, naval systems, electronic warfare systems, telecommunications, sound and vision broadcasting, opto-electronics, tank electronics, solar photovoltaic systems, embedded software and electronic components. The company also provides turnkey systems solutions like command control communication & computer intelligence (C4I), covering the requirements of all three forces.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**88,247**	**100,066**	**115,039**	**126,394**
% change yoy	17.0	13.4	15.0	9.9
EBITDA	**17,617**	**19,997**	**22,133**	**24,916**
% change yoy	27.4	13.5	10.7	12.6
Depreciation	1,915	2,510	3,100	3,493
Other Income	4,710	2,004	1,350	1,723
EBIT	**20,412**	**19,491**	**20,384**	**23,146**
% change yoy	16.7	(4.5)	4.6	13.6
Net Interest	117.8	7.0	7.0	7.0
Earnings Before Tax	20,294	19,484	20,377	23,139
% change yoy	16.4	(4.0)	4.6	13.6
Provisions and amortisations	-	-	-	-
Tax	4,818	5,486	5,807	6,710
as % of EBT	23.7	28.2	28.5	29.0
Net Income adj	**15,476**	**13,999**	**14,569**	**16,429**
% change yoy	17.3	(9.5)	4.1	12.8
Shares outstanding (m)	2,234	2,436	2,436	2,436
EPS (Rs)	**6.9**	**5.7**	**6.0**	**6.7**
DPS (Rs)	2.3	2.0	2.0	2.5
CEPS	7.8	6.8	7.3	8.2

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	37,902	7,300	32,762	19,744
Accounts receivable	43,549	71,404	61,459	81,377
Stocks	48,558	45,877	53,580	58,869
Loans and Advances	433	-	-	-
Others	6,075	15,307	6,075	6,075
Current Assets	136,517	139,888	153,876	166,065
LT investments	4,597	9,748	9,748	9,748
Net fixed assets	12,549	16,044	15,944	15,452
Deferred tax assets	5,323	4,312	4,312	4,312
CWIP	6,567	8,354	8,038	8,038
Other non current assets	6,009	4,037	4,037	4,037
Total Assets	**171,562**	**182,381**	**195,954**	**207,651**
Payables	77,122	93,907	98,811	101,202
Others	13,003	4,380	4,380	4,380
Current liabilities	90,125	98,286	103,191	105,582
LT debt	167	-	-	-
Other liabilities	6,183	6,485	6,486	6,487
Equity & reserves	75,086	77,611	86,276	95,580
Total Liabilities	**171,562**	**182,381**	**195,954**	**207,651**
BVPS (Rs)	33.6	31.9	35.4	39.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PBDIT	17,617	19,997	22,133	24,916
Tax and adjustments	(9,711)	(5,266)	(5,807)	(6,710)
Cash flow from operations	7,906	14,732	16,326	18,205
Net Change in Working Cap	(10,657)	(25,812)	16,378	(22,816)
Net Cash from Operations	**(2,751)**	**(11,080)**	**32,704**	**(4,611)**
Capital Expenditure	(6,970)	(6,322)	(2,684)	(3,000)
Cash from investing	38,448	(1,175)	1,350	1,723
Net Cash from Investing	**31,478**	**(7,497)**	**(1,335)**	**(1,277)**
Interest paid	(118)	(7)	(7)	(7)
Issue of Shares	(21,712)	(3,721)	(203)	-
Dividends Paid	(6,774)	(5,700)	(5,700)	(7,125)
Debt Raised	1,084	(5,487)	-	-
Net cash from financing	**(27,520)**	**(14,916)**	**(5,910)**	**(7,132)**
Net change in cash	1,207	(33,492)	25,460	(13,020)
Free cash flow	(9,721)	(17,402)	30,020	(7,611)
Cash at end	**37,902**	**7,300**	**32,762**	**19,744**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	20.0	20.0	19.2	19.7
EBIT margin (%)	23.1	19.5	17.7	18.3
Net profit margin (%)	17.5	14.0	12.7	13.0
Adjusted EPS growth (%)	17.3	(9.5)	4.1	12.8
Receivables (days)	180.1	260.5	195.0	235.0
Inventory (days)	200.8	167.3	170.0	170.0
Sales / Net Fixed Assets (x)	7.0	6.2	7.2	8.2
ROE (%)	18.8	18.3	17.8	18.1
ROCE (%)	17.6	16.9	16.5	16.9
EV/ Sales	2.5	2.8	2.2	2.1
EV/EBITDA	12.6	13.8	11.3	10.5
Price to earnings (P/E)	16.7	20.2	19.4	17.2
Price to book value (P/B)	3.6	3.8	3.4	3.0
Price to cash earnings	14.9	17.1	16.0	14.2

