Morning Insight

AUGUST 10, 2018

	9-Aug	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	38,024	0.4	5.8	7.7
NIFTY Index	11,471	0.2	5.7	6.8
NSEBANK Index	28,320	0.9	5.9	8.3
NIFTY 500 Index	9,769	0.2	5.3	3.7
CNXMcap Index	19,237	0.5	3.9	(2.5)
BSESMCAP Index	16,917	0.3	3.7	(6.5)
World Indices				
Dow Jones	25,509	(0.3)	2.4	3.1
Nasdaq	7,892	0.0	1.7	6.6
FTSE	7,742	(0.4)	0.6	0.5
NIKKEI	22,598	(0.2)	1.3	(0.0)
Hangseng	22,598	(0.2)	1.3	(0.0)
Shanghai	28,607	0.9	(0.3)	(7.2)

Value traded (Rs cr)	9-Aug	% Chg Day
Cash BSE	3,062	6.3
Cash NSE	34,903	9.6
Derivatives	1,670,334	68.1

Net inflows (Rs cr)	8-Aug	MTD	YTD
FII	917	1,055	(2,355)
Mutual Fund	15	155	72,753

Nifty Gainers & Losers 9-Aug	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
ICICI Bank	333	4.5	76.4
Axis Bank	621	4.2	18.2
Hindalco Ind	227	3.1	15.4
Losers			
Bharti Airtel	367	(4.7)	11.0
Cipla	619	(2.1)	10.0
Titan Co	915	(2.1)	2.5

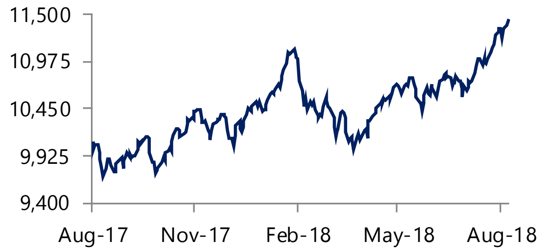
Advances / Declines (BSE)

9-Aug	A	B	T	Total	% total
Advances	216	521	53	790	100
Declines	167	578	68	813	103
Unchanged	4	25	11	40	5

Commodity	9-Aug	% Chg 1 Day	1 Mth	3 Mths
Crude (US$/BBL)	72.1	0.0	(8.6)	(6.9)
Gold (US$/OZ)	1,212	(0.1)	(3.5)	(8.3)
Silver (US$/OZ)	15.4	0.1	(3.9)	(7.8)

Debt / forex market	9-Aug	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.7	7.8	7.9	7.7
Re/US$	68.7	68.6	68.7	67.3

Nifty



Source: Bloomberg

News Highlights

- The Sebi panel, headed by T.K. Viswanathan, suggested a series of changes in rules on market frauds and insider trading while recommending mandatory whistleblower policies at listed firms. (Mint)
- Keen to seize the opportunity to export pharmaceuticals to China, the Commerce Ministry is following up with Beijing the steps being taken to ease imports of pharmaceuticals from India. (BL)
- The government has rolled out the second auction for discovered small fields (DSF-II), which is likely to bring in investment to the tune of Rs 1 trillion in the sector and contribute about Rs 450 billion revenue to the government. (ET)
- The **State Bank of India** will start the process of selling up to 4 per cent of its stake in joint venture SBI General Insurance Co, which is planning an initial public offering. (BL)
- Facing financial headwinds, in a rare development, **Jet Airways** on Thursday deferred announcing the June quarter numbers to an unspecified late date. (Mint)
- **Maruti Suzuki** is building a website where car buyers can compare prices, in a direct challenge to platforms such as CarWale and CarDekho, which provide similar services. (Mint)
- GoAir is set to launch its international operations in October, making it the fifth Indian carrier to fly overseas creating competition for Air-India, IndiGo, **Jet Airways** and **Spicejet.** (ET)
- **Tata Motors** plans to bring around 10-12 new products in passenger vehicles segment in the next five years to be developed on two new platforms- Alpha and Omega, will help the company to have presence in over 90 percent of the Indian passenger vehicles market. (ET)
- The Serious Fraud Investigation Office (SFIO) has arrested Neeraj Singal, MD of **Bhushan Steel,** for indulging in corporate fraud. (BL)
- Based on growing demand, **Deepak Fertilizer** plans the company plans to invest Rs 23.5 bn to enhance additional IPA (Isopropyl alcohol) and TNA (Threose nucleic acid) capacity. (BL)
- Essar Oil has signed a gas sale and purchase agreement with **GAIL (India) Ltd,** whereby Essar will be able to monetise its entire Coal Bed Methane (CBM) production of 2.3 mmscmd from the Raniganj East block at a globally competitive price. (ET)
- **Reliance Industries** has announced formation of a partnership with textile major Arvind Limited to manufacture co-branded R|Elan high performance fabrics. (BL)
- **MEP Infrastructure Developers** would be divesting its entire stake in six road projects to Singapore-based Indian Highways Developers for over Rs 4.5 bn. (BL)
- SEBI directed **Vakrangee's** promoter to make open offer within 45 days for violations of takeover norms. (Mint)

What's Inside

- **Result Update:** Mirza International Ltd, Insecticides India Ltd, PNC Infratech Ltd, NALCO, NMDC, The Phoenix Mills Ltd, Blue Star Ltd, Gabriel India & Bajaj Electricals.
- **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

kotak Securities

Result Update

MIRZA INTERNATIONAL LTD (MIL)

PRICE RS.100 TARGET RS.120 BUY

MIL Q1FY19 results were below our estimates due to below expected performance in make to order exports and lower margins.

Key Highlights

- MIL reported revenue of Rs 2.6bn, a growth of 3.9% yoy led by 40% yoy growth in branded shoes revenue and 17.6% yoy decline in revenue from make to order exports. Red Tape brand exports recovered strongly on a low base of last year. On domestic side, domestic brand sales grew by 27% yoy which was on the lower side as the company has guided for 50% yoy growth in domestic brand sale in FY19E.
- EBITDA margin declined by 100 bps yoy to 16.5% and was below our estimates on account of lower margins in the branded shoes business on yoy. In the quarter, the company witnessed increase in working capital which took its debt to Rs 3.1 bn (Vs Rs 2.7 bn at the end of Q4FY18).
- MIL management has maintained guidance for 50% growth in revenue from domestic brand business based on strong response expected for Red Tape sports, Bond Street and other new brands. The company expects improvement in exports business (0-5% growth Vs 10% growth guided earlier), as it sees some sign of improvement in the segment.

Valuation & outlook

- We have cut our EPS estimates for FY19E & FY20E by 15.5% and 16% respectively factoring in lower growth in domestic brand business and decline in exports business in Q1FY19.
- The stock is trading at PE of 15.5x and 12.3x based on FY19E and FY20E revised EPS of Rs 6.3 and Rs 8.0, respectively. We maintain our Buy rating on the stock with revised target price of Rs120 (Vs Rs143 earlier).

Quarterly performance table (standalone)

Year to March (Rs mn	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Net Revenues	**2,618**	**2,521**	**3.9**	**2,257**	**16.0**
Raw Materials Cost	1,410	1,309	7.7	996	41.6
Gross Profit	**1,209**	**1,212**	**(0.2)**	**1,261**	**(4.1)**
Employee Expenses	227	209	8.6	237	(4.5)
Other Expenses	550	562	(2.0)	610	(9.7)
Operating Expenses	2,187	2,080	5.1	1,843	18.7
EBITDA	**432**	**441**	**(2.1)**	**414**	**4.4**
EBITDA margin (%)	16.5	17.5		18.3	
Depreciation	79	72	9.8	89	(11.4)
Other income	1	1	8.4	3.2	
Net finance expense	73	59	24.2	71	3.4
Profit before tax	280	311	(9.9)	257	9.0
Provision for taxes	100	107	(6.9)	80	25.0
Reported net profit	**181**	**204**	**(11.4)**	**177**	**1.8**
As % of net revenues					
COGS	53.8	51.9		44.1	
Employee cost	8.7	8.3		10.5	
Other Expenses	21.0	22.3		27.0	
Operating expenses	83.5	82.5		81.7	
Reported net profit	6.9	8.1		7.9	
Tax rate (% of PBT)	35.5	34.4		31.0	

Source: Company

Stock Details

Market cap (Rs mn)	:	12055
52-wk Hi/Lo (Rs)	:	184 / 92
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	372,216
Shares o/s (mn)	:	120

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	9721	10830	12799
Growth (%)	3.9	11.4	18.2
EBITDA	1740	1845	2209
EBITDA margin (%)	17.9	17.0	17.3
PAT	784	762	960
EPS	6.5	6.3	8.0
EPS Growth (%)	10	(3)	26
Book value (Rs/share)	48	53	60
Dividend per share (Rs)	0.9	0.9	1.1
ROE (%)	14.6	12.6	14.2
ROCE (%)	18.6	16.3	17.9
P/E (x)	15.0	15.5	12.3
EV/EBITDA (x)	8.3	8.2	6.9
P/BV (x)	2.1	1.9	1.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	70.4	70.4	73.5
FII	3.0	3.6	4.5
DII	2.9	2.9	2.8
Others	23.6	23.0	19.2

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Mirza International	2.9	(24.1)	(27.4)
Nifty	5.7	6.8	9.7

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Pankaj Kumar
pankajr.kumar@kotak.com
+91 22 6218 6434

Q1FY19 revenue inline; make to order exports disappointed

Net revenue for Q1FY19 grew by 3.9% yoy to Rs2.6 bn which was inline with our estimates. The revenue was led by 40% yoy growth in branded shoes business and 17.6% yoy decline in revenue from make to order exports. Red Tape brand exports recovered strongly on a low base of last year by reporting Rs 120 mn sales (vs Rs 20 mn in Q1FY18). After including Red Tape exports, the exports business declined at lower rate of 8% yoy. As per the management, export business should revive in FY19E and aims for 0-5% yoy growth (Vs 10% growth guided earlier).

Domestic branded business grew at below expected pace

On domestic side, domestic brand sales grew by 27% yoy which is on lower side as the company has guided for 50% growth in domestic brand sales in FY19E. The domestic brand sales was driven by 21% yoy growth in footwear (at Rs 870 mn) and 50% growth in apparel business (at Rs 300 mn). Bond Street and Red Tape sports contributed 30% of the domestic footwear sales in the quarter. This implies a weak sales in Red Tape footwear in the quarter. In terms of channel, wholesale channel witnessed weakness while E-commerce continued to remain strong. The company is positive on domestic branded footwear business as it expects pick-up in sales in the coming quarters. It has launched ladies footwear under brand name 'Mode' and expects strong response for the same. Further, pickup in online stores and new EBOs would also support growth of domestic brands business.

Maintained 50% yoy growth guidance in domestic brand business

The company has maintained 50% yoy growth guidance in domestic branded shoes and apparel business in FY19E. This would be driven by strengthening of sales and distribution of its brands. The company has 23 online stores which are 3-4x larger (~3000-3500 sqft size) than its EBOs (800-1000 sqft size) and sells products at discounted price like online retailers. The company plans to open more online stores in current year. In addition, the company has 174 EBOs spread across geographies which are selling Red Tape branded leather and sports footwear, apparels and accessories. The company has also launched ladies sports footwear under Red Tape brand. It has also launched ladies sandals under brand name 'Mode' which are sourced from third party. This will expand its product basket and strengthen growth in domestic markets.

EBITDA Margins at 16.5% was below our estimates

EBITDA for the quarter declined by 2.1% yoy to Rs 432 mn (Vs estimates of Rs 462 mn). EBITDA margin for the quarter was at 16.5% (Vs estimates of 18%) due to lower margins in the branded shoes business on yoy. The EBIT margins in branded shoes business in Q1FY19 was at 19.8% (Vs 25.1% in Q1FY18) and in make to order exports business, it was at 16.7% (Vs 15.3% in Q1FY18).

The margin was lower in the quarter due to higher overheads on account of new online stores opened by the company. These stores are yet to contribute significantly and are process of ramping up. Apart from that, the raw material import (sports shoes, garments, etc) was also expensive due to currency depreciation. In addition, there was high base of last year as it sold large part of shoes from Haryana with lower VAT of 5% as against higher current GST rates of 18%. The company is targeting to maintain EBITDA margins in the range of 17-18%.

PAT for the quarter declined by 11.4% to Rs 181 (vs our estimates of Rs 193 mn) on lower margins and higher finance expenses. The finance expenses for the quarter grew by 24% yoy to Rs 79 mn as the debt at the end of the quarter grew to Rs 3.1 bn (Vs Rs 2.7 bn in Q4FY18) due to increased working capital. Further, it has utilized Rs 1.25 bn limit for receivable discounting on exports side. The company expects debt to increase to Rs 3.3 bn at the end of FY19E as it requires to meet working capital in domestic brand business.

Other highlights

- In terms of distribution, retail contributed 33%, online 40% and wholesale contributed 27% to domestic brand revenue.
- The company is targeting capex of Rs 400-450 mn in FY19E
- The company expects online stores to contribute Rs 1-1.2 bn revenue in FY19E

Outlook and valuation

We believe that the company is aggressively focusing on growing revenue in the domestic market by launching multiple products and brands through retail and online channel expansion. Its aggressive investment in these has resulted in higher working capital, negative cash flows and increased debt position and are point of concern. We believe that the success of these brands and products would be the key and may take few years before resulting in improvement in cashflows and reduction in debt. At the same time, its exports business is also facing challenges and is impacting the overall growth.

