Morning Insight

AUGUST 7, 2018

	6-Aug	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,692	0.4	5.7	8.0
NIFTY Index	11,387	0.2	5.7	7.2
NSEBANK Index	27,899	0.7	5.3	8.8
NIFTY 500 Index	9,709	0.2	5.6	4.0
CNXMcap Index	19,199	0.5	5.4	(2.6)
BSESMCAP Index	16,900	0.4	5.2	(6.1)
World Indices				
Dow Jones	25,502	0.2	4.3	4.7
Nasdaq	7,860	0.6	2.2	8.2
FTSE	7,664	0.1	0.6	1.3
NIKKEI	22,507	(0.1)	3.7	0.5
Hangseng	22,507	(0.1)	3.7	0.5
Shanghai	27,820	0.5	(1.4)	(6.9)

Value traded (Rs cr)	6-Aug	% Chg Day
Cash BSE	3,420	(11.5)
Cash NSE	32,612	(0.0)
Derivatives	-	-

Net inflows (Rs cr)	3-Aug	MTD	YTD
FII	407	(421)	(3,832)
Mutual Fund	117	(96)	72,502

Nifty Gainers & Losers 6-Aug	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Axis Bank	597	3.8	22.6
ICICI Bank	315	3.3	25.9
SBI	309	3.1	31.6
Losers			
Gail India	376	(3.1)	2.9
Dr. Reddy's	2,234	(2.1)	0.8
Kotak Mahindra	1,283	(2.0)	1.9

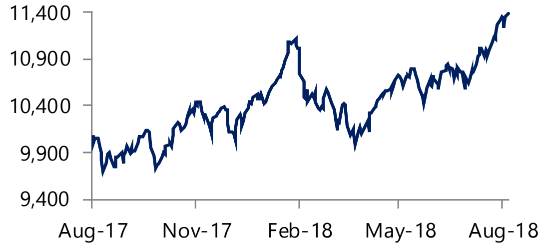
Advances / Declines (BSE)

6-Aug	A	B	T	Total	% total
Advances	204	673	79	956	100
Declines	176	439	44	659	69
Unchanged	7	18	14	39	4

Commodity	6-Aug	% Chg 1 Day	1 Mth	3 Mths
Crude (US$/BBL)	73.7	(0.1)	(4.4)	(3.3)
Gold (US$/OZ)	1,208	(0.5)	(3.6)	(8.0)
Silver (US$/OZ)	15.3	(0.8)	(4.4)	(7.0)

Debt / forex market	6-Aug	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.8	7.9	7.7
Re/US$	68.9	68.6	68.9	67.1

Nifty



Source: Bloomberg

News Highlights

- Public sector banks will need an additional capital of Rs 1.1-1.3 trillion over the next two years to implement a five-point strategy to tackle bad loans, a committee report on project 'Sashakt' has stated. (BS)
- National Highways Authority of India has invited bids for leasing out eight operational national highways to private parties for collection of toll and maintenance of stretches for a period of 30 years. (ET)
- **Unichem Laboratories's** API manufacturing facility at Roha inspected by US FDA from July 30 - August 3 and received 4 observations but company's business not impacted. (MC)
- **Sun Pharma** launches hypertension drug Kapspargo Sprinkle in US. (MC)
- **Suryachakra Power Corporation** received notice from NCLT on initiating insolvency proceedings. Financial creditor SBI filed application to initiate insolvency process. (MC)
- **Kridhan Infra's** associate company Vijay Nirman Company Private Limited has been awarded a new project worth Rs 1.33 bn. (MC)
- **Britannia Industries** has approved issuance of secured redeemable non-convertible debentures as bonus debentures of Rs 60 in the ratio of one such debenture for every equity share. Also, it has proposed a share split that the board will decide in the next meeting on August 23. (BS)
- **Glenmark Pharmaceuticals** has entered into an exclusive license agreement with biopharmaceutical firm Harbour BioMed to develop, manufacture and commercialise the former's novel oncology molecule (GBR 1302) for China. The exclusive license agreement, potentially worth more than $120 mn (around Rs 8.2 bn), in addition to royalties. (BS)
- **Jet Airways** plans to wet lease seven ATR-72 planes to TruJet to cut down on costs. (BS)
- Eros International plc announced that following customary approval processes, the sale of a five per cent stake in Eros to **RIL,** previously announced on February 20, 2018, has been completed. (BS)
- **Nestle India** has plans to expand its product offering by introducing special masala noodles, dips and dark chocolates soon as part of its expansion drive. (BS)
- **Reliance Communications** is looking to complete the sale of its business assets worth Rs 250 bn by the end of this month and has also agreed to pay Rs 5.5 bn towards settlement to telecom gearmaker Ericsson by September-end. (BS)

What's Inside

- **Result Update:** Indocount Industries, Arvind Ltd, Carborundum Universal Ltd, Adani Port
- **Initial Public Offer:** CreditAccess Grameen Ltd
- **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

Result Update

INDO COUNT INDUSTRIES LTD (ICIL)

PRICE RS. 83 **TARGET RS. 103** **BUY**

Stock Details

Market cap (Rs mn)	:	16216
52-wk Hi/Lo (Rs)	:	149 / 59
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	584,952
Shares o/s (mn)	:	197

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	18,585	19,908	22,527
Growth (%)	(13.7)	7.1	13.2
EBITDA	1625	2517	3177
EBITDA margin (%)	8.7	12.6	14.1
PAT	1253	1446	1853
EPS	6.3	7.3	9.4
EPS Growth (%)	(46.0)	15.4	28.2
BV (Rs/share)	48	55	63
Dividend/share (Rs)	1	1	1
ROE (%)	13.9	14.2	16.0
ROCE (%)	9.5	14.0	16.4
P/E (x)	13.0	11.3	8.8
EV/EBITDA (x)	12.1	8.0	6.4
P/BV (x)	1.7	1.5	1.3

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	58.9	58.9	58.9
FII	7.4	7.7	11.9
DII	2.1	2.0	3.6
Others	31.3	31.4	25.6

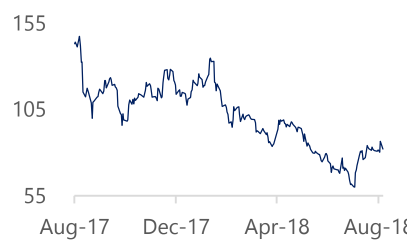
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Indo Count Ind	13.2	(9.5)	(13.3)
Nifty	5.7	7.2	8.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

ICIL Q1FY19 results though improved in volume terms over last year but was below our estimates in value terms.

Key Highlights

- Standalone net revenues for the quarter grew by 10% yoy to Rs 4.4 bn due to 22% yoy growth in volumes as the company is slowly witnessing an uptick in demand in US retail sales. But in value terms the revenue was below our estimates due to lower currency realization, lower duty incentives, and more captive consumption of yarn.
- EBITDA margins (including OOI) for the quarter declined by 110 bps yoy to 14% and was below our expectation due higher employee cost and lower realization. As per management, the cotton prices are at elevated level post increase in MSP.
- The company has maintained its FY19E guidance of 58-60 mn mtr of volume with EBITDA margin (including OOI) to be in the range of 14-16%.

Valuation & outlook

- We have maintained our revenue and margins estimates based on strong volume in the quarter.
- Based on FY19E/FY20E unchanged EPS of Rs 7.3/9.4, the stock is trading at PE of 11.3x/8.8x respectively. We maintain Buy as we see upside in the stock over our target price of Rs 103 (unchanged).

Quarterly performance table

Year to March (Rs mn)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Net Revenues	**4,403**	**3,994**	**10.2**	**4,059**	**8.5**
Raw Materials Cost	2,290	2,165	5.8	2,034	12.6
Gross Profit	**2,113**	**1,829**	**15.5**	**2,026**	**4.3**
Employee Expenses	323	281	15.1	272	19.0
Other Expenses	1,315	1,219	7.9	1,337	(1.6)
Operating Expenses	3,928	3,665	7.2	3,642	7.9
EBITDA	**475**	**330**	**44.0**	**418**	**13.6**
EBITDA margin (%)	10.8	8.2		10.3	
Other Op. Income (OOI)	166	324	(48.6)	178	(6.5)
EBITDA (Inc OOI)	641	653	(1.9)	596	
EBITDAM (Inc OOI)	14.0	15.1		14.1	
Depreciation	79	75	5.4	77	2.6
Net finance expense	91	82	10.9	99	(8.2)
Profit before tax	**471**	**496**	**(5.1)**	**420**	**12.3**
Provision for taxes	183	177	3.7	152	20.7
Reported net profit	**288**	**320**	**(9.9)**	**268**	**7.5**
As % of net revenues					
Gross Margin	48.0	45.8		49.9	
Employee Expenses	7.3	7.0		6.7	
Other Expenses	29.9	30.5		32.9	
Operating expenses	89.2	91.8		89.7	
Reported net profit	6.5	8.0		6.6	
Tax rate (% of PBT)	38.9	35.6		36.1	

Source: Company

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Q1FY19 revenue driven volume growth

Standalone net revenue for the quarter grew by 10% yoy to Rs 4.4 bn as against our estimates of Rs 4.56 bn. The growth in revenue was primarily driven by recovery in volume on a low base of last year while realization was lower than estimates. Sales in volume terms stood at 14.4 mn mtrs in Q1FY19 as against 11.8 mn mtrs in Q1FY18, grew by 22% yoy, and 13.7 mn mtrs in Q4FY18 growth of 5.1% qoq. In value terms revenue growth was slower due to lower currency realization, lower duty incentives and more captive consumption of yarn.

As per the management, the demand situation has witnessed some improvement after destocking by major retailers in US affecting volumes in the past 4-5 quarters. As per management, the company is slowly witnessing an uptick in demand with US retail sales are witnessing an uptick trend.

The company has maintained guidance of 58-60 mn mtr of volume for FY19E. In terms of geography, ICIL is looking to strengthen its business from new geographies. It is focusing on growing business from Europe, Middle East, Australia and Japan. It is also focusing on growing business from India under 'Boutique Living' brand and targets to increase revenue pie from domestic market over next 3-4 years.