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	762549
52-wk Hi/Lo (Rs)	:	468 / 247
Face Value (Rs)	:	2
3M Avg. daily volume	:	13,468,320
Shares o/s (mn)	:	2887

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	2960095	3232997	3557063
Growth (%)	9.8	9.2	10.0
EBITDA	351,336	333,290	407,042
EBITDA margin (%)	11.9	10.3	11.4
Adjusted Net profit	81,148	47,494	70,524
Adjusted EPS (Rs)	23.9	14.0	20.8
Growth (%)	28.0	(41.5)	48.5
Book value (Rs/share)	281.0	295.0	315.8
Dividend per share (Rs)	-	-	-
ROE (%)	12.5	4.9	6.8
ROCE (%)	12.3	5.0	6.7
P/E (x)	9.3	18.9	12.7
EV/EBITDA (x)	3.7	4.1	3.4
P/BV (x)	0.9	0.9	0.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	36.4	36.4	36.4
FII	18.3	20.3	21.4
DII	18.5	17.5	17.0
Others	12.9	25.9	25.3

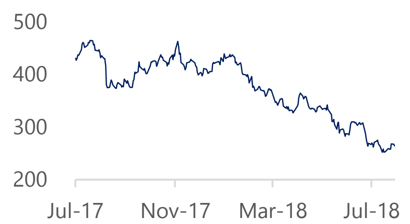
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Tata Motors	(1.9)	(22.4)	(33.9)
Nifty	6.0	5.7	3.0

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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TATA MOTORS LTD (TAMO)

PRICE RS.264 TARGET RS.277 REDUCE

TAMO reported loss in 1QFY19 on the back of weak performance at JLR (partly impacted by one-time expenses). TAMO's standalone business reported operational improvement in the quarter. JLR reported loss in the quarter on the back of China duty change and inventory de-stocking.

Key Highlights

Standalone revenue grew by 85% YoY led by 59% volume growth. Standalone operations EBITDA margin came in strong at 8.7%, significant improvement YoY and better than 4QFY18. Led by operational turnaround and higher other income, standalone business reported net profit of Rs11.9bn. JLR's wholesale volume declined by 8%, leading to 7% YoY fall in revenues. EBITDA for the quarter declined 27% YoY and margin contracted due to lower volume, China related one-off and higher marketing spend. At the consolidated level, TAMO reported net loss of Rs19bn in 1QFY19.

Outlook and Valuation

We downgrade the stock to REDUCE on the back of disappointing 1QFY19 results and increased challenges in the past few months for the JLR business. Overall growth outlook for JLR/luxury car segment has seen significant deterioration in recent months – that includes diesel vehicle demand uncertainty in Europe, demand slowdown in key geographies, US tariff risk and increased uncertainty regarding Brexit and its impact thereafter. High capex between FY19-FY21 will also hurt JLR's profitability. New axle norm for commercial vehicle segment is expected to impact standalone business in the near term. Management maintained its 4-7% EBIT margin guidance between FY19-FY21. We cut our earnings and lower our target price to Rs277.

India business post impressive performance

Standalone Quarterly performance (Rs mn)

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenues	**168,031**	**90,878**	**84.9**	**197,793**	**(15.0)**
Total expenditure	153,390	91,470	67.7	185,702	(17.4)
RM consumed	120,763	64,187	88.1	141,737	(14.8)
Employee cost	10,329	9,377	10.2	11,036	(6.4)
Other expenses	22,298	17,906	24.5	32,929	(32.3)
EBITDA	**14,641**	**(591)**	**-**	**12,092**	**21.1**
EBITDA margin (%)	8.7	(0.7)	-	6.1	-
Depreciation	7,052	6,898	2.2	8,562	(17.6)
Interest cost	4,932	3,627	36.0	4,464	10.5
Other Income	13,935	6,410	117	6,770	106
Exceptional income / (loss)	(1,951)	78		(10,573)	
PBT	**14,642**	**(4,629)**	**-**	**(4,737)**	**-**
PBT margins (%)	8.7	(5.1)		(2.4)	
Tax	2,765	2	-	262	955
Tax rate (%)	18.9	(0.0)	-	(5.5)	-
Reported PAT	**11,877**	**(4,631)**	**-**	**(4,999)**	**-**
PAT margins (%)	7.1	(5.1)	-	(2.5)	-
Reported EPS (Rs)	**3.5**	**(1.4)**	**-**	**(1.5)**	**-**

Source: Company

TAMO's revenues in the standalone business grew by 85% YoY, led by strong increase in sales volume and rise in average selling price. In 1QFY19, TMAO sold 176,876 units, 59% higher over 1QFY18. Average selling price increased YoY on account of higher share of commercial vehicle in the volume mix. Commercial vehicle segment revenue grew by 62% YoY backed by 63% higher sales volume. Passenger vehicle revenue in the quarter stood at Rs53.3bn as against Rs35.7bn reported in 1QFY18. EBITDA improved significantly YoY from loss of Rs591mn to positive EBITDA of Rs14.6bn. Strong volume growth, better volume mix, cost saving initiative and weak base led to EBITDA margin of 8.7% - positive swing of 940bps YoY. Commercial vehicle EBITDA margin stood at 11.7% in the quarter as against 5.5% in 1QFY18. In the passenger vehicle segment, EBITDA margin improved from negative 19.7% to negative 0.7%. Other income in the quarter includes dividend income of Rs13bn. On the back of improvement in operational performance and higher other income, TAMO reported standalone business net profit of Rs11.9bn as against loss reported in 1QFY18 and 4QFY18.