We believe that the pickup in new brands Bond Street and Red Tape sports shoes and success of ladies sports shoes would play key role in achieving FY19E revenue guidance. We have cut our EPS estimates for FY19E & FY20E by 15.5% and 16% respectively factoring in lower growth in domestic brand business and decline in exports business. The stock is trading at PE of 15.5x and 12.3x based on FY19E and FY20E revised EPS of Rs 6.3 and Rs 8.0, respectively. We maintain our Buy rating on the stock (as we see upside in the stock post correction) with revised target price of Rs120 (Vs Rs143 earlier). We have assigned PE of 15x (unchanged) on FY20E EPS to arrive at our target price.

Revision in estimates

Particulars	Previous		Revised		% Chg	
(Rs mn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	11319	13474	10830	12799	-4.3	-5.0
EBITDA margin (%)	18	18.4	17.0	17.3	-96 bps	-114 bps
PAT	897	1145	762	960	-15.0	-16.2
EPS Rs	7.5	9.5	6.3	8.0	-15.5	-16.0

Source: Kotak Securities Private Client Research

Company background

Mirza International Ltd (MIL), incorporated in 1979, is engaged in manufacturing and marketing of leather footwear and accessories in the domestic and the international market. 56% of the company's business comes from international markets where it mostly meets the outsourcing requirements of global retailers and footwear companies. On the other hand, domestic market contributes 44% of its total revenue where it sells leather shoes, sports shoes, sandals, fashion garment and accessories under its brand 'Red Tape', 'Bond Street'. The company is focused on mid to high-end fashion footwear segment and sells its products through exclusive brand outlets, online stores, large format stores, multi brand outlets and online channels. The company has a fully integrated in-house shoe production facility backed by its own tannery with its own pollution treatment plant, and a dedicated design studio.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**9,357**	**9,721**	**10,830**	**12,799**
% change yoy	1.1	3.9	11.4	18.2
EBITDA	**1,605**	**1,740**	**1,845**	**2,209**
% change yoy	(5.9)	8.4	6.1	19.7
Depreciation	291	316	338	363
EBIT	**1,314**	**1,424**	**1,507**	**1,846**
Other Income	9	4	4	4
Interest	259	250	366	408
Profit Before Tax	**1,064**	**1,178**	**1,145**	**1,442**
% change yoy	(8.1)	10.8	(2.8)	25.9
Tax	352	394	383	482
as % of EBT	33.1	33.5	33.5	33.5
PAT	**712**	**784**	**762**	**960**
% change yoy	(8.8)	10.1	(2.8)	25.9
Shares outstanding (mn)	120	120	120	120
EPS (Rs)	**5.9**	**6.5**	**6.3**	**8.0**
DPS (Rs)	0.9	0.9	0.9	1.1
CEPS (Rs)	8.3	9.1	9.1	11.0
BVPS (Rs)	41.7	47.5	52.8	59.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	241	241	241	241
Reserves	4,780	5,477	6,116	6,921
Net worth	5,020	5,718	6,357	7,162
Borrowings	1,489	2,700	3,400	3,400
Net Deferred tax	167	177	177	177
Total Liabilities	**6,677**	**8,595**	**9,934**	**10,739**
Net block	3,490	3,570	3,682	3,819
Capital work in progress	19	246	246	246
Total fixed assets	3,509	3,817	3,929	4,066
Investments	38	6	6	6
Inventories	2,642	3,827	4,599	5,260
Sundry debtors	674	1,325	1,632	1,753
Cash and equivalents	65	128	91	60
Loans and advances & Others	806	888	1,155	1,328
Total current assets	4,187	6,168	7,476	8,400
Sundry creditors and others	794	1,267	1,335	1,578
Provisions	263	128	141	155
Total CL & provisions	1,057	1,395	1,476	1,733
Net current assets	3,130	4,773	6,000	6,667
Total Assets	**6,677**	**8,595**	**9,934**	**10,739**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	1,064	1,178	1,145	1,442
Depreciation	291	316	338	363
Change in WC	106	(1,579)	(1,265)	(698)
Other operating activities	(418)	(384)	(383)	(482)
Operating Cash Flow	**1,042**	**(469)**	**(164)**	**624**
Capex	(351)	(624)	(450)	(500)
Free Cash Flow	691	(1,093)	(614)	124
Change in Investments	(32)	32	-	-
Investment cash flow	**(383)**	**(592)**	**(450)**	**(500)**
Equity Raised	-	-	-	-
Debt Raised	(561)	1,211	700	-
Dividend	(127)	(127)	(123)	(155)
Other financing activity	(21)	40	-	-
CF from Financing	**(709)**	**1,124**	**577**	**(155)**
Change in Cash	(50)	64	(38)	(31)
Opening Cash	115	65	128	91
Closing Cash	65	128	91	60

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	17.2	17.9	17.0	17.3
EBIT margin (%)	14.0	14.6	13.9	14.4
Net profit margin (%)	7.6	8.1	7.0	7.5
Adjusted EPS growth (%)	(8.8)	10.1	(2.8)	25.9
Balance Sheet Ratios				
Receivables (days)	26	50	55	50
Inventory (days)	103	144	155	150
Loans & Advances	31	33	39	38
Payable (days)	31	48	45	45
Cash Conversion Cycle (days)	130	179	204	193
Asset Turnover (x)	1.4	1.1	1.1	1.2
Net Debt/ Equity (x)	0.3	0.4	0.5	0.5
Return Ratios				
RoCE (%)	19.7	18.6	16.3	17.9
RoE (%)	15.0	14.6	12.6	14.2
Valuation Ratios				
P/E (x)	16.6	15.0	15.5	12.3
P/BV (x)	2.3	2.1	1.9	1.6
EV/EBITDA (x)	8.2	8.3	8.2	6.9
EV/Sales (x)	1.4	1.5	1.4	1.2

Source: Company, Kotak Securities – Private Client Research

Result Update

INSECTICIDES INDIA LTD (IIL)

PRICE RS.724 **TARGET RS.892** **BUY**

IIL Q1FY19 results was better than our estimates in terms of earnings growth with EBITDA margin was ahead of estimates.

Key Highlights

- IIL reported below expected revenue of Rs 3.2 bn (Vs estimate of 3.4 bn) with 2.3% yoy growth as the company adopted conservative approach, focused on high margin branded segment and due to high base of last year.
- EBITDA margin remain strong at 17.4% and was ahead of our estimates with growth of 120 bps yoy led by better product mix and reducing exposure to low margin old generic products. The company management has maintained guidance to improve margins by 100-150 bps every year based on increased contribution from Navratna products, rampup of sales in new launches and reducing exposure to low margin products.
- IIL has maintained guidance of 10% growth in revenue on conservative basis in FY19E. The company has launched 4 new products and has pipeline for 3 more products in FY19E, with most of them are 9(3) registrations.

Valuation & outlook

- We believe that IIL is well placed to grow in agro chemical sector based on strong business model, robust pipeline of new products and normal monsoon forecast to support demand. We have maintained our EPS estimates for FY19E & FY20E.
- The stock is presently trading at 15.8/13.0 on FY19E/20E EPS of Rs 49.1/55.7 respectively. We maintain our Buy rating on the stock with unchanged target price of Rs892, valuing the stock at 16x FY20E earnings.

Quarterly performance table (standalone)

Year to March (Rs mn)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Operating Revenues	**3,189**	**3,119**	**2.3**	**1,689**	**88.8**
Raw Materials Cost	2,203	2,204	(0.0)	1,166	89.0
Gross Profit	**986**	**915**	**7.8**	**524**	**88.3**
Employee Expenses	149	110	35.7	116	28.1
Other Expenses	282	300	(6.0)	221	27.5
Operating Expenses	2,633	2,613	0.8	1,503	75.2
EBITDA	**556**	**505**	**10.0**	**187**	**197.8**
EBITDA margin (%)	17.4	16.2	1.2	11.0	5.2
Depreciation	48	43	12.3	47	1.7
Other income	2	6	(70.2)	4	(49.4)
Net finance expense	29	47	(38.4)	28	3.5
Profit before tax	**480**	**422**	**14.0**	**115**	**318.3**
Provision for taxes	141	117	20.6	38	269.5
Reported net profit	**340**	**305**	**11.4**	**77**	**342.4**
As % of net revenues					
COGS	69.1	70.7		69.0	
Employee cost	4.7	3.5		6.9	
Other Expenses	8.8	9.6		13.1	
Operating expenses	82.6	83.8		89.0	
Reported net profit	10.7	9.8		4.5	
Tax rate (% of PBT)	29.3	27.6		33.1	

Source: Company

Stock Details

Market cap (Rs mn)	:	15775
52-wk Hi/Lo (Rs)	:	966 / 642
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	14,241
Shares o/s (mn)	:	21

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	10733	12042	13460
Growth (%)	8.0	12.2	11.8
EBITDA	1478	1678	1911
EBITDA margin (%)	13.8	13.9	14.2
PAT	840	1015	1152
EPS	40.6	49.1	55.7
EPS Growth (%)	41.4	20.9	13.4
Book value (Rs/share)	265	310	361
Dividend per share (Rs)	3	3	4
ROE (%)	16.6	17.1	16.6
ROCE (%)	20.2	22.3	22.4
P/E (x)	19.1	15.8	13.9
EV/EBITDA (x)	11.5	10.0	8.7
P/BV (x)	2.9	2.5	2.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	68.8	68.8	68.8
FII	2.8	4.2	5.2
DII	11.9	11.2	11.3
Others	16.5	15.8	14.8

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Insecticides (India)	12.8	2.1	(5.9)
Nifty	5.7	6.8	9.7

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Pankaj Kumar
pankajr.kumar@kotak.com
+91 22 6218 6434

Flattish Q1FY19 revenue

Operating revenue for the quarter grew by 2.3% yoy to Rs 3.2 bn (Vs estimates of Rs 3.4 bn) and was below our estimates due to 1) high base of last year due to pre GST buying, 2) company cutting sales from old generics products and 3) adopted conservative approach in terms of sales push due to sharp rise in raw material price (which will be passed on to consumer with some lag). The input prices have gone up on account of supply pressure for ingredient due to closure of units in China. The company expects robust demand due to widespread rainfall across regions and expects strong growth in Q2FY19. Further, the company expects pickup in revenue growth of its recent year launches like, Pulsor, Kayakalp, Microraja, etc.

EBITDA grew by 10% yoy on improved 120 bps improvement in margins

EBITDA for the quarter grew by 10% yoy to Rs 556mn (Vs estimates of Rs 498 mn) and was above our estimates due to 120 bps improvement in margins. EBITDA margins at 17.4% yoy was ahead of our estimates (of 14.5%). Margins improved on favourable product mix and increasing focus on high margins products. The management is targeting for improvement in margins by 100-150 bps every year led by increased contribution from high margin Navratna products and reduction in low margin old generic products. The company targets to cut revenue from low margin old generic brands every year by 4-5%. It intends to move out of 60 such products in the next three years. Presently 35-40% of its B2C sales is contributed by these products. PAT for the quarter grew by 11.8% yoy to Rs 339.9mn (Vs estimates of Rs 285.3mn) and was above our estimates on lower other income and higher depreciation.

Launched 4 new products with robust pipeline

IIL has been focusing on R&D and plans to launch 7-8 new products per annum in the next 1-2 years. In the quarter, the company has recently launched 4 new combination products under 9(3) registrations. Encounter and Sofia were launched in June 2018, Aikido in July 2018 and in Hercules in August 2018. In the next 2-3 months it will be launching 2 reverse engineering product apart from one collaboration product from Nissan. The company has pipeline of three more collaboration products from Nissan which would be launched in next year. Hence, the company would launch 7-8 new products per annum in this years as well as next year which will strengthen its product portfolio for future and would drive profitability. Its patented product in JV is at final stage and post that it will undergo through field trail. This will take three years before commercialization.

Update on Capex

IIL aims to incur Rs250-500 mn capex at existing units in FY19E which would cater to the new products expected to be launched by the company. Further in FY20E, it is planning for phase 2 expansion at existing unit at Dahej and Rajasthan with capex of over Rs 1.5 bn based on approval and clearances. This capex would help the company to go further backward and increase capacity for new products. This would be funded through internal accruals.

Maintained guidance for 10% revenue growth in FY19E

IIL management has maintained guidance of 10% growth in revenue on conservative basis with 150 bps improvement in margins at PBT level in FY19E. The growth would be driven by strong performance of new product, Bispyribac Sodium (under brand Green Label) maintaining revenue of last year (driven by demand in B2C and exports) and demand across geography on widespread rainfall as forecast by IMD.

Other highlights

- Debt reduced to Rs 860 mn at the end of Q1FY19 as against Rs 1.15 bn at the end of FY18. The company intends to be debt free at the end of FY19E.
- B2C business contributed 69% to its topline and 31% is contributed by B2B in Q1FY19. In-house consumption of technical was at 55% in Q1FY19.
- 60% of the raw material is domestic and 40% is imported. Out of imported raw material 80% is from China.