EBITDA below our estimates

EBITDA (including other operating income) declined by 1.9% yoy to Rs 641 mn with EBITDA margins (including OOI) for the quarter declined by 110 bps yoy to 14%. This is on account of increase in employee cost and lower realization. As a result, PAT for the quarter declined by 9.9% to Rs 288 mn and was below our estimates of Rs 326 mn. On raw material front, cotton prices are presently at elevated level of ~Rs47,000 per candy. Increase in MSP by the government by 26-28% resulted in higher prices. The company has maintained EBITDA margin (including OOI) guidance of 14-16%. We believe that the margins would also depend upon government policy on incentive structure and how cotton prices moves further.

Update on Capex

Regarding phase 2 capex, the company has identified land and the government notification on the same is pending. The company is also waiting for new textiles investment policy in Maharashtra in terms of capital subsidy and other benefits. The company targets for Rs 700 mn capex in FY19E which will be related to spinning mills upgradation, investment in cut & sew facility, modernization of facility, etc.

Other highlights

- The company has low cost cotton inventory till 15th October 2018 at average cost of Rs 42,000/candy Vs. current price of Rs 47,000 per candy. Future price would also depend upon the current cotton season.
- As part of forex hedging policy, 75% of ICIL's forex revenue is hedged and 25% is kept open. In the quarter there was a forex gain booked as part of other operating income. There is also unrealized MTM forex loss of Rs 370 mn under other comprehensive income.
- Employee cost increased by 15% yoy as the company added new employees in order to achieve higher volumes post expansion of its capacity.
- The company has comfortable leverage position with net debt/equity in Q1FY19 end and was at 0.34x.

- The company has focused on increasing its revenue pie from value added product in institution, fashion and utility segment. It is also positive on higher growth from new geographies and European market in the longer run. As per management, Bangladesh and Pakistan are not much competitive in the product range it caters to and they would also be less competitive once the FTA duty advantage ends in 2020.

Outlook and valuation

As per the management, the business outlook is expected to be better in FY19E and maintained guidance of 58-60 mn mtr of volume which implies 7-10% yoy volume growth with 14-16% EBITDA margins. We have maintained our volume estimates of 56 mn mtr for FY19E and expect the growth to normalize to 10% yoy in FY20E. We maintain our revenue, margins and earnings estimates for FY19E and FY20E factoring in slower recovery in volume growth. Based on FY19E/FY20E unchanged EPS of Rs 7.3/9.4, the stock is trading at PE of 11.3/8.8x respectively. We maintain Buy, as we see upside in the stock with unchanged target price of Rs 103, valuing the stock at 11x FY20E EPS.

Company Background

Indo Count Industries Ltd (ICIL) incorporated in 1988, is a leading player in the global home textiles & apparel industry focusing on bedding products. It is the 2nd largest manufacturer and exporter of bed sheets, bed linen, quilts from India and among top 3 bed sheet suppliers to US. It holds 20% share in Indian bed linen exports to the US, which is the largest market for it and contributes nearly 65% of its turnover. Further, its other key markets include developed countries of Europe, UK and Australia. The company exports to 49 countries spread across 5 continents. It sells products through top retailers like Walmart, JC Penney, Target, etc. In addition, its products are also sold online through e-tailers such as Amazon under the brand Color Sense. The company has an integrated manufacturing unit located at Kolhapur, Maharashtra with spinning capacity of 80000 spindles, weaving capacity of 9 mn meters per annum and processing capacity of 90 mn meters per annum with cut and sew units, where it manufactures yarns, fabrics and bed sheets.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**21,528**	**18,585**	**19,908**	**22,527**
% change yoy	(1.0)	(13.7)	7.1	13.2
EBITDA	**3,235**	**1,625**	**2,517**	**3,177**
% change yoy	(25.5)	(49.8)	54.9	26.2
Depreciation	331	331	352	379
EBIT	**2,904**	**1,294**	**2,165**	**2,799**
Other Income	1,050	997	397	397
Interest	421	347	404	429
Profit Before Tax	**3,532**	**1,944**	**2,158**	**2,766**
% change yoy	(11.6)	(45.0)	11.1	28.2
Tax	1212	691	712	913
as % of EBT	34.3	35.5	33.0	33.0
PAT	**2,329**	**1,253**	**1,446**	**1,853**
% change yoy	(12.3)	(46.0)	15.4	28.2
Shares outstanding (mn)	197	197	197	197
EPS (Rs)	11.8	6.3	7.3	9.4
DPS (Rs)	0.4	0.9	1.1	1.4
CEPS(Rs)	13.4	8.0	9.1	11.3
BVPS(Rs)	42.9	48.4	54.7	62.7

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	395	395	395	395
Reserves	8,067	9,169	10,405	11,990
Net worth	8,462	9,564	10,800	12,385
Minority Interest	82	74	74	74
Borrowings	3,109	3,711	4,211	4,211
Net Deferred tax	1,176	1,200	1,200	1,200
Total Liabilities	**12,828**	**14,549**	**16,285**	**17,869**
Gross block	8,982	9,419	10,119	10,919
Depreciation	3,654	3,985	4,337	4,715
Net block	5,328	5,434	5,783	6,204
Capital work in progress	122	237	237	237
Total fixed assets	5,450	5,671	6,020	6,441
Inventories	4,719	5,905	6,326	7,158
Sundry debtors	3,112	2,872	3,000	3,394
Cash and equivalents	186	255	427	117
Loans and advances & Others	1,737	2,244	2,693	3,231
Total current assets	9,754	11,276	12,446	13,900
Sundry creditors and others	2,371	2,404	2,182	2,469
Provisions	16	39	43	47
Total CL & provisions	2,388	2,443	2,225	2,516
Net current assets	7,366	8,833	10,221	11,384
Other net assets	11	44	44	44
Total Assets	**12,828**	**14,549**	**16,285**	**17,869**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT (Exl EO)	3,524	1,944	2,158	2,766
Depreciation	331	331	352	379
Change in WC	(1,786)	(1,406)	(1,215)	(1,474)
Other operating activities	(455)	(700)	(712)	(913)
Operating Cash Flow	**1,614**	**169**	**582**	**758**
Capex	(833)	(552)	(700)	(800)
Free Cash Flow	781	(383)	(118)	(42)
Change in Investments	-	-	-	-
Investment cash flow	**(833)**	**(552)**	**(700)**	**(800)**
Equity Raised	-	(0)	-	-
Debt Raised	(468)	602	500	-
Dividend & others	(423)	(151)	(210)	(269)
CF from Financing	**(891)**	**452**	**290**	**(269)**
Change in Cash	(110)	68	173	(311)
Opening Cash	296	186	255	427
Closing Cash	186	254	427	117

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	15.0	8.7	12.6	14.1
EBIT margin (%)	13.5	7.0	10.9	12.4
Net profit margin (%)	10.8	6.7	7.3	8.2
Adjusted EPS growth (%)	(12.3)	(46.0)	15.4	28.2
Balance Sheet Ratios:				
Receivables (days)	53	56	55	55
Inventory (days)	80	116	116	116
Loans & Advances (days)	29	44	49	52
Payable (days)	40	47	40	40
Cash Conversion Cycle (x)	122	169	180	183
Asset Turnover (x)	1.7	1.3	1.2	1.3
Net Debt/ Equity (x)	0.3	0.4	0.4	0.3
Return Ratios:				
RoCE (%)	24.7	9.5	14.0	16.4
RoE (%)	30.9	13.9	14.2	16.0
Valuation Ratios:				
P/E (x)	7.0	13.0	11.3	8.8
P/BV (x)	1.9	1.7	1.5	1.3
EV/EBITDA (x)	5.9	12.1	8.0	6.4
EV/Sales (x)	0.9	1.1	1.0	0.9

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	108632
52-wk Hi/Lo (Rs)	:	479 / 357
Face Value (Rs)	:	10
3M Avg. daily vol (nos)	:	1,817,210
Shares o/s (mn)	:	259

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	108261	121495	139008
Growth (%)	17.2	12.2	14.4
EBITDA	9650	11464	14723
EBITDA margin (%)	8.9	9.4	10.6
PAT	3158	4211	6506
EPS	12.2	16.3	25.2
EPS Growth (%)	(1)	33	55
Book value (Rs/share)	158	172	194
Dividend per share (Rs)	2.4	2.4	2.4
ROCE (%)	8.8	10.2	13.3
ROE (%)	8.1	9.9	13.8
P/E (x)	34.4	25.8	16.7
EV/EBITDA (x)	14.4	12.1	9.3
P/BV (x)	2.7	2.4	2.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoter	42.9	42.9	42.9
FII	22.4	23.7	27.1
DII	18.6	18.1	13.8
Others	16.1	15.3	16.2

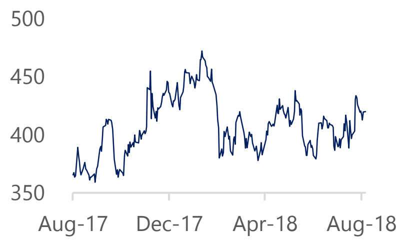
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Arvind Ltd	6.1	2.7	10.0
Nifty	5.7	7.2	8.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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ARVIND LTD

PRICE RS.420 TARGET RS.500 BUY

Arvind reported decent Q1FY19 results with margin in apparel business improved on yoy basis.

Key Highlights

- Consolidated net revenues for the quarter grew by 10.3% yoy to Rs 28.6 bn driven by 2% growth in textiles, 14% growth in branded apparel, 10% growth in advanced materials and 51% growth in engineering business.
- Textiles business grew at slower pace due to decline in fabric volume led by denim segment which declined by 15% yoy due high base of last year. Growth in Branded apparel business was driven by strong performance of power brands and value retail business under brand "Unlimited".
- EBITDA margins for the quarter grew by 50 bps yoy to 8.6% resulting in EBITDA growth of 17.7% yoy. This was driven by 190 bps improvement in EBITDA margins of branded apparel and other segment reporting positive margins.
- The company has maintained revenue and margins guidance across all businesses.