JLR performance remained under pressure – performance partly impacted by one-off's

JLR Quarterly performance (GBP mn)

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenues	**5,222**	**5,599**	**(6.7)**	**7,555**	**(30.9)**
Total expenditure	4,897	5,157	(5.0)	6,631	(26.1)
RM consumed	3,366	3,565	(5.6)	4,729	(28.8)
Employee cost	733	656	11.7	724	1.2
Other expenses (net)	798	936	(14.7)	1,178	(32.3)
EBITDA	**325**	**442**	**(26.5)**	**924**	**(64.8)**
EBITDA margin (%)	6.2	7.9	-	12.2	-
Depreciation	549	450	22.0	601	(8.7)
Foreign exchange gain/(loss)	(59)	76	-	(39)	-
Net Interest expense	11	12	(8.3)	9	22.2
Share of profit / (Loss) from Joint Venture	30	77	(61.0)	89	(66.3)
Exceptional item		438	-		-
PBT	**(264)**	**571**	**(146.2)**	**364**	**(172.5)**
PBT margins (%)	(5.1)	10.2		4.8	
Tax	54	119	(54.6)	100	(46.0)
Tax rate (%)	(20.5)	20.8	-	27.5	-
Reported PAT	**(318)**	**452**	**(170.4)**	**264**	**(220.5)**
PAT margins (%)	(6.1)	8.1		3.5	
Volumes (nos)	108,788	117,916	(7.7)	162,309	(33.0)
Realization (GBP)	48,002	47,483	1.1	46,547	3.1

Source: Company

JLR's wholesale volumes (including China JV) in 1QFY18 declined by 5% YoY while retail volumes were grew by 6%. Wholesale volume was lower by ~14,000 versus retail on account of dealer inventory de-stocking (impact of 11,300 units) and WLTP – new testing norms (impact of 2,700 units). Management indicated that de-stocking and WLTP will impact wholesale volumes in 2QFY18 as well. JLR revenues declined by 7% on the back of volume decline. EBITDA margin contracted due to negative operating leverage from lower volumes, China duty impact (discounts given ahead of revised import duty implementation) and rising variable marketing spend. Depreciation cost continues to rise on higher capex. China JV profit declined YoY and QoQ on account of discounts given ahead of import duty cut. Weak operational profit, higher depreciation and lower China JV profit led to JLR report net loss of GBP318mn in 1QFY19.

Consolidated results

Consolidated Quarterly performance (Rs mn)

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenues	**670,813**	**584,934**	**14.7**	**912,791**	**(26.5)**
Total expenditure	616,507	535,285	15.2	803,847	(23.3)
RM consumed	430,269	365,758	17.6	571,052	(24.7)
Employee cost	85,233	71,152	19.8	83,523	2.0
Other expenses	101,005	98,376	2.7	149,272	(32.3)
EBITDA	**54,306**	**49,648**	**9.4**	**108,944**	**(50.2)**
EBITDA margin (%)	8.1	8.5	-	11.9	-
Depreciation	58,571	45,256	29.4	64,884	(9.7)
Interest cost	13,753	11,089	24.0	11,783	16.7
Other Income	2,248	1,541	45.9	3,644	(38.3)
Exceptional gain / (loss)	(10,073)	42,525		(12,845)	
PBT	**(25,843)**	**37,370**	**-**	**23,077**	**-**
PBT margins (%)	(3.9)	6.4		2.5	
Tax	(4,156)	12,074	-	9,771	-
Tax rate (%)	16.1	32.3	-	42.3	-
Share of associates/MI	2,662	6,527	(59.2)	7,947	(66.5)
Reported PAT	**(19,025)**	**31,823**	**-**	**21,252**	**-**
PAT margins (%)	(2.8)	5.4		2.3	
Reported EPS (Rs)	**(5.6)**	**9.4**	**-**	**6.3**	**-**

Source: Company

Outlook

Standalone business performance has witnessed marked improvement in the past few quarters. In the passenger car business, volume growth has been strong, supported by new launches. TAMO is expected to continue launching new products and that will help healthy volume growth. With improved volumes and cost reduction, the passenger vehicle business reached close to EBITDA break-even in 1QFY19. Commercial vehicle business has been growing strongly. However, the new axle norms are expected to impact growth in this segment in the near term. EBITDA margin in the commercial vehicle segment has hovered between 11.5-13% range. Weak volumes in the CV business can impact margins in the near term.