Outlook and valuation

We believe that IIL is well placed to grow in agro chemical sector which has positive growth outlook for long term. Further, IIL is aiming to position itself as niche player by moving up in the value chain and adding new products which will drive growth in long term. We believe that the company would be able to achieve better margins in next two years led by change in product mix. We have maintained our estimates for FY19E and FY20E. The stock is presently trading at 15.8x/13.9x on FY19E/20E EPS of Rs 49.1/55.7 respectively. We maintain our Buy rating on the stock with unchanged target price of Rs892, valuing the stock at 16x FY20E earnings.

Company background

Insecticides (India) Limited (IIL) is amongst the top 10 Indian agrochemical companies having ~7% market share of the Indian domestic agrochemical market. IIL has a fully integrated business model right from manufacturing of technicals and branded formulations to sale of generic and inlicensed agrichemical products. IIL has a pan India presence with network of 5000 plus distributors. The company has a portfolio of successful brands and has international tie-ups with AMVAC and Nissan Chemicals for brand licensing and marketing rights.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**9,942**	**10,733**	**12,042**	**13,460**
% change yoy	0.6	8.0	12.2	11.8
EBITDA	**1,114**	**1,478**	**1,678**	**1,911**
% change yoy	22.2	32.7	13.5	13.9
Depreciation	160	170	148	187
EBIT	**954**	**1,308**	**1,530**	**1,725**
Other Income	68	32	30	30
Interest	202	159	109	109
Profit Before Tax	820	1,181	1,451	1,646
% change yoy	64.3	44.1	22.8	13.4
Tax	226	341	435	494
as % of EBT	27.5	28.9	30.0	30.0
PAT	**594**	**840**	**1,015**	**1,152**
% change yoy	51.2	41.4	20.9	13.4
Shares outstanding (mn)	21	21	21	21
Adj EPS (Rs)	**28.7**	**40.6**	**49.1**	**55.7**
DPS (Rs)	2.0	2.8	3.4	3.9
CEPS (Rs)	36.5	48.9	56.3	64.8
BVPS (Rs)	224.7	264.9	310.1	361.3

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	207	207	207	207
Reserves	4,438	5,269	6,203	7,262
Net worth	4,645	5,476	6,409	7,468
Borrowings	2,216	1,150	1,150	1,150
Net Deferred tax	203	188	188	188
Total Liabilities	**7,063**	**6,815**	**7,748**	**8,807**
Net block	1,858	2,357	2,338	2,852
Capital work in progress	569	127	127	127
Total fixed assets	2,428	2,484	2,465	2,978
Investments	111	163	163	163
Inventories	4,258	4,073	4,570	5,108
Sundry debtors	2,146	2,348	2,342	2,618
Cash and equivalents	68	196	415	505
Loans and advances & Others	1,055	837	837	837
Total current assets	7,528	7,454	8,165	9,068
Sundry creditors and others	2,793	3,277	3,035	3,393
Provisions	210	9	9	9
Total CL & provisions	3,003	3,286	3,044	3,402
Net current assets	4,525	4,168	5,121	5,666
Total Assets	**7,063**	**6,815**	**7,748**	**8,807**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	820	1,181	1,451	1,646
Depreciation	160	170	148	187
Change in WC	(799)	484	(733)	(456)
Other operating activities	(199)	(355)	(435)	(494)
Operating Cash Flow	**(18)**	**1,480**	**430**	**883**
Capex	(136)	(227)	(129)	(700)
Free Cash Flow	(154)	1,253	301	183
Change in Investments	-	(52)	-	-
Investment cash flow	**(136)**	**(278)**	**(129)**	**(700)**
Equity Raised & Others	-	-	-	-
Debt Raised	166	(1,066)	-	-
Dividend	(48)	(68)	(82)	(93)
Other financing activity	10	59	-	-
CF from Financing	**128**	**(1,074)**	**(82)**	**(93)**
Change in Cash	(26)	127	220	90
Opening Cash	95	68	196	415
Closing Cash	**68**	**196**	**415**	**505**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	11.2	13.8	13.9	14.2
EBIT margin (%)	9.6	12.2	12.7	12.8
Net profit margin (%)	6.0	7.8	8.4	8.6
Adjusted EPS growth (%)	51.2	41.4	20.9	13.4
Balance Sheet Ratios				
Receivables (days)	79	80	71	71
Inventory (days)	156	139	139	139
Loans & Advances	3	2	2	1
Payable (days)	103	111	92	92
Cash Conversion Cycle (days)	133	107	118	118
Asset Turnover (x)	1.4	1.6	1.6	1.5
Net Debt/ Equity (x)	0.5	0.2	0.1	0.1
Return Ratios				
RoCE (%)	14.3	18.8	21.0	20.8
Core RoCE (%)	15.1	20.2	22.3	22.4
RoE (%)	13.6	16.6	17.1	16.6
Valuation Ratios				
P/E (x)	27.0	19.1	15.8	13.9
P/BV (x)	3.5	2.9	2.5	2.1
EV/EBITDA (x)	16.3	11.5	10.0	8.7
EV/Sales (x)	1.8	1.6	1.4	1.2

Source: Company, Kotak Securities – Private Client Research

Result Update

PNC INFRATECH LTD (PNC)

PRICE RS.165 **TARGET RS. 219** **BUY**

PNC reported strong Q1FY19 results and was ahead of our estimates led by strong execution and early completion bonus received in the quarter.

Key Highlights

- PNC reported 106.2% yoy growth in standalone revenue driven by pickup in execution of its projects as it has received appointed date in most of the projects and moved well in terms of execution.
- EBITDA margin at 17.6% was driven by certain one-off which includes, early completion bonus of Rs 253 mn related to Raebareli Jaunpur project which was completed ahead of schedule. Adjusted for this, EBITDA margin was at 14.7% and was inline with our estimates.
- PNC has robust order book of Rs 157.5 bn (including HAM projects & new EPC projects of Rs 91.3 bn) which is ~8.5x its FY18 revenue, gives strong revenue growth visibility for the next 3 years. Further, the company is targeting to add another Rs 20-25 bn of new orders in 9MFY19 depending upon new bids from NHAI and state government.
- PNC has maintained its revenue growth guidance of over 40% CAGR in FY18-20E on conservative basis with EBITDA margins of 13.5-14% and may review the same in Q3FY19 considering strong order inflows.

Valuation & outlook

- We have marginally revised our FY19E & FY20E estimates factoring in strong order inflows, revised capex guidance and better execution in Q1FY19. The EPC business (adjusted for Rs 30 per share value of BOT) is available at a PE of 15x and 11.4x based on FY19E and FY20E EPS of Rs 9 and Rs 11.8 per share, respectively.
- We maintain our Buy rating on the stock with SOTP based target price of Rs 219 (Vs Rs 218 earlier).

Quarterly performance table (standalone)

Year to March (Rs mn)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Net Revenues	**7,355**	**3,567**	**106.2**	**7,589**	**(3.1)**
Direct Expenses	5,002	2,384	109.8	4,895	2.2
Employee Expenses	406	264	53.6	376	7.9
Other Expenses	653	399	63.7	709	(7.8)
Operating Expenses	6,061	3,047	98.9	5,980	1.4
EBITDA	**1,294**	**520**	**149.1**	**1,609**	**(19.6)**
EBITDA margin (%)	17.6	14.6		21.2	
Adj EBITDA	1,041	520	100.4	1,609	(35.3)
Adj EBITDA margin (%)	14.7	14.6		21.2	
Depreciation	193	175	10.0	217	(11.1)
Other income	179	55	225.0	66	169.3
Net finance expense	107	80	33.1	85	24.8
Profit before tax	**1,174**	**319**	**267.5**	**1,373**	**(14.5)**
Provision for taxes Incl tax write back	149	21	597.2	258	(42.4)
Reported net profit	**1,025**	**298**	**244.0**	**1,115**	**(8.1)**
NPM (%)	13.9	8.4		14.7	

Source: Company

Stock Details

Market cap (Rs mn)	:	42380
52-wk Hi/Lo (Rs)	:	228 / 129
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	334,561
Shares o/s (mn)	:	257

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	18,566	27,104	39,624
Growth (%)	9.9	46.0	46.2
EBITDA	3,188	4,031	5,582
EBITDA margin (%)	17.2	14.9	14.1
PAT	1,836	2,309	3,026
Adj. EPS	7.2	9.0	11.8
Adj. EPS Growth (%)	4.7	25.8	31.1
BV (Rs/share)	70	79	90
Dividend/share (Rs)	0.6	0.6	0.6
ROE (%)	10.9	12.1	14.0
ROCE (%)	13.2	14.9	17.9
P/E (x)	23.1	18.3	14.0
EV/EBITDA (x)	13.3	11.2	8.3
P/BV (x)	2.3	2.1	1.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	56.1	56.1	56.1
FII	6.2	6.0	6.0
DII	21.8	21.5	21.5
Others	15.9	16.5	16.5

Source: Company

Price Performance (%)

(%)	1M	3M	6M
PNC Infratech	8.5	(1.3)	(4.3)
Nifty	5.7	6.8	9.7

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Pankaj Kumar
pankajr.kumar@kotak.com
+91 22 6218 6434

Execution remained strong in Q1FY19

The standalone net sales (EPC Business) for the quarter grew by 106.2% yoy to Rs 7.35 bn as new projects picked up pace in terms of execution and contributed meaningfully. The revenue also included onetime early completion bonus of Rs 253 mn related to Raebareli Jaunpur project which was completed ahead of schedule. Adjusted for these, revenue for the quarter grew by 99% yoy. The company has received appointed date in most of its projects and land acquisition also picked up in its projects. Based on this, the revenue growth is expected to remain strong in coming quarters and expects average Rs 7 bn revenue run rate in 9MFY19, though Q2FY19 would be little slower due to heavy rainfall at its project location.

Strong EBITDA margins driven by early completion bonus

Standalone EBITDA for the quarter was Rs 1.29 bn, and grew by 149% yoy with EBITDA margin at 14.7%. Higher margin was driven by early completion bonus received in completed projects in the quarter. Adjusted for these, the EBITDA margins for the quarter was line at 14.7%. Standalone PAT for the quarter grew by 244% yoy to Rs 1.02 bn (Vs our estimates of Rs 434 mn). The management has guided for tax rate of 18-21% in FY19E and 25% at FY20E, as it would be claiming 80IA benefits on certain old projects and MAT credit related to previous years.

Status of HAM projects

PNC has total 7 HAM projects of project cost Rs 9.075 bn. The company has received financial closure in 4 of its 7 HAM projects which are under construction phase and expects to achieve financial closure in balance as per schedule. Its Dausa Lalsot HAM project, Chitradurga – Davanagere HAM project and Jhansi-Khajuraho package I & II HAM projects are under construction phase and are contributing to the topline. The company has signed concession agreement in Chakeri-Allahabad, Aligarh-Kanpur package II & Challakere-Hariyur (Karnataka) HAM projects and financial closure are under progress. The company expects sanction letter in two of them in near future.

PNC has infused Rs 1.5 bn equity in HAM projects and further requires Rs 7.5 bn of equity in 7 HAM projects in the next 2-3 years (Rs 640 mn already infused recently). The company does not see any major problem in meeting equity commitment in these as it has strong cash generation and has low net debt. The company expects Rs 9.5 bn of cash generation in the next 3 years which would help in meeting equity requirement in HAM projects. Besides this it is also looking at selling stake in BOT projects and the proceeds of the same would be utilized for meeting equity commitment.

Strong order book to support future growth

The order book at the end of the quarter stood at ~Rs 157.5 bn which includes 1) Rs 66.17 bn of confirmed projects under execution, 2) three HAM projects of bid project cost of Rs 45.1 bn where financial closure is underway and 3) three new EPC projects of Rs 46.2 bn. The current order book gives very strong revenue growth visibility for the next three years. Further, the company is targeting to add Rs 20-30 bn of new projects in 9MFY19 depending on new bids from government. We believe that achieving financial closure and adding new orders would not be a challenge for the company based on strong balance sheet.

Order backlog

Project	Order Backlog/Value (Rs mn)
Nagina-Kashipur	10,000
Varanasi-Gorakhpur	5,740
Bhojpur-Buxar	4,740
Jhansi-Khajuraho I (HAM)	10,900
Jhansi-Khajuraho II (HAM)	9,850
Chitradurga - Davanagere (HAM)	10,730
Other projects	14,210
Order backlog	**66,170**
HAM (Under Financial Closure) (bid Project cost)	
Chakeri to Allahabad (HAM)	21,590
Aligarh-Kanpur (Package II from Bhadwas to Kalyanpur) (HAM)	11,970
Challakere to Hariyur Karnataka (HAM)	11,570
New EPC	
Purvanchal Expressway Project P5 (Sansarpur Gobindpur)	15,660
Purvanchal Expressway Project P6 (Gobindpur Morjarpur)	9,540
Mumbai Nagpur Expressway	21,000
Total L1/new/not included (HAM+EPC)	**91,330**
Total consl order book (Confirmed + L1)	**157,500**

Source: Company

40% per annum revenue growth guidance in FY19E and FY20E

The company expects strong growth in revenue to continue in FY19E and FY20E also and guided for over 40% per annum growth in revenue during the period on conservative basis as new projects would move in full swing. The company may review its guidance in Q3FY19 once it gets clarity on execution schedule of new projects. The management is confident of maintaining EBITDA margins in the range of 13.5-14%. Based on approval and execution timeline, we do not see any major challenge in surpassing growth guidance.