Valuation & outlook

- We have maintained our estimates for Arvind on consolidated basis. We believe that the demerger would unlock value of each of the businesses post listing expected in near future.
- The stock is presently trading at FY19E/20E PE of 25.8/16.7 based on EPS of Rs. 16.3/25.2 respectively. We maintain Buy on Arvind with unchanged SOTP based target price of Rs 500.

Quarterly performance table

Year to March (Rs mn)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Net Revenues	**28,610**	**25,942**	**10.3**	**29,900**	**(4.3)**
EBITDA	**2,463**	**2,092**	**17.7**	**2,917**	**(15.5)**
EBITDA margin	8.6%	8.1%		9.8%	
Depreciation	917	863	6.3	964	(4.8)
Other income	136	141	(3.1)	141	(3.5)
Net finance expense	733	614	19.4	674	8.8
Profit before tax	**949**	**755**	**25.6**	**1,420**	**(33.2)**
Exceptional/Others	84	53	58.6	4	2,288.6
Profit before tax (aft Exp)	865	703	23.1	1,417	(38.9)
Provision for taxes	222	135	64.3	262	(15.1)
Reported net profit	**643**	**567**	**13.3**	**1,155**	**(44.3)**
As % of net revenues					
COGS	47.2	43.7		51.0	
Employee cost	12.0	12.0		10.4	
Other Expenses	32.2	36.3		28.9	
Operating expenses	91.4	91.9		90.2	
EBITDA	8.6	8.1		9.8	
Reported net profit	2.2	2.2		3.9	
Tax rate (% of PBT)	23.4	17.9		18.4	

Source: Company

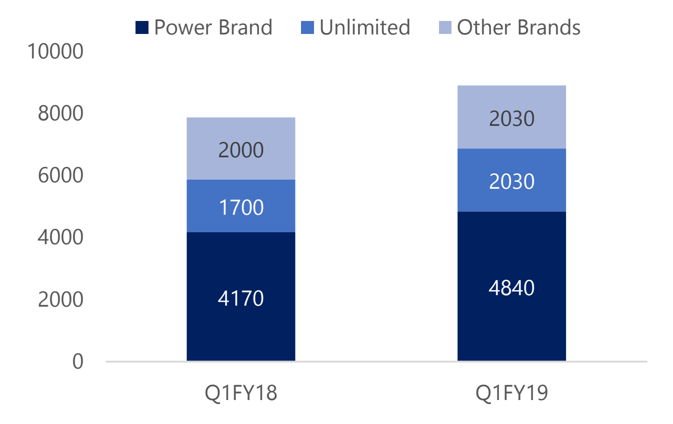
Q1FY19 revenue grew by 10.3%, on track in terms of guidance

Consolidated net revenues for the quarter grew by 10.3% yoy to Rs 28.6 bn driven by 2% growth in textiles, 14% growth in branded apparel 10% growth in advanced materials and 51% growth in engineering business. Textiles business grew at slower 2% rate due to decline in fabric volume led by 15% yoy decline in denim segment while garments and woven segment grew by 22% and 10% respectively on yoy basis. Slower growth in denim business is due to high base of last year due to pre GST buying.

Branded apparel business remained strong

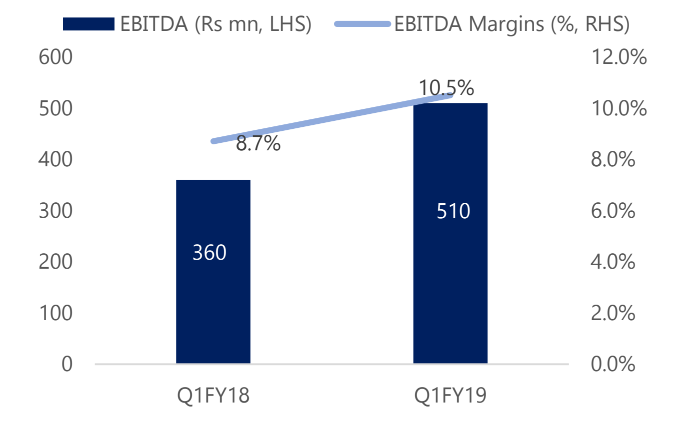
Branded apparel business grew by 14% yoy to Rs 10.1 bn. The segmental revenue for the quarter stated higher due to IndAS related adjustment and one time impact due to agreement changes to the tune of Rs 1.26 bn. Adjusted for these, the revenue for the segment grew by 13%. Further, after adjusting for GST, revenue growth in the business was even higher at 18% on yoy. Adjusted EBITDA for the segment grew by 75% to Rs 380 mn. Power brands for the quarter grew by 16% yoy, Unlimited grew by 19.4% and other brands was flattish. In the quarter the company was focused on growing power brands and unlimited. The growth in other brands got impacted as LTL (Like to Like) in its retails stores was negative to the tune of 5.8% yoy, as End of Season Sales (EoSS) was advanced in Q1FY18 due to GST led clearance. The LTL has improved in July 2018 and is at 10% yoy.

Revenue breakup of Branded Apparel (Rs mn)



Source: Company

Power brand EBITDA & Margin



Source: Company

EBITDA margins improved in apparel segment

EBITDA margins for the quarter grew by 50 bps yoy to 8.6% resulting EBITDA growth of 17.7% on yoy. This was driven by 190 bps improvement in EBITDA margins of branded apparel and other segment reporting positive margins as against loss in the last year same quarter. Branded apparel business reported improved margins on account of 170 bps improvement in margins in power brand and improvement in unlimited business. The company has maintained its guidance to close the year with all brands turning profitable or breaking even at operating level.

But the margins in the textiles segment declined by 240 bps yoy on account of lower drawback rate and lower realization in Euthopia due to low price hedge. As per management, the margins in H2FY19 in the textiles segment would normalize and is expected to remain flattish on full year basis, as realization would be near to market rate.

EBITDA Margins across segment

Segment	Q1FY19	Q1FY18
Textiles	11.9%	14.3%
Branded Apparels	3.7%	1.8%
Advance Materials	7.8%	3.1%
Engineering	19.8%	21.5%
Others	4.0%	-47.2%

Source: Company

Maintained guidance across segments

The company has maintained revenue guidance of 10% growth in textiles business on back of 35% growth in garment volume. The margins in textiles business is expected to be flattish in the range of 10-11%, with margins to improve in H2FY19 after a decline in H1FY19. The company has guided for 20-24% yoy growth in brand and retail business driven by Power Brands to maintain momentum, significant expansion planned for Unlimited and Innerwear business to grow at 50%+ on full year basis. The company expects 100 bps improvement in margins of brand and retail business despite increase in marketing investment by about 0.5%. Revenue growth guidance for engineering business is maintained at 10-12% with flattish margins.

Segmental finance

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Revenue					
Textiles	15,615	15,262	2	15,386	1
Branded Apparels	10,164	8,926	14	11,752	(14)
Advance Materials	1,274	1,163	10	1,301	(2)
Engineering	368	243	51	839	(56)
Others	1,311	438	199	1,783	(26)
Intersegment	123	90	36	111	11
EBIT					
Textiles	1,426	1,815	(21)	1,519	(6)
Branded Apparels	41	(141)	(129)	502	(92)
Advance Materials	56	(11)	(612)	(102)	(155)
Engineering	63	45	41	252	(75)
Others	20	(230)	(109)	104	(81)
EBIT Margin (%)					
Textiles	9.1	11.9		9.9	
Branded Apparels	0.4	(1.6)		4.3	
Advance Materials	4.4	(0.9)		(7.8)	
Engineering	17.0	18.3		30.0	
Others	1.5	(52.5)		5.8	

Source: Company

Other highlights

- The process of demerger is proceeding as per plan and the company expects the demerger approvals in early Q2FY19.
- The company has reported strong performance in advance material which was earlier part of textiles and others segment. The segment is expected to grow at over 20% in the longer run and has potential to achieve Rs 10 bn revenue. Arvind internet has also reported improved performance and is now parts of others segment.

- The company has gross debt of Rs 34.5 bn at the end of Q1FY19. As per management, the debt across businesses is expected to remain at these level by the end of FY19 on consolidated basis.
- The company has maintained capex guidance of Rs 15 bn for textiles business.

Outlook and valuation

We have maintained our estimates for Arvind on consolidated basis. We expect company's revenue and PAT to grow at a CAGR of 13.3% and 43.5%, respectively in FY18-20E driven by 27% volume CAGR in garments business, 20.6% CAGR growth in branded retail business, all brands turning profitable and improved operating leverage across segments.

We will come out with separate financial numbers for each of the businesses once demerger process gets completed and branded retail business under Arvind Fashions Ltd and engineering business under Anup Engineering Ltd get listed.

The stock is presently trading at FY19E/20E PE of 25.8/16.7 based on EPS of Rs. 16.3/25.2 respectively. We have valued Arvind on sum of the parts basis (SOTP) where we have assigned FY20E EV/EBITDA multiple of 16x to the branded apparel business, 8x to the textile business and 13x to the engineering business. We maintain BUY recommendation on the stock with SOTP based target price of Rs 500.