JLR's performance has weak in the past few quarters. However, the challenges to future growth outlook have increased in recent months. In UK, headwinds include Brexit and its impact thereafter and demand slowdown. In Europe, there has been sudden concern over future of diesel run cars (JLR's more than 80% of sales in Europe are diesel run cars). US government is concentrating high tariff on imported cars. Management has also stated that its capex will be high between FY19-FY21 and we expect that to hurt JLR's profitability. While JLR posted loss in 1QFY19, we expect JLR's performance to remain weak in 2QFY19 as inventory de-stocking will impact wholesale volumes in the quarter. We expect JLR's performance in 2HFY19 to witness improvement as volumes are expected to be better as compared with 1HFY19.

We downgrade the stock to REDUCE (BUY earlier) on the back of disappointing 1QFY19 results and increased challenges in the past few months for the JLR business. We cut our earnings and lower our target price to Rs277 (earlier Rs398). Our earnings cut reflects weak JLR performance, cut in China JV profit and management guidance for higher capex for three years starting FY19.

Change in estimates

Rs mn	FY19 Old	FY19 New	FY19 % chg	FY20 Old	FY20 New	FY20 % chg
Revenues	3,246,980	3,232,997	(0.4)	3,574,094	3,557,063	(0.5)
EBITDA margin (%)	10.9	10.3		11.4	11.4	
Reported Net profit	66,311	47,494	(28.4)	83,688	70,524	(15.7)

Source: Kotak Securities – Private Client Research

Company background

Tata Motors Limited (TAMO), part of Tata Group, is India's largest automobile company in revenues terms. TAMO has presence in the commercial vehicle and passenger vehicle segments. In the domestic market, the company is the market leader in both the LCV and M&HCV segment. TAMO's manufacturing base in India is spread across Jamshedpur (Jharkhand), Pune (Maharashtra), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat) and Dharwad (Karnataka). Through subsidiaries and associate companies, TAMO has operations in the UK, South Korea, Thailand, Spain and South Africa. One of the major events in the company's history has been the acquisition of two iconic British brands – Jaguar and Land Rover in 2008.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**2,696,925**	**2,960,095**	**3,232,997**	**3,557,063**
% change YoY	(1.2)	9.8	9.2	10.0
EBITDA	**295,887**	**351,336**	**333,290**	**407,042**
% change YoY	(19.4)	18.7	(5.1)	22.1
Depreciation	179,050	215,536	255,562	302,113
EBIT	**116,837**	**135,801**	**77,728**	**104,930**
% change YoY	(41.5)	16.2	(42.8)	35.0
Net interest	42,380	46,818	48,974	48,749
Other Income	7,545	8,889	9,973	10,171
EO income/(loss)	11,146	19,751	0	0
Profit before tax	**93,148**	**117,623**	**38,728**	**66,351**
% change YoY	93,147.9	26.3	-67.1	71.3
Tax	32,512	43,419	9,745	17,335
as % of PBT	34.9	36.9	25.2	26.1
Profit from Associates	13,908	21,758	18,511	21,509
Profit after tax	**74,544**	**95,962**	**47,494**	**70,524**
Adjusted PAT	63,398	81,148	47,494	70,524
% change YoY	(51.1)	28.0	(41.5)	48.5
Shares OS (mn nos)	3,396	3,396	3,396	3,396
Adjusted EPS (Rs)	**18.7**	**23.9**	**14.0**	**20.8**
DPS (Rs)	0.0	0.0	0.0	0.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and Liquid Invst	511,190	492,777	415,668	374,772
Accounts receivable	140,756	198,933	194,866	214,398
Inventories	350,853	421,376	430,100	473,898
Loans and Adv & Others	340,744	457,017	493,967	535,157
Current assets	1,343,543	1,570,103	1,534,600	1,598,225
Deferred Tax Asset	44,573	41,587	41,587	41,587
Goodwill	6,733	1,165	1,165	1,165
LT investments	52,968	61,490	70,714	81,321
Net fixed assets	1,289,696	1,639,161	1,833,599	1,981,486
Total assets	**2,737,514**	**3,313,505**	**3,481,665**	**3,703,783**
Payables	625,326	769,398	814,892	896,575
Other liabilities	567,210	444,795	497,030	553,478
Current Liabilities	1,192,535	1,214,193	1,311,922	1,450,053
Provisions	162,048	189,019	210,111	233,575
Deferred Tax Liability	11,740	61,258	61,258	61,258
Minority Interest	4,532	5,251	5,251	5,251
Debt	786,040	889,505	891,350	881,350
Equity	6,792	6,792	6,792	6,792
Reserves	573,827	947,487	994,981	1,065,505
Total liabilities	**2,737,513**	**3,313,505**	**3,481,664**	**3,703,783**
BVPS (Rs)	171	281	295	316