Other highlights

- The company reported Rs 5.8 mn per day toll revenue in Ghaziabad Aligarh BOT projects in Q1FY19. With this toll revenue the company is able to service interest cost of the projects however it requires equity infusion for repayment of principal. The company intends exiting the project in future. It has Rs 1.28 mn toll per day in MP highways and Rs 1.17 mn in Bareilly Almora.
- The company has reduced working capital at the end of Q1FY19 by 20 days on qoq.
- The company has standalone debt of Rs 2.5 bn with low debt to equity ratio of 0.1x.
- The company targets to do capex of Rs 2.5 bn in FY19E in order to execute its orders

Outlook and valuation

Based on current order book of ~Rs 157.5 bn (including HAM & new EPC projects) and execution timeline, we expect PNC's revenue to grow at 42% in FY19E and 43% in FY20E. The management has maintained guidance for 40% yoy growth per annum in FY19E and FY20E in revenue with over 13.5-14% EBITDA margins in the longer run. Further, PNC has strong pipeline of projects in road space which will support its future order book. The company is expecting Rs 20-30 bn of new projects in 9MFY19E. We have marginally revised our FY19E & FY20E estimates factoring in strong order inflows, revised capex guidance and better execution in Q1FY19. The EPC business (adjusted for Rs 30 per share value of BOT) is available at a PE of 15x and 11.4x based on FY19E and FY20E EPS of Rs 9 and Rs 11.8 per share, respectively. We maintain our Buy rating on the stock with revised SOTP based target price of Rs 219 (Vs Rs 218 earlier).

Valuation Table (Rs mn)

Segment	Parameter	Multiple P/E, P/BV	Rs Per Share
Construction Business	PAT	16	189
Road BOT	BV	1.5	30
Consol PNC			219

Source: Kotak Securities Private Client Research

Earnings estimates

Particulars	Previous		Revised		% Chg	
(Rs mn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	26,372	37,724	27,104	39,624	2.8	5.0
EBITDA	3,932	5,252	4,031	5,582	2.5	6.3
EBITDA margin (%)	14.9	13.9	14.9	14.1	(3) bps	19 bps
Adj PAT	2,320	3,019	2,309	3,026	(0.5)	0.2
EPS (Rs)	9	11.8	9.0	11.8	(0.5)	0.2

Source: Kotak Securities Private Client Research

Company background

PNC Infratech Ltd (PNC) is present in the business of construction and infrastructure development with expertise in highways, bridges, flyovers, airport runways, development of industrial areas, etc. The company is executing most of the projects in the states like Uttar Pradesh, Madhya Pradesh, Delhi, Rajasthan, Punjab, Haryana, Uttarakhand, Bihar, etc. PNC was incorporated as a sole proprietorship firm in 1989 and was promoted by Mr. Pradeep Kumar Jain. Over the years, it executed 44 major infrastructure contracts. The company has a long history in the Indian road sector and secured a contract from the first 10 tenders of NHDP in 1999. In FY07, it forayed in BOT business and further forayed into Hybrid Annuity Projects (HAM) in FY17. PNC has executed 38 road projects on EPC contract basis and is operating 6 BOT projects, 1 OMT project and developing 7 HAM road projects.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**16,891**	**18,566**	**27,104**	**39,624**
% change yoy	(16.1)	9.9	46.0	46.2
EBITDA	**2,210**	**3,188**	**4,031**	**5,582**
% change yoy	(16.9)	44.3	26.4	38.5
Depreciation	533	772	885	1,060
EBIT	**1,677**	**2,416**	**3,146**	**4,522**
Other Income	466	230	230	230
Interest	203	307	453	717
Profit before Tax	**1,939**	**2,339**	**2,923**	**4,035**
% change yoy	(3.2)	20.6	25.0	38.1
Tax	421	503	614	1,009
as % of EBT	21.7	21.5	21.0	25.0
Adj PAT	**1,519**	**1,836**	**2,309**	**3,026**
% change yoy	(6.1)	20.9	25.8	31.1
PAT	**2,097**	**2,510**	**2,309**	**3,026**
% change yoy	(13.6)	19.7	(8.0)	31.1
Shares outstanding (mn)	257	257	257	257
Adj EPS (Rs)	**5.9**	**7.2**	**9.0**	**11.8**
DPS (Rs)	0.6	0.6	0.6	0.6
CEPS (Rs)	8.0	10.2	12.5	15.9
BVPS (Rs)	61	70	79	90

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	513	513	513	513
Reserves	15,209	17,553	19,713	22,589
Net worth	15,722	18,067	20,226	23,102
Borrowings	1,473	1,286	2,786	4,386
Net Deferred tax	(23)	(15)	(15)	(15)
Total Liabilities	**17,173**	**19,337**	**22,996**	**27,472**
Net block	3,479	4,065	5,680	5,620
Capital work in progress	78	111	111	111
Total fixed assets	3,557	4,176	5,791	5,731
Investments	6,363	6,625	8,875	11,125
Inventories	1,535	1,758	2,566	3,751
Sundry debtors	6,309	6,900	8,911	13,027
Cash and equivalents	44	1,061	157	606
Loans and advances & Others	1,955	2,451	2,573	2,702
Total current assets	9,842	12,169	14,207	20,086
Sundry creditors and others	4,861	6,685	8,911	12,484
Provisions	241	172	189	208
Total CL & provisions	5,102	6,856	9,100	12,692
Net current assets	4,740	5,313	5,108	7,394
Other Assets (net)	2,512	3,223	3,223	3,223
Total Assets	**17,173**	**19,337**	**22,996**	**27,472**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	1,361	1,665	2,923	4,035
Depreciation	533	772	885	1,060
Change in WC	(1,143)	444	(698)	(1,838)
Other operating activities	(527)	(1,207)	(614)	(1,009)
Operating Cash Flow	**224**	**1,674**	**2,496**	**2,248**
Capex	(1,946)	(1,391)	(2,500)	(1,000)
Free Cash Flow	(1,722)	283	(4)	1,248
Change in Investments	(1,720)	(261)	(2,250)	(2,250)
Investment cash flow	**(3,666)**	**(1,652)**	**(4,750)**	**(3,250)**
Equity Raised	-	-	-	-
Debt Raised	1,356	(188)	1,500	1,600
Dividend & others	(150)	(150)	(150)	(150)
Other financing acitivity	1,309	1,334	-	-
CF from Financing	**2,516**	**996**	**1,350**	**1,450**
Change in Cash	(926)	1,017	(904)	448
Opening Cash	971	44	1,061	157
Closing Cash	45	1,061	157	606

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	13.1	17.2	14.9	14.1
EBIT margin (%)	9.9	13.0	11.6	11.4
Net profit margin (%)	12.4	13.5	8.5	7.6
Adjusted EPS growth (%)	(13.6)	19.7	(8.0)	31.1
Balance Sheet Ratios				
Receivables (days)	136	136	120	120
Inventory (days)	33	35	35	35
Loans & Advances (days)	42	48	35	25
Payable (days)	105	131	120	115
Cash Conversion Cycle (days)	107	87	69	64
Asset Turnover (x)	1.0	1.0	1.2	1.4
Net Debt/ Equity (x)	0.1	0.0	0.1	0.2
Return Ratios				
RoCE (%)	10.9	13.2	14.9	17.9
RoE (%)	10.3	10.9	12.1	14.0
Valuation Ratios				
P/E (x)	27.9	23.1	18.3	14.0
P/BV (x)	2.7	2.3	2.1	1.8
EV/EBITDA (x)	19.8	13.3	11.2	8.3
EV/Sales (x)	2.6	2.3	1.7	1.2

Source: Company, Kotak Securities – Private Client Research

Result Update

NATIONAL ALUMINIUM COMPANY LTD

PRICE RS. 72 **TARGET RS.100** **BUY**

National Aluminium (NACL) Q1FY19 numbers were above our estimates, driven by better than expected alumina segment performance. The alumina performance improved sharply backed by strong realisation (up 40% QoQ) and we expect the prices to remain firm due to supply disruptions, which will support earnings in the near term.

Stock Details

Market cap (Rs mn)	:	139654
52-wk Hi/Lo (Rs)	:	98 / 57
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	9,658,545
Shares o/s (mn)	:	1933

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	96,183	109,985	105,654
Growth (%)	19.5	14.3	(3.9)
EBITDA	13,975	29,693	24,355
EBITDA margin (%)	14.5	27.0	23.1
PAT	7,998	18,572	15,042
EPS	4.1	9.6	7.8
EPS Growth (%)	14.9	132.2	(19.0)
BV (Rs/share)	54	59	62
Dividend/share (Rs)	5.7	4.0	4.0
ROE (%)	7.6	17.0	13.1
ROCE (%)	10.5	23.2	17.9
P/E (x)	17.2	7.4	9.1
EV/EBITDA (x)	7.4	3.5	4.2
P/BV (x)	1.3	1.2	1.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	60.2	60.2	60.2
FII	6.4	6.4	7.1
DII	21.2	21.2	21.7
Others	12.2	12.2	11.0

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Nalco	16.9	(8.7)	(1.7)
Nifty	5.7	6.8	9.7

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Key Highlights

- Higher realisation supported 118%/18% YoY/QoQ growth in Alumina revenue to Rs20.53bn. Alumina volume during the quarter stood at 320KT, while aluminium sales was 12KT.
- The aluminium segment report EBIT loss of Rs2.11 bn, largely due to higher alumina transfer price for impacted aluminium segment profitability.
- Alurnote facility is still operating at 50% utilisation, given the current scenario timing remain uncertain to ramp-up to the rated capacity, as a result we believe that supply disruptions will continue in the coming months as well, which will support the alumina prices.

Valuation & outlook

- We have revised estimates higher for FY19E to Rs9.6 (earlier Rs7.5), as we revised our alumina price assumptions, due to strength in alumina supported by lower supply. We believe near term earnings likely to remain strong for the integrated players and the company who is long on Alumina (NACL), will benefit to a large extent. Besides this, improving fundamental of aluminium (widening deficit outside China) should support the aluminium prices and NACL's earnings in the coming quarter. At CMP, the stock trades at 5.1x/4.7x FY19E/FY20E EBITDA, which in our view is attractive. Hence, we reiterate our BUY rating, with an unchanged target price of Rs100.

Quarterly performance table

Particulars (Rs Mn)	4QFY18	4QFY17	% YoY	3QFY18	% QoQ
Net sales	**29,733**	**19,116**	**55.5**	**28,632**	**3.8**
Raw Materials	3,903	855	356.6	5,854	(33.3)
Power & Fuel	7,347	6,201	18.5	7,163	2.6
Total Expenditure	19,622	16,841	16.5	23,735	(17.3)
EBITDA	**10,111**	**2,275**	**344.4**	**4,897**	**106.5**
EBITDA Margin (%)	34.0	11.9		17.1	
Depreciation	1,217	1,170	4.0	1,268	(4.0)
Interest	6	4		6	
EBT	**8,888**	**1,101**	**707.4**	**3,623**	**145.3**
Other income	621	859	(27.7)	573	8.4
PBT	**9,509**	**1,960**	**385.3**	**4,197**	**126.6**
Exceptional Item	910	-		64	
Provision for tax	3,549	670	429.6	1,690	(74.6)
PAT (Adjusted)	**6,871**	**1,289**	**432.8**	**2,571**	**167.3**
NPM (%)	23.1	6.7		9.0	

Source: Company, Kotak Securities – Private Client Research

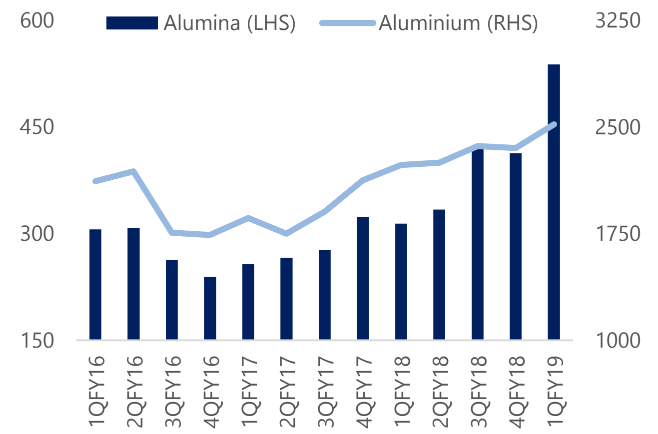
Jatin Damania
Jatin.damania@kotak.com
+91 22 6218 6440

Supply disruption supported alumina pricing, resulted into multifold jump in ALUMINA segment EBIT margin

EBITDA during the quarter grew 344.4%/106.5% YoY/QoQ to Rs10.11 bn, with an EBITDA margin of 34%, above estimates. The sharp jump in operating performance is attributed to record alumina segment performance. Alumina segment reported blended realisation of US$538/tonne (up 40% QOQ), backed by tight alumina market post Alunorte curtailment resulted in NALCO getting premium over international prices. Alumina volume during the quarter increased to 440KT (up 24% YoY).