Company background

Arvind Ltd, founded in 1931 by Lalbhai family, is a leading textiles company with interest in Textiles, Branded Apparel and Accessories, Engineering, etc. The company manufactures and sells about 300 million meters (mn mtr) of fabrics and over 30 mn pieces of garments (FY18). In branded apparels business, the company's own brands such as Flying Machine, Colt, Ruggers and Excalibur, etc. It also has a portfolio of licensed brands which includes US Polo Association, Arrow, Tommy Hilfiger (TH), Gap, Calvin Klein (CK), Hanes, Gant, Nautica, Izod, Ed Hardy, Elle, Cherokee, The Children's Place, Aeropostale, etc. It also owns the value chain 'Unlimited' and is the franchise partner of the world's largest beauty retailer 'Sephora'. In engineering business, it designs and manufactures critical process equipment for petrochemical, fertilizer, power and other process industries.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**92,355**	**108,261**	**121,495**	**139,008**
% change yoy	15.3	17.2	12.2	14.4
Raw Materials	42,094	52,738	58,455	66,881
Employees expenses	10,963	12,647	13,912	15,303
Other Expenses	29,893	33,227	37,663	42,100
Total Expenditure	82,950	98,612	110,030	124,285
EBITDA	**9,406**	**9,650**	**11,464**	**14,723**
% change yoy	(1.0)	2.6	18.8	28.4
Depreciation	2,943	3,593	3,976	4,327
EBIT	**6,463**	**6,056**	**7,488**	**10,396**
Other Income	780	626	726	826
Interest	2,884	2,579	2,723	2,723
Profit Before Tax	**4,197**	**3,904**	**5,518**	**8,526**
% change yoy	(4.8)	(7.0)	41.4	54.5
Tax	997	746	1,308	2,021
as % of EBT	23.7	19.1	23.7	23.7
PAT	**3,201**	**3,158**	**4,211**	**6,506**
% change yoy	1.2	(1.3)	33.3	54.5
Shares outstanding (mn)	258	259	259	259
EPS (Rs)	**12.4**	**12.2**	**16.3**	**25.2**
DPS (Rs)	2.4	2.4	2.4	2.4
CEPS (Rs)	23.8	26.1	31.7	41.9
BVPS (Rs)	143.8	158.1	171.5	193.9

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Equity	37,184	40,881	44,366	50,145
Equity Share Capital	2,584	2,586	2,586	2,586
Other Equity	33,086	35,242	38,727	44,506
Liabilities	49,496	61,703	59,719	63,529
Non-current liabilities	10,207	10,655	10,655	10,655
Financial Liabilities	8,016	8,927	8,927	8,927
Provisions	407	618	618	618
Other non-current liabilities	355	402	402	402
Current liabilities	39,289	51,048	49,064	52,874
Financial Liabilities	37,892	48,800	46,541	49,987
Provisions	168	258	289	331
Other current liabilities	1,229	1,990	2,233	2,555
Total Equities & Liabilities	**86,680**	**102,584**	**104,085**	**113,674**
Non-current assets	45,846	47,190	47,845	48,154
Property, Plant and Equipmt	34,801	36,255	36,779	36,952
Capital work-in-progress	497	897	897	897
Goodwill, intangible & Others	2,381	3,632	3,632	3,632
Invst & other financial assets	5,183	3,392	3,522	3,659
Deferred Tax Assets (Net)	2,242	2,205	2,205	2,205
Other non-curnt tax assets (Net)	742	808	808	808
Current assets	40,834	55,394	56,240	65,519
Inventories	23,828	26,194	29,396	34,276
Financial Assets	12,622	22,220	25,009	29,143
Receivable	7,948	17,670	19,830	22,688
Cash & Bank Balance	209	395	824	1,835
Others	4,465	4,156	4,356	4,620
Other current assets	4,384	6,980	1,836	2,100
Total Assets	**86,680**	**102,584**	**104,085**	**113,674**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	4,197	3,904	5,518	8,526
Depreciation	2,971	3,593	3,976	4,327
Change in WC	(3,137)	(4,141)	(2,531)	(4,595)
Other operating activities	1,404	1,833	1,415	702
Operating Cash Flow	**5,435**	**5,189**	**8,378**	**8,960**
Capex	(4,426)	(5,509)	(4,500)	(4,500)
Free Cash Flow	854	(320)	3,878	4,460
Change in Investments	4,720	-	-	-
Investment cash flow	**294**	**(5,509)**	**(4,500)**	**(4,500)**
Equity Raised	6,347	3	-	-
Debt Raised/Repaid	(8,536)	2,384	-	-
Dividend	(740)	(726)	(726)	(726)
Interest & Others	(2,885)	(1,156)	(2,723)	(2,723)
CF from Financing	**(5,815)**	**505**	**(3,449)**	**(3,449)**
Change in Cash	(86)	185	429	1,011
Opening Cash	296	209	395	824
Closing Cash	209	395	824	1,835

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	10.2	8.9	9.4	10.6
EBIT margin (%)	7.0	5.6	6.2	7.5
Net profit margin (%)	3.5	2.9	3.5	4.7
Adjusted EPS growth (%)	1.2	(1.3)	33.3	54.5
Balance Sheet Ratios				
Receivables (days)	31	60	60	60
Inventory (days)	94	88	88	90
Payable (days)	56	72	56	56
Working capital (days)	97	105	102	103
Asset Turnover (x)	2.0	2.2	2.3	2.4
Net Debt/ Equity (x)	0.7	0.8	0.7	0.6
Return Ratios				
RoCE (%)	10.2	8.8	10.2	13.3
RoE (%)	10.0	8.1	9.9	13.8
Valuation Ratios				
P/E (x)	33.9	34.4	25.8	16.7
P/BV (x)	2.9	2.7	2.4	2.2
EV/EBITDA (x)	14.4	14.4	12.1	9.3
EV/Sales (x)	1.5	1.3	1.1	1.0

Source: Company, Kotak Securities – Private Client Research

Result Update

CARBORUNDUM UNIVERSAL LTD (CUMI)

PRICE RS. 362 **TARGET RS.420** **BUY**

CUMI Q1FY19 result is in line with our estimate but higher than consensus estimate. Encouraged by the volume growth across divisions (highlight that industrial ceramics and EMD division continues to report traction across geographies), we maintain our positive view on the company.

Key Highlights

- CUMI consolidated revenue reported at Rs 6.3 Bn in Q1FY19 (+22.1% y/y) are driven by all the three divisions- abrasives, EMD (Electrominerals Division) and ceramics divisions.
- EBITDA margin, expanded to 16.9% in the quarter vis-à-vis 13.9% in Q1FY18 (standalone EBITDA margin at 16.5% in Q1FY19).
- Management sounded confident of delivering two years sales guidance of Rs 32 Bn in FY20.

Consolidated Result

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Income from Operations	**6343**	**5195**	**22.1**	**6495**	**(2.3)**
Decrease/ (Increase) in stock	(55)	(96)		74	
Material consumed	2003	1479	35.4	1526	31.3
Purchase of traded goods	249	299		658	
Employee expenses	826	757	9.2	801	3.2
Power and fuel	875	776	12.7	896	(2.4)
Other expenses	1371	1257	9.1	1383	
Total Expenses	5269	4472	17.8	5337	(1.3)
EBITDA	**1075**	**723**	**48.5**	**1158**	**(7.2)**
Other income	105	105	(0.6)	46	130.3
Depreciation	280	257	9.0	276	1.3
EBIT	**900**	**572**	**57.2**	**927**	**(3.0)**
Finance cost	19	21	(7.8)	24	
Exceptional Items	0	0		0	
Foreign exchange difference expense	0	0		0	
PBT	**881**	**552**	**59.6**	**904**	**(2.6)**
Total tax	293	171	71.4	314	(6.6)
Minority Interest	44	28		19	
Share of profit/loss form associate	21	9		20	
PAT	**653**	**418**	**56.3**	**629**	**3.8**
Adjusted PAT	652	417	56.4	628	3.8
Other comprehensive income	0	0		61	
Total comprehensive income	652	417		689	
Adj. EPS (Rs)	**3.5**	**2.2**	**56.4**	**3.4**	**3.8**
EBITDA (%)	16.9	13.9		17.8	
Tax Rate (%)	33.3	31.0		34.7	
RM/Sales	34.6	32.4		34.8	

Source: Company, Kotak Securities – Private Client Research

Subsidiaries Result

(Rs mn)	Q1FY19	Q1FY18	YoY %	Q3FY18	QoQ
Income from Operations	2189	1935	13.1	2002	9.3
EBITDA	386	350	10.4	340	13.5
EBITDA%	17.6	18.1		17.0	

Source: Company, Kotak Securities – Private Client Research

Stock Details

Market cap (Rs mn)	:	68519
52-wk Hi/Lo (Rs)	:	428 / 312
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	71,321
Shares o/s (mn)	:	189

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	23,678	28,248	33,016
Growth (%)	12.1	19.3	16.9
EBITDA	3,986	4,859	6,108
EBITDA margin (%)	16.8	17.2	18.5
PAT	2,049	2,745	3,597
EPS	10.9	14.6	19.2
EPS Growth (%)	24.4	34.0	31.0
BV (Rs/share)	87	98	112
Dividend/share (Rs)	2.2	2.9	3.8
ROE (%)	13.3	15.9	18.3
ROCE (%)	11.1	13.4	15.9
P/E (x)	33.1	24.7	18.9
EV/EBITDA (x)	17.2	14.2	11.3
P/BV (x)	4.2	3.7	3.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	43.7	43.7	43.7
FII	4.4	4.4	4.5
DII	18.6	18.6	19.0
Others	33.3	33.3	32.8

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Carborundum Uni	12.0	(3.6)	2.3
Nifty	5.7	7.2	8.5

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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Valuation & Outlook

- Our investment thesis is predicated on continued volume pickup across geographies; margin improvement led by 1/ operating leverage and 2/ increased prices (mainly in value engineered products). We also believe that the company will be able to push compelling price increase (in the range of 7% to 10%) in 9MFY19/FY20.
- We take notable comfort in the demand outlook for company's products and potential capacity ramp up across divisions. In view of upside to our unchanged target price of Rs 420, we maintain 'BUY' (ascribe PER 22x FY20 estimated earnings) rating on CUMI stock.

Result Highlights

CUMI consolidated revenue reported at Rs 6.3 Bn in Q1FY19 (+22.1% y/y) are driven by all the three divisions- abrasives, EMD (Electrominerals Division) and ceramics divisions.

Standalone revenues, reported at Rs 4.1 Bn (+27.4% y/y) is driven by 28.4% y/y growth in EMD division and 38.4% y/y growth in Ceramics division. Standalone abrasives sales, reported at Rs 2.1 Bn, grew 19.9% y/y (aided by low base of Q1FY18 which was affected by GST transition) was slightly lower than our estimates.

Abrasives division to post recovery over the next two quarters.

Management stated that while the volumes in abrasives segment have started to improve, channel sales is yet to experience the benefits of GST rollout. It might take couple of quarters for the domestic abrasives business to realise full benefits. Within abrasives, coated abrasives continue to outperform and is operating at 85% capacity utilization levels. Bonded abrasives division has also been operating at over 65-70% capacity utilization level.

In the international abrasives business, company's Russian subsidiary VAW could maintain sales momentum, operating at c.45% capacity utilization. CUMI has planned to expand capacity for thin wheeled and coated abrasives in Russia.