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	116,837	135,801	77,728	104,930
Depreciation	179,050	215,536	255,562	302,113
Change in WC	(19,634)	15,372	40,838	18,351
Change in other net CA	156,198	(211,715)	36,377	38,722
Operating cash flow	432,451	154,993	410,504	464,115
Interest	(42,380)	(46,818)	(48,974)	(48,749)
Tax / Deferred Tax	(70,523)	9,085	(9,745)	(17,335)
Other Income	7,545	8,889	9,973	10,171
EO income / (exps)	11,146	19,751	-	-
Profit from associates	13,908	21,758	18,511	21,509
OCI / Others	(281,213)	283,986	-	-
CF from operations	**70,933**	**451,645**	**380,270**	**429,710**
Capex	(144,837)	(565,001)	(450,000)	(450,000)
(Inc)/dec in investments	38,806	(4,748)	(9,224)	(10,607)
CF from investments	**(106,031)**	**(569,749)**	**(459,224)**	**(460,607)**
Proceeds from equities	0	0	0	-
Inc/(dec) in debt	92,440	103,465	1,845	(10,000)
Proceeds from sh premium	45	-	-	-
Dividends	(1,212)	-	-	-
CF from financing	**91,273**	**103,465**	**1,846**	**(10,000)**
Opening cash	304,604	360,779	346,139	269,031
Closing cash	360,779	346,139	269,031	228,134

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	11.0	11.9	10.3	11.4
EBIT margin (%)	4.3	4.6	2.4	2.9
Adj. net profit margin (%)	2.4	2.7	1.5	2.0
Working capital days				
Inventory (days)	47	52	49	49
Receivable (days)	19	25	22	22
Payable (days)	85	95	92	92
Ratios				
Debt/equity ratio (x)	1.4	0.9	0.9	0.8
ROE (%)	10.9	12.5	4.9	6.8
ROCE (%)	11.3	12.3	5.0	6.7
Valuations				
EV/ Sales	0.4	0.4	0.4	0.4
EV/EBITDA	4.0	3.7	4.1	3.4
Price to earnings (P/E)	12.0	9.3	18.9	12.7
Price to book value (P/B)	1.5	0.9	0.9	0.8

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	29952
52-wk Hi/Lo (Rs)	:	252 / 121
Face Value (Rs)	:	2
3M Avg. daily volume	:	775,455
Shares o/s (mn)	:	236

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	103,571	106,959	113,190
Growth (%)	33.2	3.3	5.8
EBITDA	12,306	12,524	14,245
EBITDA margin (%)	11.9	11.7	12.6
PAT	5,912	4,507	5,786
EPS	25.1	19.1	24.5
EPS Growth (%)	106.1	(23.8)	28.4
BV (Rs/share)	62	82	106
ROE (%)	40.1	23.4	23.1
ROCE (%)	27.8	25.8	28.4
P/E (x)	5.1	6.6	5.2
EV/EBITDA (x)	3.5	3.4	2.5
P/BV (x)	2.0	1.6	1.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	57.7	57.7	57.7
FII	21.3	19.1	19.3
DII	2.7	3.3	3.8
Others	17.9	20.0	19.2

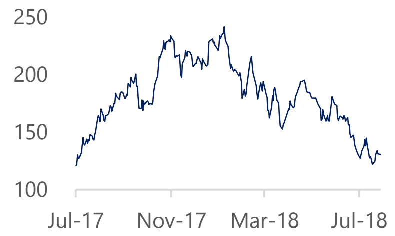
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Jindal Stainless Hisar	(5.4)	(31.2)	(36.0)
Nifty	6.0	5.7	3.0

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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JINDAL STAINLESS (HISAR) LTD (JSHL)

PRICE RS.127 TARGET RS.227 BUY

JSHL's 1QFY19 numbers were below our estimates, due to lower than expected volume. Despite the sharp rise in nickel and electrodes prices, margin during the quarter declined by 90 bps only due to strong realisation and focus on value added products. Performance of subsidiaries remained firm.

Key Highlights

- Despite the strong steel demand in 1QFY19, the stainless steel sales volume was up mere 3% YoY to 170,422 tonnes (down 9.7% QOQ) during the quarter, as imports increased substantially. Realization stood at Rs125,169/tonne.
- EBITDA/t during the quarter declined to Rs14,765/tonne from Rs15,151/tonne and Rs15,206/tonne in Q4FY18 and 1QFY18, respectively. Raw material cost during the quarter increased by Rs4,183/tonne to Rs86,534/tonne.
- Subsidiaries performance: Jindal Stainless Steelway Ltd and JSL Lifestyle Limited reported PBT of Rs180 mn and Rs170 mn, respectively,
- The management focus will be on improving operating efficiency and higher penetration in Specialty products. The revenue growth is likely to remain modest going ahead, in our view.