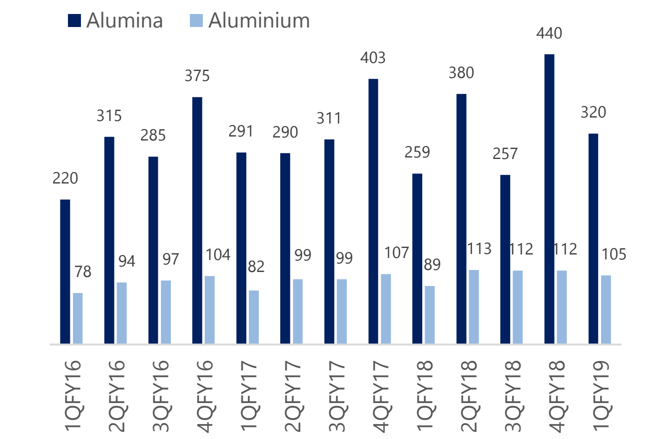
But, due to the higher alumina transfer pricing and rise in input costs resulted in loss of Rs2.11 bn at the EBIT level for aluminium segment. Power & fuel costs at Rs7.35bn were higher by 18.5%/2.6% YoY/QoQ. Given the increase in cost curve globally and widening deficit outside China supported by strong demand will improve profitability across smelters.

Alumina and aluminium volume trend ('000 T)



Source: Company

Alumina and aluminium realisation trend (US$/T)



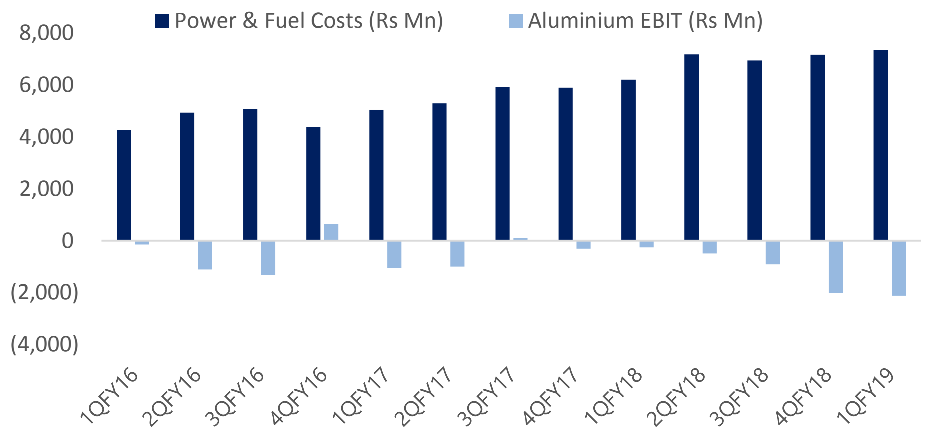
Source: Company

Segmental performance

Y/E Mar (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Segment Revenue					
Chemicals	20,526	9,415	118.0	17,415	17.9
Aluminium	17,719	13,867	27.8	16,952	4.5
Segment EBIT					
Chemicals	11,259	1,887	496.7	6,424	75.3
Aluminium	(2,110)	(256)	--	(2,015)	

Source: Company

Aluminium Performance



Source: Company

Maintain BUY

We have revised estimates higher for FY19E to Rs9.6 (earlier Rs7.5), as we revised our alumina price assumptions, due to strength in alumina supported by lower supply. We believe near term earnings likely to remain strong for the integrated players and the company who is long on Alumina (NACL), will benefit to a large extent. Besides this, improving fundamental of aluminium (widening deficit outside China) should support the aluminium prices and NACL's earnings in the coming quarter. At CMP, the stock trades at 5.1x/4.7x FY19E/FY20E EBITDA, which in our view is attractive. Hence, we reiterate our BUY rating, with an unchanged target price of Rs100.

Company background

National Aluminium Company is one of the largest integrated Bauxite-Alumina-Aluminium- Power Complex in the Country. The Company has a 68.25 lakh TPA Bauxite Mine &21.00 lakh TPA(normative capacity) Alumina Refinery located at Damanjodi in Koraput dist. of Odisha, and 4.60 lakh TPA Aluminium Smelter & 1200MW Captive Power Plant located at Angul, Odisha. NALCO has bulk shipment facilities at Vizag port for export of Alumina/Aluminium and import of caustic soda and also utilises the facilities at Kolkata and Paradeep ports. The company has registered sales offices in Delhi, Kolkata, Mumbai, Chennai and Bangalore and 11(eleven) stockyards at various locations in the Country to facilitate domestic marketing. The Company is low cost producer of metallurgical grade alumina in the World as per Wood McKenzie report.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net sales	**80,500**	**96,183**	**109,985**	**105,654**
Growth (%)	20.1	19.5	14.3	-3.9
Operating expenses	69,704	82,209	80,292	81,299
EBITDA	**10,797**	**13,975**	**29,693**	**24,355**
Growth (%)	30.8	29.4	112.5	(18.0)
Depreciation	4,804	4,804	4,850	4,920
EBIT	**5,993**	**9,171**	**24,843**	**19,435**
Other income	4,083	2,997	2,899	3,038
Interest paid	27	20	22	22
Extraordinary items	(410)	8,239	0	0
PBT	**9,639**	**20,386**	**27,720**	**22,451**
Tax	2,962	6,964	9,148	7,409
Effective tax rate (%)	30.7	34.2	33.0	33.0
Net profit	**6,677**	**13,422**	**18,572**	**15,042**
Reported Net profit	6,677	13,422	18,572	15,042
Adjusted Net profit	6,961	7,998	18,572	15,042
Growth (%)	0.1	14.9	132.2	(19.0)

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	22,872	27,690	24,396	27,687
Other Current assets	32,433	30,796	39,686	39,512
Investments	12,600	7,097	8,760	8,760
Net fixed assets	77,105	80,547	83,138	85,616
Other non-current assets	0	0	0	0
Total assets	**145,010**	**146,129**	**155,981**	**161,574**
Current liabilities	29,968	29,097	28,764	27,826
Borrowings	535	478	478	478
Other non-current liabilities	12,456	11,515	12,902	13,544
Total liabilities	42,959	41,090	42,143	41,848
Share capital	9,665	9,665	9,665	9,665
Reserves & surplus	92,387	95,375	104,173	110,061
Shareholders' funds	102,052	105,040	113,838	119,726
Minority interest	0	0	0	0
Total equity & liabilities	**145,010**	**146,129**	**155,981**	**161,574**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-tax profit	9,639	20,386	27,720	22,451
Depreciation	4,804	4,804	4,850	4,920
Chg in working capital	8,503	766	(9,224)	(763)
Total tax paid	2,850	5,515	9,148	7,409
Other operating activities	(911)	66	3	961
Operating CF	**19,185**	**20,507**	**14,201**	**20,160**
Capital expenditure	(10,612)	(8,246)	(6,784)	(7,824)
Chg in investments	(3,840)	5,503	(1,663)	0
Investing CF	**(14,452)**	**(2,743)**	**(8,448)**	**(7,824)**
Equity raised/(repaid)	(26,619)	0	0	0
Debt raised/(repaid)	(160)	(56)	(0)	0
Dividend (incl. tax)	4,523	12,891	9,046	9,046
Other financing activities	0	0	0	0
Financing CF	**(31,302)**	**(12,947)**	**(9,047)**	**(9,046)**
Net chg in cash & bank bal.	(26,569)	4,817	(3,293)	3,290
Closing cash & bank bal	22,872	27,690	24,397	27,687

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	13.4	14.5	27.0	23.1
EBITM	7.4	9.5	22.6	18.4
NPM	8.3	14.0	16.9	14.2
RoE	6.8	7.6	17.0	13.1
RoCE	7.9	10.5	23.2	17.9
Per share data (Rs)				
EPS	3.6	4.1	9.6	7.8
FDEPS	3.6	4.1	9.6	7.8
CEPS	5.9	9.4	12.1	10.3
BV	52.8	54.3	58.9	61.9
DPS	2.0	5.7	4.0	4.0
Valuation ratios (x)				
PE	19.7	17.2	7.4	9.1
P/BV	1.3	1.3	1.2	1.1
EV/EBITDA	9.5	7.4	3.5	4.2
EV/Sales	1.3	1.1	1.0	1.0
Other key ratios				
DSO (days)	8	8	8	8

Source: Company, Kotak Securities – Private Client Research

kotak Securities

Result Update

NMDC LTD

PRICE RS.106 TARGET RS.125 BUY

NMDC Q1FY19 EBITDA was higher than estimates, led by sharp fall in other expenses. Volume from Karnataka declined during the quarter, as domestic steel maker shifted to imported ore, citing higher prices in the domestic market.

Key Highlights

- Iron ore shipments declined 26% YoY and 35% QoQ at 6.8MT due to decline in sales volume in Karnataka, by 74% YoY to 0.9MT. Exports volume during the quarter was nil. Realisation during the quarter stood at Rs3,524/tonne.
- The other expenses during the quarter declined sharply due to nil export sales volume that abated selling expenses as freight, lower provisions towards a mine-closure expenses and lower CSR contribution in Karnataka.
- We continue to maintain our cautious outlook for iron ore and also on NMDC due to resumptions of mining operations in Odisha, subdued global prices and upcoming auctioned of merchant mines.

Valuation & outlook

We have revised our estimates higher for FY19E to Rs12.2 (earlier Rs10.2) and Rs 11.3 (earlier Rs10.4), factoring strong realisation. We continue to maintain our cautious outlook on iron ore prices due to increasing seaborne supply from the four biggest iron ore miners in 2018E and 2019E to the tune of 40MT and 20MT, respectively, which in our view will be difficult to absorb. Besides this, increasing supply in the domestic market and higher dependency of merchant miners on largest steel makers will weigh on the domestic iron ore prices. At CMP, the stock trades at 5.3x/5.7x FY19E/FY20E EBITDA, factors in all the potential negative. Factoring 50% of the investment in steel plant and valuing core business at 5.5x, we arrive at a revised target price of Rs125 (earlier Rs130). Recommend BUY.

Quarterly performance table

Particulars (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net sales	**24,220**	**28,415**	**(14.8)**	**38,830**	**(37.6)**
Employee Cost	2,369	2,036		4,121	
Royalty Expenses	4,456	4,927		7,617	
Total Expenditure	9,981	13,466		19,820	
EBITDA	**14,239**	**14,949**	**(4.8)**	**19,010**	**(25.1)**
EBITDA Margin (%)	58.8	52.6		49.0	
Depreciation	616	467		702	
Interest	108	82		76	
EBT	**13,515**	**14,401**		**18,232**	
Other income	1,251	1,286		1,702	
PBT	**14,767**	**15,687**	**(5.9)**	**19,933**	**(25.9)**
Exceptional Item	-	-		6	
Provision for tax	5,013	5,994		8,867	
ETR (%)	33.9	38.2			
PAT	**9,753**	**9,693**	**0.6**	**11,060**	**(11.8)**

Source: Company, Kotak Securities – Private Client Research

Stock Details

Market cap (Rs mn)	:	337587
52-wk Hi/Lo (Rs)	:	163 / 94
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	2,781,200
Shares o/s (mn)	:	3164

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	116,149	116,483	113,185
Growth (%)	31.6	0.3	(2.8)
EBITDA	58,254	57,705	54,462
EBITDA margin (%)	50.2	49.5	48.1
PAT	38,089	38,669	35,726
EPS	12.0	12.2	11.3
EPS Growth (%)	49.7	1.5	-7.6
BV (Rs/share)	77	85	92
Dividend/share (Rs)	5.5	5.0	5.0
ROE (%)	16.2	14.3	12.2
ROCE (%)	13.9	12.8	11.0
P/E (x)	1.4	1.2	1.1
EV/EBITDA (x)	5.2	5.3	5.7
P/BV (x)	1.4	1.2	1.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	72.4	72.4	74.9
FII	4.0	4.2	3.8
DII	19.0	18.8	17.4
Others	4.5	4.6	3.9

Source: Company

Price Performance (%)

(%)	1M	3M	6M
NMDC	3.0	(10.7)	(21.5)
Nifty	5.7	6.8	9.7

Source: Bloomberg

Price chart (Rs)