Abrasives division reported, sales of Rs 2.6 Bn in Q1FY19 (+20.5 % y/y) at consolidated level. EBIT margins for abrasives segment reported at 12.1% in Q1FY19, slightly lower than our estimate. Management has however shared positive outlook and expect margin expansion over the next two quarters on back of 1/ higher volumes and 2/ price hike of 6-8% in the abrasives segment.

Segment reporting (Consolidated)

Segment Revenue (Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Abrasives	2622	2,175	20.5	2713.6	(3.4)
Ceramics	1451	1,103	31.5	1493	(2.8)
Electrominerals	2389	2,021	18.2	2366	1.0
Segment EBIT					
Abrasives	317	218	45.9	379	(16.2)
Ceramics	291	155	87.0	234	24.4
Electrominerals	350	279	25.5	279	25.3
Segment Margins (%)					
Abrasives	12.1	10.0		13.9	
Ceramics	20.0	14.1		15.6	
Electrominerals	14.6	13.8		11.8	

Source: Company, Kotak Securities – Private Client Research

...value added/engineered ceramics continues to report traction

Ceramics business reported sales at Rs 1.4 Bn in Q1FY19 (+11.4% y/y) in Q1FY19 at the consolidated level. Further, demand for Metz (metalized cylinders) remains strong driven by power transmission globally. We note that Metz industry in dominated by very few players globally. Further, company has significant headroom to grow, as it is operating at c.70-75% capacity utilization in this product category. EBIT margin in the ceramic division is reported at record 20% in Q1FY19 (EMD margin does not include any one-off item). We are encouraged by the sharp margin improvement reported by the company in EMD division. We believe that the higher volumes and stable input prices shall help company delivering EBIT margin of c.17-18% in FY19 (management guided for 15-16% margins, conservative in our view).

...volumes remain high in EMD division..

Electrominerals division (EMD), consolidated sales reported at c.Rs 2.4 Bn in Q1FY19 (+ 18.2% y/y). Demand for silicon carbide, Zirconia and alumina based products, continues to grow at a steady pace. We note that a large portion of ceramics growth is also attributed to 1/ increase in input prices and power cost 2/ environmental clampdown (closure of pollution causing facilities in China) and 3/ newer applications (like green energy, electric vehicle etc) creating demand for some of these products.

Management highlighted that the prices of key input materials have now stabilized after rising in 1HFY18. We expect EMD margins to improve further through 9MFY19. Pricing in EMD business has remained favourable and is expected to gradually increase in 9MFY19. Management explained that the sharp price increase could be counterproductive for the EMD business as prices are determined through negotiation process, keeping long term relationship with clients into consideration.

Russia SIC capacity is currently running flat out. CUMI Zirconia business is also expected to recover in FY19, giving additional thrust to the segment margin. Z450 trial (product details mentioned in our earlier updates) run has been successful and management expects to gradually increase its production over the next few quarters. We believe that in the current environment, affected by 1/ high power and graphite electrodes prices and 2/ stringent pollution norms, viability of Z450 (and similar products) increase many folds.

Power & fuel costs, reported 12.7% y/y could increase, reported at Rs 875 mn in Q1FY19. EBITDA margin, expanded to 16.9% in the quarter vis-à-vis 13.9% in Q1FY18 (standalone EBITDA margin at 16.5%). We highlight that the company has been observing input price pressure across key commodities graphite electrodes (increased 4x y/y), fuel cost, pet coke and sand. Management is confident about pushing price hikes and would be able to pass on the impact in next two to three quarters to the end customers.

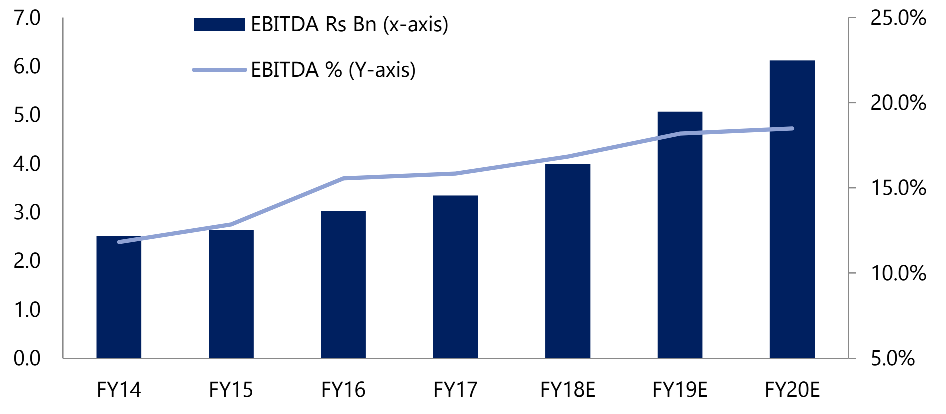
CUMI incurred capex of Rs 920 mn in FY18 and management maintained capex guidance of Rs 1.2 Bn for FY19/FY20. A bulk of capex shall be made towards brownfield expansion across segments. Management also mentioned that the company would continue to incur 1.5-2% of sales towards R&D activities.

Revenue to grow on back of improved demand for premium products across verticals; margins likely to expand on back of operating leverage

We project growth at 18.2% CAGR between FY18-20 in consolidated revenues from Rs.23.6 Bn in FY17 to Rs 33.1 Bn in FY20E on back of 1) recovery in demand for abrasives (mainly premium products like coated/super abrasives in the domestic market 2) ramp up in other higher margin specialized products like Metalized cylinders, Semi friable, Zirconia based offerings going ahead.

We expect that the company is likely to maintain its revenue mix at current levels with abrasives division contributing nearly 40-45%, industrial ceramics 25% and electro minerals 30-35% of the revenue pie. However, share of high margin products is expected to increase within each product categories driven by 1/ favourable demand scenario and 2/ operating leverage. We build EBITDA margin at 17.2% and 18.5% in FY19E and FY20E respectively.

EBITDA trend



Source: Company, Kotak Securities – Private Client Research

Valuation and Recommendation

Our investment thesis is predicated on expected turnaround/pickup across all the divisions led by global recovery for company's products. In view of upside to our unchanged target price of Rs 420, we maintain 'BUY' (ascribe PER 22x FY20 estimated earnings) rating on CUMI stock.

Company background

Carborundum Universal Ltd (CUL) is a global supplier of abrasives, ceramics and electro minerals. CUMI was founded as collaboration between the Murugappa Group, The Carborundum Co., USA and the Universal Grinding Wheel Co. Ltd., U.K. Company currently manufacturers over 20,000 different varieties of abrasives, refractory products and electro-minerals in ten locations across various parts of the country.

CUMI's focus on R&D initiatives and strategic alliances with global leaders in grinding technology ensured international recognition as a manufacturer of quality abrasives and a provider of total grinding solutions. CUMI's products are being exported to 43 countries spread across North America, Europe, Australia, South Africa and Asia. CUMI enjoys leadership positioning in Indian abrasives industry and globally second and third position in silicon carbide and zirconia respectively.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**21,125**	**23,678**	**28,248**	**33,016**
% change yoy	8.7	12.1	19.3	16.9
EBITDA	**3,346**	**3,986**	**4,859**	**6,108**
% change yoy	10.7	19.1	21.9	25.7
Depreciation	965	1,060	1,130	1,200
EBIT	**2,381**	**2,927**	**3,729**	**4,908**
% change yoy	10.5	22.9	27.4	31.6
Net Interest	181	86	50	45
Earnings Before Tax	**2,428**	**3,070**	**3,979**	**5,213**
% change yoy	17.2	26.4	29.6	31.0
Tax	781	1,020	1,233	1,616
as % of EBT	32.2	33.2	31.0	31.0
XO Items	-	-	-	-
Recurring PAT	**1,647**	**2,049**	**2,745**	**3,597**
% change yoy	17.0	24.4	34.0	31.0
Shares outstanding (m)	187.4	187.4	187.4	187.4
EPS (Rs)	**8.8**	**10.9**	**14.6**	**19.2**
DPS (Rs)	1.8	2.2	2.9	3.8
CEPS	13.9	16.6	20.7	25.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,315	1,344	1,355	1,955
Accounts receivable	3,806	4,751	5,650	6,603
Inventories	3,867	4,380	5,185	6,151
Other current assets	672	507	774	905
Current Assets	8,345	9,638	11,609	13,659
Net fixed assets	5,818	6,144	6,444	6,744
WIP	726	303	303	303
Investments	1,245	1,803	1,400	1,400
Other non-current assets	(934)	(1,250)	(1,768)	(2,015)
Total Assets	**19,222**	**20,985**	**22,647**	**25,597**
Debt	1,491	1,248	550	550
Equity & reserves	14,484	16,258	18,317	21,021
Other liabilities(deferred tax)	3,246	3,479	3,780	4,026
Current Liabilities	2,707	3,004	3,305	3,551
Total Liabilities	**19,222**	**20,985**	**22,647**	**25,597**
BVPS (Rs)	77	87	98	112

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	2,428	3,070	3,979	5,213
Depreciation	965	1,060	1,130	1,200
Current liabilities incl provisions	(72)	297	301	246
inc in inventory	(163)	(513)	(805)	(966)
inc in sundry Debtors	(131)	(945)	(899)	(954)
inc in advances	-	-	-	-
Tax Paid	(781)	(1,020)	(1,233)	(1,616)
Other Adjustments	(125)	387	(70)	(151)
Net cash from operations	**2,121**	**2,335**	**2,402**	**2,973**
Purchase of fixed Assets	(1,513)	(1,386)	(1,430)	(1,500)
Net investments	65	(558)	403	-
Net cash from investing	**(1,685)**	**(1,567)**	**(1,027)**	**(1,500)**
Change in Borrowings	(1,141)	(243)	(698)	-
Dividend Paid	(398)	(497)	(666)	(873)
Net Cash from financing	**(1,539)**	**(740)**	**(1,364)**	**(873)**
Net Cash Flow	(1,103)	29	11	600
Cash at the end of year	**1,315**	**1,344**	**1,355**	**1,955**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	15.8	16.8	17.2	18.5
EBIT margin (%)	11.3	12.4	13.2	14.9
Net profit margin (%)	7.8	8.7	9.7	10.9
Receivables (days)	65.8	73.2	73.0	73.0
Inventory (days)	63.2	66.7	67.0	68.0
Sales / Net Fixed Assets (x)	3.3	3.4	3.8	4.3
Interest coverage (x)	13.1	34.0	74.6	109.1
Debt/ equity ratio	0.1	0.1	0.0	0.0
ROE (%)	12.2	13.3	15.9	18.3
ROCE (%)	9.7	11.1	13.4	15.9
EV/ Sales	3.1	2.9	2.4	2.1
EV/EBITDA	20.6	17.2	14.2	11.3
Price to earnings (P/E)	41.2	33.1	24.7	18.9
Price to book value (P/B)	4.7	4.2	3.7	3.2
Price to cash earnings	26.0	21.8	17.5	14.1

Source: Company, Kotak Securities – Private Client Research

kotak Securities

Result Update

ADANI PORT AND SEZ (APSEZ)

PRICE RS.396 **TARGET RS.485** **BUY**

Significant depreciation of the rupee leading to forex loss which impacted the PAT, zero SEZ port led development income, total volume of 48.1 mn tonnes (+9.3% YoY) lead by crude (+65% YoY) and containers (+16% YoY) and expansion of EBIDTA margin (with INR depreciation as most revenues are in USD) were the highlights of Q1FY19 revenues for APSEZ.