Valuation & outlook

We believe, an increasing share of value added products in the overall product mix, will help the EBITDA to grow at a CAGR of ~8% during the FY18-FY20E period, with margin in the range of 11.5-12.5%. Besides this, the strong subsidiary's performance will also be a potential growth driver. On the back of 1QFY19 performance, we lowered our earnings for FY19 to Rs19.1 (earlier Rs21.5). We believe with higher domestic demand, market leadership and superior return, the company should trade at a premium to its overseas counterparts, who are trading in the range of 5-6.5x 1yr forward EV/EBITDA. We continue to maintain our BUY rating, with an unchanged target price of Rs227.

Quarterly performance table

Particulars (Rs Mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net Sales	**2,133**	**2,410**	**(11.5)**	**2,254**	**(5.4)**
Raw Materials	1,379	1,478		1,433	
Power & fuel	207	187		216	
Employee	42	42		42	
Other Expenses	253	451		276	
Total Expenses	1,882	2,159		1,968	
EBITDA	**252**	**251**	**0.2**	**286**	**(12.1)**
EBITDA Margin (%)	11.8	10.4		12.7	
Depreciation	67	65		67	
EBIT	**185**	**186**		**219**	
Interest	87	103		93	
Other Income	25	30		28	
Extraordinary	0	0		2	
EBT	**122**	**113**		**152**	
Tax	43	39		56	
PAT	**79**	**74**	**6.7**	**96**	**(17.4)**

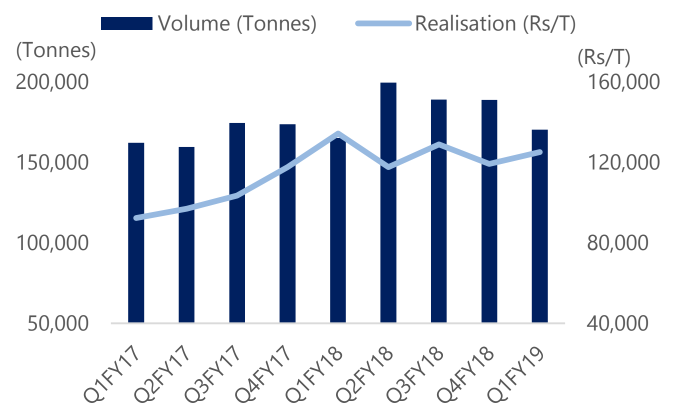
Source: Company, Kotak Securities – Private Client Research

Higher import restricted volume, thereby impacting overall profitability

The price of key raw materials nickel and electrodes (5x in last one year) continued to remain strong in 1QFY19 and the momentum continues in 2QFY19 as well. Despite, increase in raw material costs by 5.1% YoY to Rs82,351/tonne, the EBITDA/t during the quarter was down by only ~Rs500/tonne QoQ to Rs14,765/tonne, supported by the firm realisation (Rs125,169/tonne) and higher contribution from value added products. Sales volume during the quarter declined QoQ to 170,422/tonnes, due to increasing imports (despite countervailing duty), which is been routed through Free Trade Agreement (FTA) countries like Indonesia and Vietnam, harming the domestic industry. The increase in the cost curve is passed on to the end users, hence we believe that, with the increase in input costs, stainless steel realisation is expected to remain firm in the coming quarters. The players having high exposure or presence in value added products or specialty products, will be able to maintain their margin.

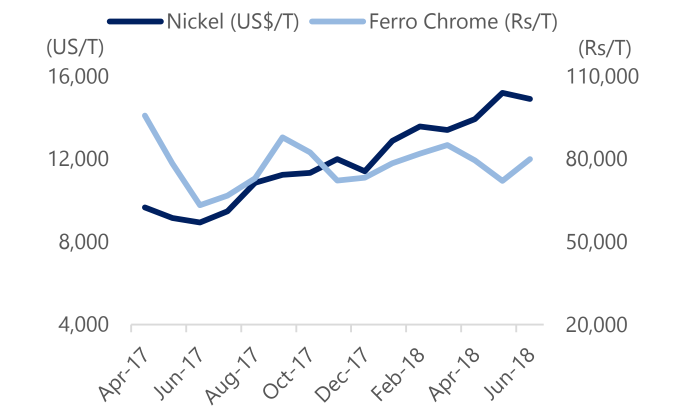
The management continued to believe that ABC (Architecture, Building, and Construction) and ART (Automotive, Railway and Transport) sectors will be the key demand driver of stainless steel.