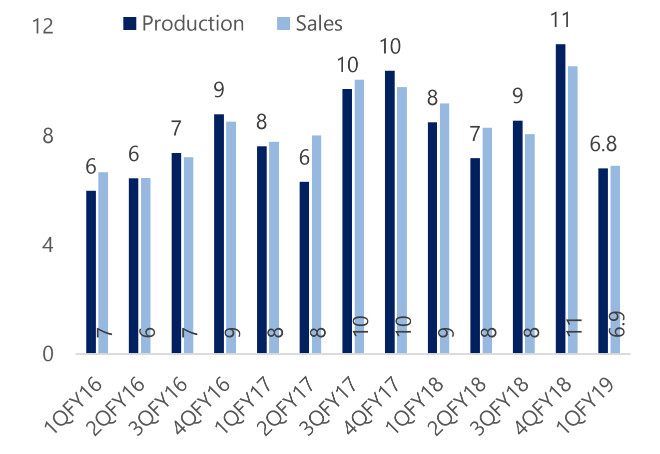
Source: Bloomberg

Jatin Damania
Jatin.damania@kotak.com
+91 22 6218 6440

Decline in other expenses supported operating performance

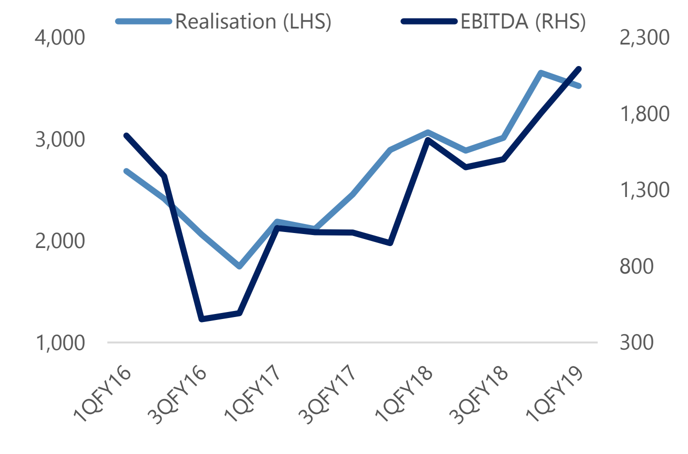
Despite 14.8%/37.6% YoY/QoQ decline in revenue, the fall in EBITDA was restricted 4.8%/25.1% YoY/QoQ to Rs14.24 bn (above our estimates), with an EBITDA margin of 58.8%, due to decline in other expenses. The other expenses during the quarter declined by 55.6%/65.9% YoY/QoQ, due to decline in sales expenses (nil export volume), lower provision (Rs111.2mn vs Rs1.04 bn in Q4FY18) pertaining to the mine-closure obligation (lower production); Rs258.2mn towards expected credit loss on the trade receivables, compared to Rs3.35 bn in Q4FY18 and lower expenses towards railway line expenses. Going ahead, we believe that, with the production ramp up credit loss, selling expenses and min-closure expenses are expected to increase, which would drag EBITDA margin sub 50%.

Iron ore production and sales volume (MT)



Source: Company

Iron ore realisation and EBITDA/Tonne (Rs/T)



Source: Company

Recommend BUY

Though, we expect volume trajectory to remain strong, but expectations of weak prices due to increase in iron ore supply by the big miners from Australia and Brazil would keep the seaborne iron ore market oversupplied and surplus production in domestic markets, supports our cautious view on iron ore. Besides this, increasing supply in the domestic market will weigh pressure on the domestic iron ore prices.

The stock has corrected sharply from our last update in May. We believe current valuation factors all potential negative and is partly discounting the benefits of steel plant. Further, factoring the CWIP of steel plant at 50% of its investment and valuing in core business at 5.5x FY19E EBITDA, we arrive at a revised target price of Rs125 (earlier Rs130), implying upside of ~17%. Hence, we recommend BUY.

Company background

NMDC is India's single largest iron ore producer, presently producing about 36 million tonnes of iron ore from 3 fully mechanized mines viz., Bailadila Deposit-14/11C, Bailadila Deposit-5, 10/11A (Chhattisgarh State) and Donimalai Iron Ore Mines (Karnataka State). The company’s principal operations include its four iron ore mining complexes at Kirandul and Bacheli in Chhattisgarh and Donimalai and Kumarswamy in Karnataka. NMDC also operates a diamond mine at Panna (Madhya Pradesh), the only mechanised diamond mine in the country and the largest diamond mine in Asia. NMDC is also setting up a 3 MTPA Steel Plant at Nagarnar in Chhattisgarh.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net sales	**88,279**	**116,149**	**116,483**	**113,185**
Growth (%)	36.7	31.6	0.3	(2.8)
Operating expenses	52,341	57,895	58,778	58,723
EBITDA	**35,939**	**58,254**	**57,705**	**54,462**
Growth (%)	31.1	62.1	(0.9)	(5.6)
Depreciation & amortisation	1,967	2,566	2,951	3,025
EBIT	**33,972**	**55,688**	**54,754**	**51,437**
Other income	9,102	5,006	3,404	2,315
Interest paid	208	371	371	371
Exceptional items	0	1,443	0	0
PBT	**42,866**	**61,765**	**57,787**	**53,381**
Tax	17,038	23,733	19,185	17,722
Effective tax rate (%)	39.7	38.4	33.2	33.2
Net profit	**25,828**	**38,032**	**38,601**	**35,658**
Minority interest	392	(57)	(68)	(68)
Reported Net profit	25,437	38,089	38,669	35,726
Growth (%)	7.7	49.7	1.5	(7.6)

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	53,205	54,610	43,469	40,393
Other Current assets	54,469	61,696	59,070	61,137
Investments	6,123	6,727	6,727	6,727
Net fixed assets	139,506	160,023	190,889	215,932
Other non-current assets	4,534	3,857	3,857	3,857
Total assets	**257,837**	**286,913**	**304,013**	**328,046**
Current liabilities	19,537	18,696	20,300	21,619
Borrowings	12,324	23,894	13,894	13,894
Other non-current liabilities	0	0	0	0
Total liabilities	31,861	42,590	34,194	35,513
Share capital	3,164	3,164	3,164	3,164
Reserves & surplus	222,658	241,010	266,507	289,220
Shareholders' funds	225,822	244,174	269,670	292,384
Minority interest	154	149	149	149
Total equity & liabilities	**257,837**	**286,913**	**304,014**	**328,046**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-tax profit	42,866	61,765	57,787	53,381
Depreciation	1,967	2,566	2,951	3,025
Chg in working capital	(5,056)	(6,312)	4,230	(2,078)
Total tax paid	15,534	23,733	19,185	17,722
Other operating activities	(3,156)	(2,256)	371	371
Operating CF	**21,086**	**32,031**	**46,154**	**36,976**
Capital expenditure	(23,191)	(23,083)	(28,786)	(21,544)
Chg in investments	61,133	(604)	0	0
Other investing activities	13,772	1,851	0	0
Investing CF	**51,713**	**(21,836)**	**(28,786)**	**(21,544)**
Equity raised/(repaid)	(75,404)	0	0	0
Debt raised/(repaid)	(14,970)	11,571	(10,000)	0
Dividend (incl. tax)	14,614	20,360	18,509	18,509
Other financing activities	32,495	0	0	0
Financing CF	**(72,493)**	**(8,789)**	**(28,509)**	**(18,509)**
Net chg in cash & bank bal.	306	1,405	(11,141)	(3,076)
Closing cash & bank bal	**53,205**	**54,610**	**43,469**	**40,393**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	40.7	50.2	49.5	48.1
EBITM	38.5	47.9	47.0	45.4
NPM	28.8	34.0	33.2	31.6
RoE	11.3	16.2	14.3	12.2
RoCE	9.9	13.9	12.8	11.0
Per share data (Rs)				
EPS	8.0	12.0	12.2	11.3
FDEPS	8.0	12.0	12.2	11.3
CEPS	8.7	13.3	13.2	12.2
BV	71.4	77.2	85.2	92.4
DPS	5.50	5.50	5.00	5.00
Valuation ratios (x)				
PE	13.2	8.8	8.7	9.4
P/BV	1.5	1.4	1.2	1.1
EV/EBITDA	8.2	5.2	5.3	5.7
EV/Sales	3.3	2.6	2.6	2.7
Other key ratios				
D/E (x)	0.1	0.1	0.1	0.0
DSO (days)	12	13	30	30

Source: Company, Kotak Securities – Private Client Research

Result Update

THE PHOENIX MILLS LTD

PRICE RS.640 **TARGET RS. 707** **ACCUMULATE**

Phoenix Mills Ltd's results were in line with our estimates led by improvement in rental revenues. Rental growth was driven by the strong operational performance of Market City malls -PMC Chennai, PMC Pune & PMC Mumbai as well as High Street Phoenix & Palladium. Commercial and hospitality segment also registered 35%/6% YoY growth respectively led by improvement in rentals and ARRs. Growth going ahead is likely to be led by improvement in rentals as well as uptick in residential segment revenue booking.

Key highlights

- Retail segment revenues are likely to witness healthy improvement going forward with rental renegotiations and consumption improvement. Residential segment revenues are likely to improve with improvement in market activity in its key regions.
- Average interest rate of debt has come down YoY with refinancing as well as rating improvements but sequentially it has now started to move up.
- Company has closed 4 acquisitions which include land parcels in Bangalore, Ahmedabad, under construction retail assets in Lucknow and Indore between April-July 2018 which is in line with its growth strategy of increasing retail led mixed use development area going forward.

Consolidated financial highlights

DESCRIPTION	Q1FY19	Q4FY18	QoQ (%)	Q1FY18	YoY (%)
Net Sales	**4132**	**4366**	**-5.4**	**3959**	**4.4**
Total Expenditure	2178	2205		2199	
EBITDA	**1953**	**2162**	**-9.6**	**1760**	**11.0**
EBITDA %	47.3%	49.5%		44%	
Depreciation	499	513		475	
EBIT	**1455**	**1649**	**-11.8**	**1285**	**13.2**
Interest	846	836		901	
EBT(exc other income)	609	813	-25.1	385	58.3
Other Income	170	145		156	
PBT	**779**	**957**	**-18.7**	**541**	**43.9**
Tax	235	7		266	
Tax %	30.2	0.7		49	
PAT	**543**	**951**	**-42.9**	**274**	**98.0**
Minority interest	48	112		-28	
Share of profit of associates	103	87		124	
Net profit	597	926	-35.5	426	40.3
Other comprehensive income	292	5		82	
Total income	890	931		508	
Equity Capital	306	306		306	
Face Value (In Rs)	2	2		2	
EPS	4	6	-35.5	2.78	40.3

Source: Company

Stock Details

Market cap (Rs mn)	:	98501
52-wk Hi/Lo (Rs)	:	732 / 452
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	151,622
Shares o/s (mn)	:	153

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	16,198	17,755	18,684
Growth (%)	-11.0	9.6	5.2
EBITDA	7,774	8,645	9,254
EBITDA margin (%)	48.0	48.7	49.5
Net profit	2,422	2,746	3,149
EPS (Rs)	15.8	17.9	20.6
Growth (%)	27.0	13.4	14.7
BVPS (Rs)	186.2	201.0	218.4
DPS (Rs)	2.6	2.6	2.6
ROE (%)	9.6	9.3	9.8
ROCE (%)	8.9	8.8	9.5
P/E (x)	40.5	35.7	31.1
EV/EBITDA (x)	16.8	15.1	14.1
P/BV (x)	3.4	3.2	2.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	62.8	62.8	62.8
FII	28.8	29.2	29.8
DII	3.1	3.7	2.8
Others	5.3	4.4	4.6

Source: Company

Price Performance (%)

(%)	1M	3M	6M
The Phoenix Mills	(1.1)	3.8	9.1
Nifty	5.7	6.8	9.7

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Teena Virmani
teena.virmani@kotak.com
+91 22 6218 6432

Valuation and outlook

At current price of Rs 640, stock is trading at 35.7x and 31.1x P/E and 15.1x and 14.1x EV/EBITDA on FY19/20 consolidated estimates respectively. We continue to remain positive on the company and tweak our estimates to factor in higher capex and higher investments done from CPPIB. We arrive at a revised price target of Rs 707 (Rs 676 earlier) on FY20 estimates. Owing to limited upside, we maintain ACCUMULATE rating on the stock.

Revenue in line with our estimates

High Street Phoenix: During Q1FY19, High Street Phoenix has registered 15% YoY improvement in rental income while average trading density was down by 6% YoY at Rs 2935 per sq ft per month. Current average rentals improved 20% YoY and stand at nearly Rs 387 per sq ft per month (vs Rs 322 per sq ft per month during Q1FY18) as the new lease deals have significantly higher minimum guarantee than the current mall average. Positive impact of North Sky zone and new F&B outlets has started contributing towards improvement in rental income. This area has premium offerings from apparels & fashion, F&B brands and has an area of 50,000 sq ft comprising of nearly 13 retailers.

Market cities

Chennai market city: For the quarter, Chennai market city revenues grew by 6% YoY and were led by 11% YoY improvement in rental income. Rentals per sq ft were up by 10% YoY at Rs 137 per sq ft per month. Consumption was up 2% for Q1FY19 but category changes in the retail mix had a positive impact on the rental income of the company. However, these revenues are not included in the consolidated financials.

Bengaluru market city revenues have witnessed an increase of 7% YoY with 8% YoY improvement in rental income. Trading density and consumption were down during Q1FY19 due to state elections and commencement of metro construction near the property. Rentals per sq ft for Bengaluru market city were flat YoY at Rs 116 per sq ft per month.

Kurla market city: Kurla market city has continued with strong performance during Q1FY19. Consumption (up 10% YoY) and trading density (up 7% YoY) have witnessed a healthy improvement for Kurla market city and rentals have also witnessed an improvement of 9% YoY. Company is confident about further improvement in rental income from Kurla market city going forward.