Stock Details

Market cap (Rs mn)	:	822893
52-wk Hi/Lo (Rs)	:	452 / 347
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	4,362,113
Shares o/s (mn)	:	2071

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	113,229	125,684	139,509
Growth (%)	34.2	11.0	11.0
EBITDA	71,454	80,028	89,632
EBITDA margin (%)	63.1	63.7	64.2
Net profit	41,706	47,003	53,941
EPS (Rs)	20.3	22.9	26.2
Growth (%)	15.5	12.7	14.8
Book value (Rs/share)	98.9	118.1	140.0
Dividend per share (Rs)	2.0	2.5	3.5
ROE (%)	22.3	21.1	20.3
ROCE (%)	18.0	18.0	18.4
EV/EBITDA (x)	11.9	10.8	9.8
P/E (x)	19.6	17.4	15.2
P/BV (x)	4.0	3.4	2.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	62.3	66.3	65.8
FII	21.3	18.0	18.0
DII	11.5	12.2	11.8
Others	4.9	3.5	4.4

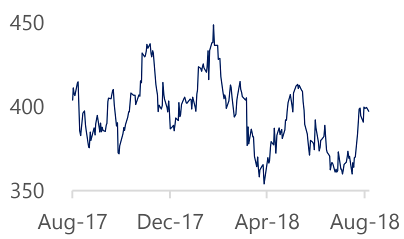
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Adani Port	8.6	(2.7)	(1.8)
Nifty	5.7	7.2	8.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Key Highlights

- APSEZ has once again delivered volume outperformance versus major ports in both total cargo and containers. The performance has been well complemented by all the subsidiary ports including one in Australia. Strong growth was witnessed in container, coal and crude leading to 9.3% overall cargo growth in Q1FY19 (+7% YoY in FY18), in line with our estimate.
- A combination of volume outperformance, contribution from Australian operations and zero port-development income led to revenue of Rs 24.11 bn (-12.2% YoY) for Q1FY19. The decline in revenue was led by zero SEZ port led development income (vs. Rs 6.6 bn in Q1FY18)
- Strong volume growth, improvement in realisations, reduction in other cost and zero SEZ port led development expense in Q1FY19 expanded the operating margins of the company
- As per Indian Accounting Standards (IND- AS) applicable from 1st April, 2016, all international currency loans should be marked to market through Profit and Loss account. INR depreciated by 5% in Q1FY19. Accordingly APSEZ has provided mark to market loss of Rs. 3.83 bn in Q1FY19 vs Rs. 320 mn gain in Q1FY18. This has resulted in reporting lower PBT and PAT. However, from cash flow perspective there will be no impact.
- The management targets 1.5x accelerated total cargo growth and 2x container volume growth 2X versus major ports. In order to achieve the growth objective, the company is expanding operations at several locations. The company targets Rs 20-22 bn of capex across all its subsidiary ports and diversify across product segments.
- The company expects FCF to further improve on a conservative basis FY19 allowing proportionately higher dividend payout (company targets 15% payout).
- With deleveraging efforts, the company expects net debt/EBITDA and interest cost to reduce.

Valuation and recommendation

We believe that the company has diversified its offering product wise and geographically, making efforts to enhance non-port revenues, making operations more integrated, taking measures to bring down cost of debt and other cost and have made related party transactions completely nil. We estimate the benefits of these efforts to have already started accruing to APZ and would continue to accrue in future as well. We estimate the consolidated entity to report volume CAGR of 11% over FY18 to FY20E with the new ports of Dhamra, Hazira, Dahej, Kattupalli and the container volume at Mundra contributing the maximum. Our TP is based on SOTP valuation with a weighted average cost of capital (WACC) of 12.0% and book values for other investments. Maintain BUY with an unchanged TP of Rs 485.

Quarterly Performance (consolidated)

(Rs mn)	Q1FY18	Q4FY18	Q1FY19	QoQ (%)	YoY (%)
Net Sales	**27,451**	**31,829**	**24,110**	**(24.3)**	**(12.2)**
OPEX	9292	9,668	5,803	(40.0)	(37.5)
Employee cost	1,181	1,196	1,189	(0.6)	0.7
Admn cost	1,312	1,650	1,234	(25.2)	(5.9)
EBIDTA	**15,666**	**19,315**	**15,884**	**(17.8)**	**1.4**
EBIDTA %	57.1	60.7	65.9		
Other Income	2,145	3,044	2,928	(3.8)	36.5
Depreciation	2,958	2,989	3,225	7.9	9.0
Forex loss or gain	317	(2,198)	(3,825)	74.0	(1,306.6)
Gross int	3,299	3,296	3,206	(2.7)	(2.8)
Derivative loss or gain	(949)	(623)	668	(207.2)	(170.4)
PBT	**10,922**	**13,253**	**9,224**	**(30.4)**	**(15.5)**
Taxes	3,293	3,961	2,250	(43.2)	(31.7)
Effective tax rate (%)	30.2	29.9	24.4		
Share of Associates/MI	47	0	0		
Reported PAT	**7,676**	**9,292**	**6,974**	**(24.9)**	**(9.1)**

Source: Company

Adani Port completes acquisition of Kattupalli Port

After a long hiatus, APSEZ has acquired 97% stake in Kattupalli Port from L&T for an enterprise value of Rs 19.5 bn. Kattupalli Port is located 30 kilometers towards the north of Chennai, is a modern port and would serve the city of Chennai and highly industrialized hinterlands of North Tamil Nadu, southern Karnataka and southern Andhra Pradesh. Presently the port has two berths with quay length of 710 meters, six quay cranes, 15 RTG cranes, 5120 ground slots with the capacity to handle 1.2 Million TEUs per annum. APSEZ plans to transform Kattupalli into a multi-commodity port to handle cargoes like containers, automobiles, break bulk, general cargo, liquid cargo and project cargo. With a backup area of 322 acres, Kattupalli port provides ample space for future expansion of port to facilitate trade requirements. APSEZ plans to add 40 million tonnes of new capacity over the next 3 years.

Multi Geography-multi commodity diversification is healthy

We are impressed with the focus of management PAN India on every commodity. This focus has enabled the company to grow faster than its peers and generate strong cash flows for the group. The port business has shown strong operational performance with continued market share growth every quarter.

Quarterly volume trend for APSEZ

Mn tonnes	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	QoQ (%)	YoY (%)
Cargo at Mundra	30.2	29.3	32.4	30.0	32.0	6.7	6.0
Hazira	4.0	4.1	4.3	4.5	4.6	2.0	14.3
Dahej	1.6	1.7	2.1	1.6	2.2	32.7	34.4
Dhamra	5.3	5.0	5.4	5.8	4.4	(23.4)	(16.2)
Kattupalli	1.0	1.0	2.0	1.4	2.0	40.0	96.0
Others	1.9	2.0	1.4	2.1	3.0	42.9	57.9
Consolidated cargo	**44.0**	**43.1**	**47.6**	**45.4**	**48.1**	**5.9**	**9.3**

Source: Company

Overall volume growth estimated at 11% over FY18 to FY20E

Standalone Mundra Port has already created significant value for the company. We estimate the next phase of growth for the company to come from subsidiary ports, especially the ports of Hazira, Dahej, Dhamra and Kattupalli ports. The growth would be primarily led by both market growth and market share gains (lower government revenue share to help). Large value creation from some ports is less likely given higher revenue share to government (Vizag and Ennore) or likely lower rate of growth in cargo volumes given the emerging domestic supply economics (Kandla). The other big value creator could be SEZ land sale/lease where transactions were slow in FY17, but has improved in FY18. Though SEZ port led development was zero for Q1FY19 (it has been volatile), management expects the same to pick-up in the rest of FY19.

Volume growth for APZ and for its subsidiaries (mn tonnes)

Port	FY15	FY16	FY17	FY18	FY19E	FY20E
Total at Mundra	*111.0*	*113.0*	*114.0*	*121.9*	*131.0*	*137.0*
Dahej	12.0	8.0	6.0	7.0	8.0	10.0
Hazira	7.0	12.0	15.0	17.0	19.0	21.0
Dhamra	15.0	15.0	21.0	22.0	25.0	32.0
Others	0.0	0.0	7.0	3.0	5.0	8.0
Total	**147.0**	**153.0**	**170.0**	**179.9**	**200.0**	**222.0**
CAGR	14.0	4.1	11.1	5.8	11.2	11.0

Source: Company, Kotak Securities – Private Client Research

Capex of Rs 42 bn over FY18 to FY20E

APSEZ saw improvement in the BS quality despite heavy capex in FY17/FY18. We believe that the capex per annum has peaked for the company, to maintain medium term growth. We estimate a capex of Rs 22 bn in FY19E and Rs 20 bn in FY20E. The capex would be primarily spent towards expansion at Dhamra (two new berths), Kattupalli (non-container berth) and development of Vizhinjam port. With healthy operational performance, sustained EBIDTA margin and slowing capex, we estimate strong free cash flow generation of more than Rs 12 bn per annum which is estimated to improve the BS quality of the company.