Sales volume and realisation trend



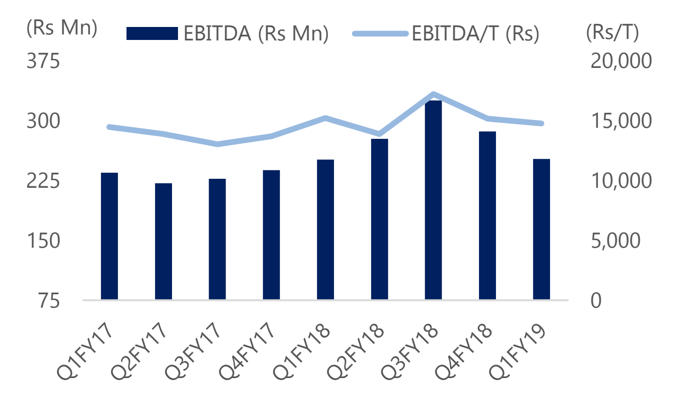
Source: Company, Kotak Securities – Private Client Research

Nickel and Ferro Chrome price trend



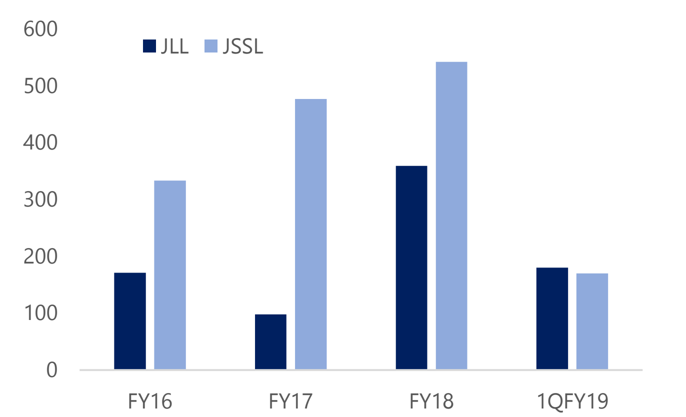
Source: Company, Kotak Securities – Private Client Research

EBITDA and EBITDA/t



Source: Company, Kotak Securities – Private Client Research

Subsidiary Performance: Rs Mn



Source: Company, Kotak Securities – Private Client Research

Maintain BUY

Given the focus on improving infrastructure in the domestic market, we believe, JSHL is well poised to capture higher market share. Besides this, increase in contribution from VAP to 65% in overall sales mix and the strong performance from JSL and JLL, will help the company to report EBITDA margin in the range of 11.5-12.5% on consolidated basis. At CMP, the stock trades at 6.6x/5.2x FY19E/FY20E earnings and on EV/EBITDA, it trades at 3.4x/2.5x FY19E/FY20E EBITDA. We maintain our BUY rating, with an unchanged target price of Rs227.

Company background

JSHL was formerly a part of JSL. Pursuant to the approval of the composite Scheme of Arrangement by the Hon'ble High Court of Punjab & Haryana at Chandigarh, the plant was transferred from JSL to JSHL. Jindal Stainless (Hisar) Limited has integrated its operations on a strategy of both, backward and forward integration, starting from melting, casting, hot rolling to cold rolling and other value additions. Hisar plant is an integrated Stainless Steel plant with a capacity of 8,00,000 tpa. JSHL is the world's largest SS producer strips for razor blades and India's largest producer of coin blanks, catering to Indian and International mint needs. JSHL was first in popularizing the 200 series throughout the world. JSHL caters to a diversified market and no single customer accounts for over 5% of total sales. Specialty product division caters to the high end precision and specialty stainless steel requirements of reputed Indian and International customers.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	**77,745**	**103,571**	**106,959**	**113,190**
% Growth	7.5	33.2	3.3	5.8
Raw Materials	50,013	69,846	73,093	76,851
% of Net Sales	64.3	67.4	68.3	67.9
Employee Cost	1,761	2,087	2,248	2,312
% of Net Sales	2.3	2.0	2.1	2.0
Power & Fuel	6,338	8,044	8,059	8,300
% of Net Sales	8.2	7.8	7.5	7.3
Other Expenses	9,824	11,287	11,035	11,483
% of Net Sales	12.6	10.9	10.3	10.1
EBITDA	**9,809**	**12,306**	**12,524**	**14,245**
EBITDA Margin (%)	12.6	11.9	11.7	12.6
Depreciation	2,852	2,843	3,005	3,093
EBIT	**6,956**	**9,464**	**9,518**	**11,151**
Interest Exps.	4,314	4,082	3,884	3,551
EBT	**2,642**	**5,382**	**5,634**	**7,601**
Exceptional Items	283	(196)	0	0
Other Income	650	1,161	1,102	1,047
PBT	**3,575**	**6,347**	**6,736**	**8,648**
Tax-Total	1,171	2,335	2,230	2,862
Profit after tax	**2,404**	**4,012**	**4,507**	**5,786**
PAT after M.I/Asso. Share	2,869	5,912	4,507	5,786
PAT Margin (%)	3.1	3.9	4.2	5.1