Pune market city: Pune market city has seen 10% improvement in revenues led by 13% improvement in rental income. Trading density is up by 4% YoY and rentals per sq ft for Pune market city were up by 7% YoY.

Operational Annuity Portfolio

MALL PORTFOLIO (5.90 MSF)		
HSP & Palladium	Mumbai	0.74
Phoenix MarketCity	Chennai	1.00
Palladium	Chennai	0.22
Phoenix MarketCity	Pune	1.19
Phoenix MarketCity	Bangalore	1.00
Phoenix MarketCity	Mumbai	1.11
Phoenix United	Lucknow	0.33
Phoenix United	Bareilly	0.31

Source: Company

Renewals expected going forward: Out of the total lease renewals, nearly 60% of High Street Phoenix and Palladium in Mumbai and PMC Pune and 51% of PMC Mumbai are likely to come for renewals between FY19-21. High Street Phoenix and Palladium has 19%/25%/16% renewals expected in FY19/20/21 respectively. Pune market city is likely to see 17%/19%/24% lease renewals during Fy19/20/21 respectively while Kurla market city is likely to see 11%/8%/32% lease renewals during Fy19/20/21 respectively. Bangalore market city lease renewals for nearly 3%/6%/27% of the area are likely to come during FY19/FY20/21 respectively while for Chennai market city, lease renewals of 5%/2%/18% are likely to come during FY19/20/21 respectively. These renewals are likely to aid rental growth for the company.

Commercial and residential portfolio: For One-Bangalore West, it commenced hand over for flats for Towers 1-5. For Chennai (Crest), construction has been completed for Tower A,B,C and Occupancy certificate has been received. Commercial portfolio comprises of Phoenix House, Art Guild, Phoenix Paragon Plaza, Centrium with 85% of available area leased out to Tier 1 clients. Company plans to add to the existing commercial portfolio on account of future development of additional available FSI at Pune, Bangalore, Chennai. Current leasable area stands at 1.6 mn sq ft.

Office Portfolio (1.60 MSF)

OFFICE PORTFOLIO (1.60 MSF)		
Phoenix Paragon Plaza	Mumbai	0.42
The Centrium	Mumbai	0.28
Art Guild House	Mumbai	0.76
Phoenix House	Mumbai	0.14

Source: Company

Residential Portfolio

PROJECT NAME (OPERATIONAL)	SALEABLE AREA (MSF)		
	Total Area	Area launched	Area Sold
One Bangalore West, Bengaluru	2.20	1.48	1.24
Kessaku, Bengaluru	0.99	0.57	0.23
The Crest, Chennai	0.53	0.53	0.43
Total	**3.72**	**2.58**	**1.90**

Source: Company

Hotel Portfolio (588 Keys)

HOTEL PORTFOLIO (588 KEYS)		
The St. Regis	Mumbai	395
Courtyard by Marriot	Agra	193

Source: Company

Hotels portfolio – Q1FY19 room occupancy at St Regis, Mumbai stood at 74% at an ARR of Rs. 11295 while room occupancy at Courtyard by Marriott, Agra stood at 65% at an ARR of Rs 3811. Company plans to consolidate ownership at Courtyard by Marriott, Agra and merge asset with Palladium Construction to optimize taxation structure, reduce debt and improve operating efficiencies.

Under-development assets

During Q1FY19, PML has closed 4 acquisitions which include land parcels in Bangalore, Ahmedabad, under construction retail assets in Lucknow and Indore between April-July 2018 which is in line with its growth strategy of increasing retail led mixed use development area going forward. Together with Wakad, Pune, the total under development retail leasable portfolio has moved up to 4.6mn sq ft. Along with the development potential of 4.6mn sq ft, these assets have an additional leasable potential of 3.3-3.4 mn sq ft to be developed over long term. Company envisages Rs 45 bn of capex to be spent to develop these assets over next 3-4 years – out of which, it has already spent Rs 20 bn on land acquisition cost and remaining Rs 25 bn is to be spent over 3-4 years with a mix of debt of Rs 22 bn and equity of Rs 3 bn. Once these assets become operational, it expects a total rental income of Rs 5.6 bn on stabilization of these assets.

Portfolio under development

MALL PORTFOLIO (4.60 MSF)		
Phoenix MarketCity Wakad	Pune	1.0
Phoenix MarketCity Hebbal	Bengaluru	1.0
Phoenix MarketCity	Indore	1.1
Phoenix MarketCity	Lucknow	0.9
Phoenix Mall	Ahmedabad	0.6

OFFICE PORTFOLIO (1.12 MSF)		
Phoenix MarketCity, Pune (Viman Nagar)	Pune	0.7
Phoenix MarketCity	Chennai	0.42

Source: Company

Recent additions

Project	Partnership / JV / owned	Land Size	Development Potential	Land Acquisition Cost	Comments
Pune	ISML – alliance with CPPIB (PML stake: 51%)	15 Acres	1.6 msf (1 msf retail)	Rs. 1.94 bn	PML's second MarketCity mall in Pune. Expect operations to commence during FY23
Bengaluru		13 Acres	1.8msf (1 msf retail)	Rs. 6.99 bn	PML's second MarketCity mall in Bengaluru. Expect operations to commence during FY23
Indore		19 Acres	1.1 msf retail	Rs. 2.58 bn	Acquired under-construction retail development. Expect operations to commence during FY21
Ahmedabad	50:50 JV with BSafal group	5.2 Acres	0.6 msf retail	Rs. 3.40 bn	Formed a 50:50 JV with BSafal group. Expect operations to commence during FY22
Lucknow	100% owned	13.5 Acres	0.9msf retail	Rs. 4.70 bn	Acquired under-construction retail development. Expect operations to commence during FY21

Source: Company

Net profit performance in line with our estimates

Operating margins improved on YoY basis but were impacted by fit outs going on at HSP which led to lower CAM charges. Average interest rate of debt has come down YoY with refinancing as well as rating improvements but sequentially it has now started to move up. Consolidated debt stood at Rs 43.96 bn with Rs 41.3 bn coming from operational portfolio and Rs 2.6 bn from under-development portfolio.

We tweak our estimates and expect net profits to grow at a CAGR of 14% between FY18-20.

Valuation and recommendation

At current price of Rs 640, stock is trading at 35.7x and 31.1x P/E and 15.1x and 14.1x EV/EBITDA on FY19/20 consolidated estimates respectively. We continue to remain positive on the company and tweak our estimates to factor in higher capex and higher investments done from CPPIB. We arrive at a revised price target of Rs 707 (Rs 676 earlier) on FY20 estimates. Owing to limited upside, we maintain ACCUMULATE rating on the stock.

Sum of the parts valuation

Sum of the parts valuation	Phnx Stake	Area (mn sq ft)	Value (Rs mn)	Per share
High Street Phoenix	100%	0.9	56039	367
Phase IV @ HSP	100%	0.25	7000	46
Market cities				
Pune	100.00%	1.13	7517	49
Kurla	100.00%	1.14	3597	24
Bangalore(East)	100.0%	0.98	10339	68
Chennai	50.01%	1	6680	44
Bangalore(W)-Residential	100%	1.8	3562	23
CPPIB	**51%**	**1x**	**16620**	**55**
Big Apple	**100%**		**1203**	**8**
Hospitality	**73%**		**3716**	**24**
Total				**707**

Source: Kotak Securities – Private Client Research

Company background

Phoenix mills is a key developer and manager of prime retail-led assets in city centers, with a gross portfolio of 17.5 million sq. ft spread over 100+ acres of prime land in key gateway cities of India. It has 8 Malls spread over 6 mn ft in 6 major cities along with commercial centres in Mumbai with rent generating leasable area of 1.16 mn sq ft. Residential projects under development have 3.72 mn sq ft of saleable area. It also has 2 Hotel (588 Keys) managed by renowned global operators in its portfolio.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**18,246**	**16,198**	**17,755**	**18,684**
% change YoY	3.0	(11.2)	9.6	5.2
EBITDA	**8,469**	**7,774**	**8,645**	**9,254**
% change YoY	8.0	(8.2)	11.2	7.0
Other Income	472	556	556	556
Depreciation	1,953	1,983	2,258	2,370
EBIT	**6,988**	**6,347**	**6,943**	**7,440**
% change YoY	9.0	(9.2)	9.4	7.2
Net interest	4,230	3,476	3,650	3,601
Extra ord exp	-	-	-	-
Profit before tax	**2,758**	**2,871**	**3,294**	**3,839**
% change YoY	74	4	15	17
Tax	858	758	856	998
as % of PBT	31.1	26.4	26.0	26.0
Profit after tax	**1,900**	**2,113**	**2,437**	**2,841**
Minority interest & associates	(10)	(308)	(308)	(308)
Adjusted Net income	**1,910**	**2,422**	**2,746**	**3,149**
% change YoY	128.0	26.8	13.4	14.7
Shares outstanding (m)	153.1	153.1	153.1	153.1
EPS (reported) (Rs)	**12.5**	**15.8**	**17.9**	**20.6**
CEPS (Rs)	25.2	28.8	32.7	36.0
DPS (Rs)	2.40	2.60	2.60	2.60

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	812	449	836	208
Accounts receivable	1,470	1,292	1,514	1,593
Inventories	9,455	6,615	8,807	9,269
Loans and Adv & Others	3,671	3,730	3,794	3,817
Current assets	15,408	12,086	14,950	14,887
Other non current assets	1,127	1,997	1,997	1,997
LT investments	5,260	9,191	6,491	3,791
Net fixed assets	48,656	61,700	61,942	64,072
Total assets	**70,452**	**84,973**	**85,380**	**84,746**
Payables	3,449	3,381	3,743	3,939
Others	1,926	1,396	1,396	1,396
Current liabilities	5,375	4,777	5,139	5,335
Provisions	843	1,101	1,580	1,580
LT debt	36,669	42,359	39,659	36,159
Min. int and def tax liabilities	5,693	8,219	8,219	8,219
Equity	306	306	306	306
Reserves	21,566	28,211	30,477	33,147
Total liabilities	**70,452**	**84,973**	**85,380**	**84,746**
BVPS (Rs)	142.9	186.2	201.0	218.4

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	6,997	6,656	7,252	7,749
Depreciation	1,953	1,983	2,258	2,370
Change in working capital	5,309	2,891	(2,116)	(368)
Chg in other net current assets	(721)	6,052	478	-
Operating cash flow	13,539	17,581	7,873	9,751
Interest	(4,230)	(3,476)	(3,650)	(3,601)
Tax	(858)	(758)	(856)	(998)
CF from operations	**8,451**	**13,347**	**3,366**	**5,152**
Capex	(3,181)	(15,027)	(2,500)	(4,500)
(Inc)/decrease in investments	(2,920)	(3,931)	2,700	2,700
CF from investments	**(6,101)**	**(18,958)**	**200**	**(1,800)**
Proceeds from issue of equity	0	-	-	-
Increase/(decrease) in debt	(2,894)	5,689	(2,700)	(3,500)
Proceeds from share premium	131	-	-	-
Dividends	(405.2)	(442.3)	(479.4)	(479.4)
CF from financing	**(3,168)**	**5,247**	**(3,179)**	**(3,979)**
Opening cash	1,631	812	449	836
Closing cash	812	449	836	208

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	46.4	48.0	48.7	49.5
EBIT margin (%)	38.3	39.2	39.1	39.8
Net profit margin (%)	10.5	15.0	15.5	16.9
Receivables (days)	42.6	31.1	31.1	31.1
Inventory (days)	227.0	181.1	181.1	181.1
Sales/assets(x)	0.4	0.3	0.3	0.3
Interest coverage (x)	1.7	1.8	1.9	2.1
Debt/equity ratio(x)	1.8	1.6	1.4	1.2
ROE (%)	9.1	9.6	9.3	9.8
ROCE (%)	10.6	8.9	8.8	9.5
EV/ Sales (x)	7.0	8.1	7.3	7.0
EV/EBITDA (x)	15.2	16.8	15.1	14.1
Price to earnings (x)	51.3	40.5	35.7	31.1
Price to book value (x)	4.5	3.4	3.2	2.9
Price to Cash Earnings (x)	25.4	22.3	19.6	17.8

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	67245
52-wk Hi/Lo (Rs)	:	843 / 610
Face Value (Rs)	:	2
3M Avg. daily volume	:	78,814
Shares o/s (m)	:	96

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	44,944	46,743	54,683
Growth (%)	9.3	4.0	17.0
EBITDA	2,637	3,177	3,827
EBITDA margin (%)	5.9	6.8	7.0
PAT	1,384	1,695	2,303
EPS	14.5	17.8	24.2
EPS Growth (%)	17.4	22.4	35.9
BV (Rs/share)	103	112	127
Dividend/share (Rs)	8.0	8.0	8.0
ROE (%)	14.5	16.5	20.3
ROCE (%)	13.1	14.1	16.9
P/E (x)	48.4	39.5	29.1
EV/EBITDA (x)	26.4	22.0	17.9
P/BV (x)	6.8	6.3	5.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	38.8	38.9	38.9
FII	9.3	7.8	9.9
DII	21.4	20.8	18.6
Others	30.5	32.6	32.6

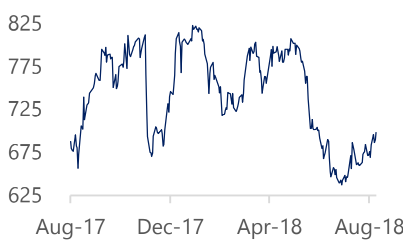
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Blue Star	4.4	(10.7)	(5.9)
Nifty	5.7	6.8	9.7

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Sanjeev Zarbade
sanjeev.zarbade@kotak.com
+91 22 6218 6424

BLUE STAR LTD (BSL)

PRICE RS.703 TARGET RS. 743 ACCUMULATE

BSL exceeded our profit forecast despite weak demand conditions in the room AC market. Enhanced margins were attained through savings in project procurement costs and a better margin profile of projects

Key Highlights

- Although, BSL reported revenues of Rs 13.8 bn in Q1FY19, down 4% on a yoy basis, on a like to like basis (adjusted for GST implementation), the revenue growth was 4% y-o-y.
- Segment margins expanded in both the divisions. Order book is up 8% to Rs 21.2 bn.
- The management is witnessing evidence of demand revival in the corporate, institutional and industrial sectors. Even consumer spending continues to be robust. The management expects the forthcoming festival season to be good for the Cooling Products Segment. Also, outlook on order finalisation in Electro-Mechanical Projects and the Professional Electronics & Industrial Systems businesses is looking healthy, the management opined.