Debt and Profitability measure

(Rs mn)	FY17	FY18	FY19E	FY20E
Gross debt	197,486	202,738	204,464	204,018
Cash and equivalence	21,312	24,700	48,481	76,435
EBIT	42,420	59,390	67,493	76,837
Capex	(30,000)	(25,000)	(22,000)	(20,000)
Gross debt/EBIT (x)	4.7	3.4	3.0	2.7
Equity	170,621	203,482	242,980	288,001
Net Debt /Equity (x)	1.2	1.0	0.8	0.7

Source: Company, Kotak

Promoters have sold 4% stake in APSEZ- positive for minority shareholders

The Adani Family through trusts and other entities hold controlling interest in entities Adani Ports and SEZ Limited (APSEZ) has monetized ~4% stake in APSEZ through an on market block trade raising ~ Rs 30 bn on June 21 and June 29, 2018.The proceeds from the equity issuances shall be utilized towards strengthening the balance sheet position of group companies including deleveraging the power business and to part fund the proposed acquisition of integrated business of generation, transmission and distribution of power for

Mumbai City. Post monetization of 4% stake, the Promoter Group now hold 62.3% stake in APSEZ which they do not intend to dilute further in near term.

We see the stake sale as positive in two ways; 1) it partially helps reduce group net debt of $ 12 bn which is at 7x EBIDTA consensus estimate and 2) it brings in strong anchor institutional investors as shareholders

Other areas of focus

Management intends to focus on 2 important verticals

Logistics – The management intends to expand its logistics business by developing a port-led logistics model and a unique integrated offering for customers. Management sees high growth opportunity in post GST era. They are looking to expand the footprint of Inland Container Depots (ICDs) across India and offer integrated logistics solutions. APZ is looking at locations such as Bangalore, Hyderabad and nearby areas to build ICDs. The company is trying to leverage existing rail assets (such as sidings and trains) to the fullest and will follow a mixed operating model (60% assets leased, 40% owned) here onwards. We estimate the Logistics business to complement to Port business and add value to the company.

Dredging – To undertake commercial dredging operations. The commercial dredging business is expected to generate Rs 1-1.5 bn of revenues per annum in coming years

SOTP Valuation

Project	Value of equity (Rs Mn)	Share of APZ %	APSEZ value (Rs Mn)
Mundra	385,132	100	385,132
Mundra SEZ	95,100	100	95,100
Dhamra	185,420	100	185,420
Hazira	170,500	100	170,500
Dahej	68,128	74	50,415
Mormugao	13,284	74	9,830
Ennore	2,462	100	2,462
Kandla	8,394	100	8,394
Container terminal 3	52,880	50	26,440
Container terminal 4	17,880	50	8,940
Adani Logistics	22,500	100	22,500
Kattupalli	39,246	97	38,069
Total			**1,003,202**
Shares OS			**2,071**
Value per share			**484**

Source: Kotak Securities – Private Client Research

Key risk our call – Weak SEZ revenues, weak global trade, negative impact of global trade war on India

Company background

Adani Ports and Special Economic Zone Limited is India's largest ports developer and Operator Company. In less than two decades, it has built, acquired and developed an unparalleled portfolio of ports infrastructure and services across India. Currently it has ten strategically located ports and terminals, which represent 24% of the country's port capacity, handling cargo of vast hinterland. On a broader level, the company is a seamless integration of 3 verticals consisting of Ports, Logistics and Special Economic Zone.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**84,394**	**113,229**	**125,684**	**139,509**
% change YoY	16.3	34.2	11.0	11.0
Operating cost	23,133	31,749	34,698	37,907
Employee cost	3,348	4,595	5,022	5,487
Other expenses	3,957	5,431	5,935	6,484
Total Operating expd	30,438	41,775	45,656	49,878
EBITDA	**53,956**	**71,454**	**80,028**	**89,632**
Depreciation	11,536	12,064	12,536	12,795
EBIT	**42,420**	**59,390**	**67,493**	**76,837**
Other income	10,401	10,190	9,500	9,500
Interest expense	12,830	12,574	12,154	11,629
Profit before tax	39,991	57,006	64,838	74,708
Tax	2,579	13,900	16,436	19,367
ETR (%)	6.4	24.4	25.3	25.9
Profit after tax	37,412	43,106	48,403	55,341
Minorities& Associates	(1,299)	(1,400)	(1,400)	(1,400)
Net income	**36,113**	**41,706**	**47,003**	**53,941**
% change YoY	30.0	15.5	12.7	14.8
Shares outstanding (m)	2,057	2,057	2,057	2,057
EPS	**17.6**	**20.3**	**22.9**	**26.2**

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	21,312	24,700	48,481	76,435
Debtors	63,296	84,922	94,263	104,632
Loans and advances	13,925	19,249	21,366	23,717
Other current assets	7,595	11,323	12,568	13,951
Total current assets	84,816	115,494	128,198	142,300
LT investments	26,114	30,000	30,000	30,000
Net fixed assets	269,043	281,979	291,444	298,649
Total assets	**401,285**	**452,173**	**498,123**	**547,384**
Creditors	30,438	41,775	45,656	49,878
Other current liabilities	2,739	4,178	5,022	5,487
Total current liabilities	33,177	45,953	50,678	55,364
LT debt	197,486	202,738	204,464	204,018
Equity	4,114	4,114	4,114	4,114
Reserves	166,507	199,368	238,866	283,887
Networth	170,621	203,482	242,980	288,001
Total liabilities	**401,285**	**452,173**	**498,123**	**547,384**
BVPS (Rs)	82.9	98.9	118.1	140.0

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	36,113	41,706	47,003	53,941
Depreciation +DTL	11,679	12,836	13,449	13,871
Changes in working capital	(6,328)	(17,903)	(7,979)	(9,416)
CF from operations	**41,464**	**36,639**	**52,473**	**58,397**
Capex	(30,000)	(25,000)	(22,000)	(20,000)
Investments	(20,662)	(3,886)	-	-
CF from investments	**(50,662)**	**(28,886)**	**(22,000)**	**(20,000)**
Equity issuance	-	-	-	-
Debt raised	11,390	5,251	1,726	(446)
Dividend Paid	(3,155)	(4,855)	(6,068)	(8,495)
Miscellanous items	2,224	(4,763)	(2,350)	(1,500)
CF from financing	**10,459**	**(4,366)**	**(6,692)**	**(10,442)**
Net cash flow	1,260	3,387	23,781	27,955
Opening cash	20,052	21,312	24,700	48,481
Closing cash	**21,312**	**24,700**	**48,481**	**76,435**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	63.9	63.1	63.7	64.2
EBIT margin (%)	50.3	52.5	53.7	55.1
Net profit margin (%)	42.8	36.8	37.4	38.7
ROE (%)	23.6	22.3	21.1	20.3
ROCE (%)	15.3	18.0	18.0	18.4
DPS	1.3	2.0	2.5	3.5
Dividend payout (%)	8.7	11.6	12.9	15.7
Working capital turnover (days)	210	195	214	215
Debt Equity (x)	1.2	1.0	0.8	0.7
PER (x)	22.7	19.6	17.4	15.2
P/C (x)	17.1	15.0	13.5	12.1
Dividend yield (%)	0.3	0.5	0.6	0.9
P/B (x)	4.8	4.0	3.4	2.8
EV/Sales (x)	11.5	8.6	7.7	6.9
EV/ EBITDA (x)	15.1	11.9	10.8	9.8

Source: Company, Kotak Securities – Private Client Research

IPO Note

CREDITACCESS GRAMEEN LTD

NOT RATED

Company Background

CreditAccess Grameen Ltd was incorporated as Sanni Collection Private Limited (SCPL) on June 12, 1991 at Calcutta, West Bengal. The entire shareholding of SCPL was acquired by certain trustees of T. Muniswamappa Trust (TMT), a public charitable trust engaged in the business of providing micro loans in Karnataka. CreditAccess Grameen Ltd (CGL) is a leading Indian micro-finance institution headquartered in Bangalore, focused on providing micro-loans to women customers predominantly in rural areas in India. Its wide range of lending products addresses the critical needs of the customers throughout their life cycle and includes income generation, family welfare, home improvement and emergency loans. The company's products are built on a deep understanding of the requirements of its customers (especially customers from rural areas) and the flexibility of products (in terms of ticket sizes, end-uses and repayment options) and the manner of their delivery differentiates from competitors and generates customer loyalty.

The company provides loans primarily under the joint liability group (JLG) model. The primary focus is to provide income generation loans to customers, which comprised 87.01% of its total JLG loan portfolio, as of March 31, 2018. In 2016, with a view to diversifying our product profile, company introduced individual retail finance loans for customers who had been for at least three years and fulfil certain other eligibility criteria linked primarily to their credit history. The company follows a strategy of contiguous district based expansion across regions and cover 112 districts in the five states of Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh and Madhya Pradesh. Operations are well-diversified at the district level, with no single district contributing more than 5% to gross AUM. Customer base increased from 0.50 million active customers as of March 31, 2014 to 1.85 million active customers as of March 31, 2018. The company is promoted by CreditAccess Asia N.V., a multinational company specializing in MSE financing, which is backed by institutional investors and has micro-lending experience through its subsidiaries in four countries in Asia.