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Sources of Funds				
Equity Capital	472	472	472	472
Reserves and Surplus	8,459	14,274	18,780	24,566
Shareholders' Funds	8,931	14,746	19,252	25,038
Minority Interest	218	315	315	315
Total Loan Funds	35,535	28,511	27,794	22,594
Total Liabilities	**44,684**	**43,572**	**47,361**	**47,946**
Appl. Of Funds				
Gross Block	33,243	34,167	35,243	36,243
Accumulated Depn.	9,808	12,134	15,165	18,282
Net Fixed Assets	23,435	22,033	20,078	17,961
Capital WIP	421	662	662	662
Goodwill	863	863	863	863
Investment	9,530	14,999	14,999	14,999
Inventories	17,161	16,737	17,336	18,485
Sundry Debtors	10,497	8,466	12,450	12,450
Cash and Bank Bal	136	152	293	2,259
Loans and Advances	4,777	3,650	3,650	3,650
Total Current Assets	32,572	29,004	33,734	36,848
Current Liabilities	22,137	23,993	22,980	23,391
Net Current Assets	10,435	5,011	10,755	13,457
Total assets	**44,684**	**43,572**	**47,361**	**47,946**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Net profit before tax	4,078	5,186	5,634	7,601
Depreciation	5,697	2,843	3,005	3,093
Interest	4,297	4,082	3,884	3,551
Others	(2,929)	36	-	-
Opt Profit before WC Changes	11,143	12,147	12,524	14,245
WC Changes	(2,874)	5,807	(6,357)	(737)
Cash Gene from Op.	**8,269**	**17,954**	**6,166**	**13,508**
Direct Taxes Paid	(1,368)	(2,335)	(2,230)	(2,862)
Cash from Ope act	6,901	15,619	3,937	10,645
Purchases of F.A	(1,392)	(1,681)	(1,056)	(977)
Investment	(16,351)	(3,996)	-	-
Others	-	1,161	1,102	1,047
Cash from Inv Act	**(17,744)**	**(4,517)**	**47**	**71**
Proc from Issue of Eq Shares	-	0	0	0
Net loans	15,108	(7,391)	43	(5,200)
Interest paid	(4,297)	(4,082)	(3,884)	(3,551)
Dividend paid & Others	-	385	-	-
Cash from Fin Act	**10,811**	**(11,088)**	**(3,841)**	**(8,751)**
Net Increase in Cash	(31)	15	142	1,965
Cash at Beginning	168	137	152	293
Others	-	-	-	-
Cash at End	**137**	**152**	**293**	**2,259**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
O/s Shares (mn)	236	236	236	236
Per Share (Rs)				
EPS	12.2	25.1	19.1	24.5
Cash EPS	24.2	37.1	31.8	37.6
Book value	37.9	62.5	81.6	106.1
Valuation (x)				
P/E	10.4	5.1	6.6	5.2
Price/Book value	3.4	2.0	1.6	1.2
EV/EBITDA	5.7	3.5	3.4	2.5
EV/Sales	0.7	0.4	0.4	0.3
Profit ratios (%)				
RoE	32.1	40.1	23.4	23.1
RoCE	22.2	27.8	25.8	28.4
Margin (%)				
EBITDA	12.6	11.9	11.7	12.6
EBIT	8.9	9.1	8.9	9.9
PAT	3.1	3.9	4.2	5.1
Turnover Days				
Inventory	80.6	59.0	59.2	59.6
Debtors	49.3	29.8	42.5	40.1
Creditors	117.7	95.1	88.0	85.5
Debt/Equity	4.0	1.9	1.4	0.9

Source: Company, Kotak Securities – Private Client Research

Forthcoming Events

Forthcoming events

Date	Event
1-Aug	Apollo Tyres, Gateway Distriparks earnings expected
2-Aug	Marico, MOIL, Mold-Tek Packaging, Time Technoplast earnings expected
3-Aug	Berger Paint, Carborundum Universal, Gujarat Alkalies, VIP Industries earnings expected
4-Aug	Divis Lab, Lloyd Steel, Wockhardt earnings expected
6-Aug	Adani Ports, Adani Power, Avanti Feeds, Britannia, Dena Bank, Vesuvius earnings expected
7-Aug	Adani Ent, Balkrishna Ind, M&M, Motherson Sumi, Mphasis, Sobha, SRF, Trident, TVS Motor, Wonderla Holidays earnings expected

Source: www.bseindia.com

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	-	We advise investor to subscribe to the IPO.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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