Details of Offer

Particulars	Details
Price Band (Rs/Share)	418-422
Date of Issue	8th - 10th August 2018
No of shares pre- Issue (Nos. mn)	128.43
No of shares post- Issue (Nos. mn)	143.36
Fresh issue (Rs mn) (@Rs.422)	14.93
Offer for Sale (Rs mn)	11.87
Post Issue Market Cap (Rs bn)	59.92 – 60.5
Bid Size/Lot	35 shares
Allocation	
QIBs	50%
Non- Institutional	15%
Retail	35%
Lead Managers	ICICI Securities, Credit Suisse Securities Pvt Ltd, IIFL Holding Ltd, Kotak Mahindra Capital

Source: Company RHP

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Management

Name	Age	Designation
Udaya Kumar Hebbar	57	Managing Director & CEO
Anal Kumar Jain	72	Independent Director
R.Prabha	69	Independent Director
George Joseph	68	Independent Director
M.N. Gopinath	69	Chairman & Independent Director
Sucharita Mukherjee	38	Independent Director
Paolo Brichetti	53	Nominee Director
Massimo Vita	53	Nominee Director
Sumit Kumar	42	Nominee Director

Source: Company RHP

Shareholding Pattern

Particulars	Pre Issue	Post Issue
Promoter Holding %	98.88	80.30
Public Holding %	1.12	19.70
Total	**100.00**	**100.00**

Source: Company RHP

Object of the Offer

The Offer comprises of the Fresh Issue and the Offer for Sale.

Offer for Sale

Company will not receive any proceeds from the Offer for Sale.

Fresh Issue

The Net Proceeds of the Fresh Issue are proposed to be utilised for augmenting capital base to meet future capital requirements which are expected to arise out of growth in company's assets, primarily company's loans and advances and other investments. The fund requirements for the objects are based on internal management estimates and have not been appraised by any bank or financial institution. The Net Proceeds of the Fresh Issue are proposed to be deployed in the Financial Year 2018-19.

Strengths

Customer-centric business model resulting in high customer retention

As of March 31, 2018, company served over 1.85 million active customers out of a total customer base of 2.1 million. Active Customer Retention Rate for the year ended March 31, 2018 was 84%. The company follows a multipronged approach to customer engagement, which comprises the following key elements:

- Financial products cater to the entire customer life cycle- it provides loans that are relevant for critical needs of the customers throughout their lifespan. The company believes this is a core quality of its customer-centric business model and helps in generating loyalty amongst its existing customers and in attracting new customers.
- Products are built on a deep understanding of the requirements of customers and the flexibility of products and the manner of their delivery differentiates from competitors and allows to maintain a high level of customer retention. Borrowing limits for each of the customers based on their loan cycles and the number of years for which they have been a customer and provide them the flexibility to borrow within the limit for a number of specified purposes, depending on their individual needs. The flexibility of products in terms of ticket sizes, access to different disbursement and repayment options, closely resembles the nature of lending provided by the unorganized sector in rural areas such as moneylenders, but typically at a much lower interest rate, with clearly specified terms and conditions and organized collection practices.

Deep penetration in rural areas characterized by low competition and built through contiguous district-based expansion

Deep penetration in rural areas, built through a contiguous district-based expansion strategy provides it with significant scale and diversification advantages. The company carries out a contiguous expansion strategy methodically whereby it aims to expand to the next (typically adjoining) district and ensure deep penetration in a particular district within three years of commencement of operations in the district. As of March 31, 2018, company covers 132 districts in the eight states of Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Kerala, Odisha, Goa, and one union territory of Puducherry in India through 516 branches and 4,544 loan officers.

Robust customer selection and risk management policies resulting in healthy asset quality

The company follows a robust customer selection and risk management policies, which have resulted in healthy asset quality and lower credit costs. The company follows a systematic methodology in the selection of new geographies where it open branches, which takes into account factors such as the historic PAR% of the proposed district, competition in the new geographies, potential for micro-lending and socio-economic risk evaluation.

Strong track record of financial performance and operating efficiency

The company has maintained a strong track record of financial performance and operating efficiency over the years through high rates of customer retention, geographical expansion, improved staff productivity, enhancement of individual loan portfolio, lower credit cost and growth in customer base led by branch expansion. Further, deep penetration in India's rural markets through its contiguous district-based expansion strategy has helped it to achieve one of the lowest operating expense ratios, contributing to economies of scale. Operating Expense to Annual Average Gross AUM ratio, has declined from 6.76% for the year ended March 31, 2014 to 5.69% for the year ended March 31, 2017, and further to 4.96% for the year ended March 31, 2018. Gross AUM was ₹49,746.61 million as of March 31, 2018 and it grew at a CAGR of 57.45% from ₹8,095.22 million as of March 31, 2014. Net interest income for the financial years ended March 31, 2016, 2017 and 2018 was ₹2,487.04 million, ₹3,852.04 million and ₹5,109.85 million, respectively.

Strategy

Continued focus on the customers from rural areas

MFIs are increasingly becoming urban focused and have increased their urban footprint. However, company maintained its focus on growing its rural customer base and intend to continue to do so going forward. According to CRISIL Research, a large segment of India's rural and semi-urban population is currently unserved and underserved by formal financial institutions, which provides with the scope to expand in rural markets characterized by low competition. The company will be able to strengthen its position by tapping into this underserved market and is best placed to capitalize on this strategy of having a deep penetration in the Indian rural markets.

Expansion of branch network

As of March 31, 2018, company operates in 132 districts located in the eight states of Karnataka, Maharashtra, Tamil Nadu, Chhattisgarh, Madhya Pradesh, Odisha, Kerala, Goa, and one union territory of Puducherry through 516 branches and 4,544 loan officers. The company assess the below systematic criteria for the opening of branches in new districts/ regions:

- Endeavor to service a maximum of 12,000 households within a 35 km radius of the proposed branch location;
- Availability of infrastructure for the day-to-day operations of the branch;
- Historic PAR% of the proposed district;
- Growth potential based on current penetrations;
- Competition from other MFIs in the area; and
- Product offerings of other MFIs operating in the area.

Leverage existing capabilities and strengths to diversify product and service offerings

Company is an NBFC-MFI and it intends to continue focusing on operations in this space with its current business model which comprises extending loans to customers primarily in Rural Areas. It intends to capitalize on its current strengths including geographical reach, customer base, robust risk management policies, strong financial track record and extensive domain expertise to diversify product and service offerings. The diversification strategy is driven by the evolving needs of customers and this is in line with the strength of customer-centric business model and expansion strategy, as it allows to ensure customers have access to various differentiated products and services which they need quickly and efficiently.

Financials

Summary of Profit and Loss

(Rs mn)	FY18	FY17	FY16	FY15
1. Income				
Revenue from Operations	8,656	7,017	4,570	2,682
Other Income	97	75	98	133
Total	**8,752**	**7,093**	**4,667**	**2,814**
2. Expenditure				
Employee benefit expenses	1,272	1,047	707	436
Finance Cost	3,546	3,165	2,082	1,291
Other Expenses	673	507	416	251
Depreciation and amortisation exp	52	44	26	19
Provsion and write offs	1,281	1,086	140	68
Total	**6,823**	**5,850**	**3,372**	**2,065**
3. Profit Before Tax(1-2)	**1,929**	**1,243**	**1,295**	**749**
Tax Expenses				
- Current Tax	553	813	514	286
- Deferred tax	129	(375)	(51)	(27)
- Short provsion of tax	0	1	0	3
Total	**682**	**440**	**463**	**262**
Profit after Tax	1,246	803	832	487
Earning per Share				
Basic (Rs.)	12	10	11	9
Diluted (Rs.)	12	10	11	9

Source: Company RHP

Summary of Assets and Liabilties

(Rs mn)	FY18	FY17	FY16	FY15
Capital and Liabilities				
Capital	1,284	857	730	730
Reserves and Surplus	12,995	6,051	3,869	3,034
	14,279	6,908	4,599	3,764
Non Current Liabilities				
Long term Borrowings	14,800	11,759	11,221	5,850
Long term Provsions	1,006	307	108	30
	15,806	12,066	11,329	5,880
Current Liabilities				
Short term Borrwing	0	0	200	0
Other Current Liabilities	22,044	15,494	11,745	7,504
Short Term Provisions	54	1,173	207	120
	22,098	16,667	12,152	7,624
TOTAL	**52,183**	**35,641**	**28,080**	**17,268**
ASSETS				
Non Current Assets				
- Property plant and Equipments	95	60	53	26
- Intangible assets	67	63	60	12
- Capital WIP	0	7	0	0
- Intangible assets under development	11	23	0	25
Non Current Investments	2	2	2	2
Deferred tax Assets	356	485	110	59
Loansd and Advances	15,900	6,376	7,712	2,703
Other Non Current assets	56	120	392	737
	16,486	7,136	8,330	3,564
Current Assets				
Cash and Bank Balance	1,382	3,637	2,549	2,798
Loans and advances	34,097	24,515	17,042	10,827
Other Current Assets	219	354	159	79
	35,698	28,505	19,749	13,704
TOTAL	**52,183**	**35,641**	**28,080**	**17,268**

Source: Company RHP

Cashflow Statement

(Rs mn)	FY18	FY17	FY16	FY15
Cash and Cash Equivalents at beginning of the perd	3,321	1,827	1,834	2,852
Cash flow from Operating Activities	(17,392)	(4,248)	(9,311)	(6,984)
Cash flow from Investing Activites	535	(49)	(39)	(9)
Cash flow from Financing Activites	14,835	5,791	9,344	5,974
Net (Dec)/Inc in Cash and cash Equivalents	(2,021)	1,494	(7)	(1,019)
Cash and Cash Equivalents at end of the Period	1,300	3,321	1,827	1,834

Source: Company RHP

Ratio

	FY18	FY17	FY16	FY15
Basic EPS (Rs/share)	12.26	10.01	11.41	9.15
BV (Rs/share)	111.18	80.62	63.04	51.59
PE (at upper price band)	34.42	42.16	36.99	46.12
Price/BV (at upper price band)	3.80	5.23	6.69	8.18
ROE (%)	11.8	14.0	19.9	-
ROA (%)	2.8	2.5	3.7	-

Source: Company RHP

Forthcoming Events

Forthcoming events

Date	Event
7-Aug	Adani Ent, Balkrishna Ind, M&M, Motherson Sumi, Mphasis, Sobha, SRF, Trident, TVS Motor, Wonderla Holidays earnings expected
8-Aug	Bluestar, BPCL, Cipla, Gabriel, Greenply Ind, Lupin, NMDC, Phoenix Ltd, Supreme Ind, Thermax earnings expected
9-Aug	Aegis Logistics, AIA Engineering, Cummins India, Eicher Motor, Engineers India, Insecticides Jindal Steel, MRF, MT Educare, Wabag earnings expected

Source: www.bseindia.com

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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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