Valuation and Outlook

In view of the earnings revision, our target price works out to 743 (Rs 703 earlier). Given modest upside from current levels, we maintain "Accumulate". In terms of valuation, the stock is trading at 40x and 29x FY19 and FY20 earnings, which is at a premium to sector leader – Voltas.

Q1FY19 Results

(Rs mn)	Q1 FY19	Q1 FY18	YoY (%)	Q4 FY18	QoQ (%)
Gross Sales	**13,829**	**14,412**	**-4.0**	**13,720**	**0.8**
Excise	0	92		0	
Net sales	**13,829**	**14,320**	**-3.4**	**13,720**	**0.8**
Raw material costs	6,976	7,797	-10.5	4,262	63.7
Purchase of Stock in Trade	2,808	2,731	2.8	5,221	-46.2
Staff costs	878	807	8.8	977	-10.1
Other expenditure	1,911	2,034	-6.0	2,456	-22.2
Total Expenditure	12,574	13,370	-5.9	12,915	-2.6
PBDIT	**1,255**	**950**	**32.1**	**805**	**55.9**
Other income	20	47	-56.7	19	9.2
Finance income	11	38	-71.1	20	-44.5
Depreciation	148	132	12.0	170	-12.9
EBIT	**1,138**	**903**	**26.0**	**674**	**69.0**
Interest	109	33	229.2	92	19.3
PBT	**1,029**	**870**	**18.3**	**582**	**76.8**
Tax	323	258	25.2	184	75.1
PAT before non recurring items	706	612	15.4	398	77.6
Exceptional items	152	0	0.0	53	188.0
provision for previous years	0	0	0.0	0	0.0
Reported PAT	**858**	**612**	**40.2**	**450**	**90.5**
EPS Rs per share	7.9	6.8		4.4	
PBDIT excluding other op income (%)	9.1	6.6		5.9	
Raw material cost to sales (%)	70.8	73.1		69.1	
Other expenditure to sales (%)	13.8	14.1		17.9	
Staff costs to sales (%)	6.4	5.6		7.1	
Tax rate (%)	31.4	29.6		31.7	

Source: Company

Reported Vs Estimated performance

(Rs mn)	Reported	Estimated
Revenue	13,829	14,390
EBITDA (%)	9.1	4.3
Adj PAT	706	383

Source: Kotak Securities – Private Client Research

Result Highlights

- Although, BSL reported revenues of Rs 13.8 bn in Q1FY19, down 4% on a yoy basis, on a like to like basis (adjusted for GST implementation), the revenue growth was up 4% y-o-y.
- Segment-wise, the Electro Mechanical Projects and Packaged Airconditioning Systems (MEP) business accounted for 40% of the total revenues in the quarter. Revenue growth in this segment remain was flattish on a y-o-y basis.
- The revenue of this segment continued to be impacted due to slow execution in ongoing projects. However, this was offset by enhanced demand for chillers and VRF systems.
- Unitary Cooling Products segment (Room ACs mainly) accounted for 60% of the total revenues of the company during the quarter. Segment revenue growth was down marginally on a y-o-y basis.
- The room AC market remained subdued in the quarter, but BSL managed to outperform industry growth and enhanced its market share further to 11.5%.

Segment Revenue

(Rs mn)	Q1 FY19	Q1FY8	YoY (%)
Central AC (MEP)	5515	5778	-5%
Unitary Cooling products	8308	8622	-4%

Source: Company

Expansion in EBITDA margins

- EBITDA margins expanded by 250 bps on a y-o-y basis to 9.1%. Gross margins expanded on a y-o-y basis to 29.2% (vs 26.9% on y-o-y basis).
- Decline in "Other expenditure" by 6% y-o-y could be partly attributed to restricting marketing related expenditure in the quarter on account of subdued demand conditions for room AC.
- Segment-wise, the MEP (Mechanical Electrical & Plumbing) segment reported 410 bps expansion in EBIT margin.
- Profitability improved mainly due to savings attained in project procurement costs and a better margin profile of projects closed in Q1FY19.
- The management reiterated that profitability in this segment is a function of selection of appropriately priced jobs and pace of execution.
- Segment profits were flat at Rs 950.1 mn compared to Rs 952.9 mn during the same period in the previous year due to a better product mix and cost rationalization measures

Segment margins

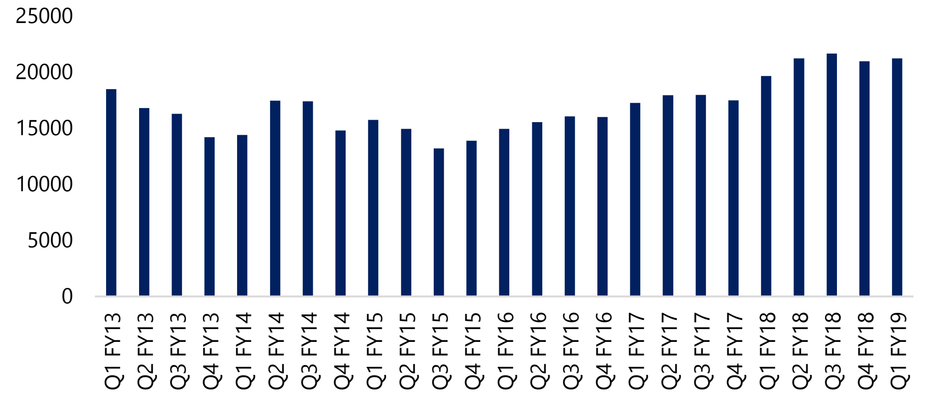
(%)	Q1 FY19	Q1FY18
Central AC (MEP)	6.9	3.0
Unitary Cooling products	11.5	11.1

Source: Company

Order book up 8% y-o-y

Order book at the end of Q1FY19 stands at Rs 21.1 bn, up 8% on a y-o-y basis. Although the traditional drivers of the MEP segment (IT/ITES and Retail) have remain muted, the company is seeing traction from Government-funded infrastructure projects like Metro and Healthcare. Private sector investment in industries and infrastructure continued to remain lackluster. Given this scenario, the management noted that the sales prospects base remained stagnant with a drop in office segment and growth in the residential space mostly for fire, ventilation and electrical & plumbing services.

Order book (Rs mn)



Source: Company

Conference call highlights

- Notwithstanding the intermittent blips in room AC demand due to weather patterns, BSL remains bullish given low penetration and shortening replacement cycle of the product.
- The company aspires to reach 10% market share in water purifier by 2021 as against 1% in FY18.
- The management expects segment one (MEP) revenue growth to be at 8-10% in FY19.
- Segment margins in MEP and Unitary Cooling segments to remain at 5.5-6% and 9-9.2% respectively in FY19.
- In the Air cooler market, BSL's market share is less than 1% but is targeting 4-5% share in next 3-4 yrs.

Earnings Revision

	FY19		FY20	
(Rs mn)	**Earlier**	**Revised**	**Earlier**	**Revised**
Revenue	48644	46743	56190	54683
EBITDA (%)	5.9	6.8	6.8	7.0
EPS	16.80	17.8	23.70	24.2
% change		6		2

Source: Kotak Securities – Private Client Research

Rating and Target Price

In view of the earnings revision, our target price works out to 743 (Rs 701 earlier).

In terms of valuation, the stock is trading at 40x and 29x FY19 and FY20 earnings, which is at a premium to sector leader – Voltas.

Given modest upside from current levels, we maintain "Accumulate.

SOTP valuation

Segment	Target PE	Est EPS (FY20E)	Target Price
UCP	31	13.7	423
Projects	25	10.5	263
Subsidiary - BSEEL	18	3.1	57
Total			743

Source; Kotak Securities – Private Client Research

Company background

Blue Star is India's leading air conditioning and commercial refrigeration company with close to 75 years of experience in providing expert cooling solutions, and has a network of 35 offices, 5 modern manufacturing facilities, 2200 dealers and 600 retailers. It fulfills the cooling requirements of a large number of corporate, commercial as well as residential customers. It also offers expertise in allied contracting activities such as mechanical, electrical, plumbing and fire-fighting services, in order to offer turnkey solutions, apart from execution of specialised industrial projects. The Company's integrated business model of a manufacturer, contractor and after-sales service provider enables it to offer an end-to-end solution to its customers, which has proved to be a significant differentiator in the market place. It has also recently forayed into the business of residential water purifiers as well as air purifiers and air coolers.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**41,121**	**44,944**	**46,743**	**54,683**
% change yoy	16.4	9.3	4.0	17.0
EBITDA	**1,995**	**2,637**	**3,177**	**3,827**
% change yoy	45.0	32.2	20.5	20.5
Depreciation	550	606	648	765
EBIT	**1,445**	**2,031**	**2,529**	**3,061**
% change yoy	73.5	40.5	24.5	21.1
Net Interest	306	229	349	206
Other Income	344	196	142	300
Earnings Before Tax	1,483	1,998	2,321	3,155
% change yoy	136.3	34.7	16.2	35.9
Extraordinary income				
Tax	(304)	(614)	(627)	(852)
as % of EBT	(20.5)	(30.7)	(27.0)	(27.0)
Net Income adj	**1,179**	**1,384**	**1,695**	**2,303**
% change yoy	127.3	17.4	22.4	35.9
PAT bef XO items	1,179	1,384	1,695	2,303
Extraordinary income/(loss)	0.0	178.5	0.0	0.0
Reported Net Income	**1,179**	**1,563**	**1,695**	**2,303**
Shares outstanding (m)	95.3	95.3	95.3	95.3
EPS (Rs)	**12.4**	**14.5**	**17.8**	**24.2**
DPS (Rs)	7.5	8.0	8.0	8.0
CEPS	18.1	20.9	24.6	32.2

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	780	593	412	786
Accounts receivable	8,128	9,548	9,220	10,787
Stocks	5,805	8,224	8,580	10,038
Loans and Advances	54	85	85	85
Others	1,282	2,112	2,112	2,112
Current Assets	16,048	20,563	20,410	23,808
Other non current assets	4,020	4,579	4,579	4,579
Intangible assets	558	769	769	769
LT investments	2,149	2,203	2,203	2,203
Net fixed assets	2,161	2,348	2,450	2,435
Deferred tax assets	1,045	878	878	878
CWIP	215	184	184	184
Total Assets	**26,197**	**31,524**	**31,473**	**34,856**
Payables	14,893	17,771	16,904	19,776
Others	348	334	348	348
Current liabilities	15,241	18,105	17,252	20,124
LT debt	1,492	3,200	3,200	2,300
Other liabilities	287	365	365	365
Equity & reserves	9,178	9,852	10,655	12,066
Total Liabilities	**26,197**	**31,524**	**31,473**	**34,856**
BVPS (Rs)	96.3	103.4	111.8	126.6

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	1,995	2,637	3,177	3,827
Tax and adjustments	1,112	(505)	(627)	(852)
Cash flow from operations	3,107	2,132	2,550	2,975
Net Change in Working Capital	(769)	(1,838)	(882)	(152)
Net Cash from Operations	**2,337**	**294**	**1,668**	**2,822**
Capital Expenditure	(1,028)	(869)	(750)	(750)
Cash from investing	(183)	143	142	300
Net Cash from Investing	**(1,211)**	**(727)**	**(608)**	**(450)**
Interest paid	(306)	(229)	(349)	(206)
Issue of Shares	67	-	-	-
Dividends Paid	(18)	(864)	(892)	(892)
Debt Raised	(1,364)	1,708	(0)	(900)
Net cash from financing	**(1,622)**	**615**	**(1,242)**	**(1,998)**
Net change in cash	(495)	183	(181)	374
Free cash flow	1,310	(575)	918	2,072
cash at end	779	593	412	786

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	4.9	5.9	6.8	7.0
EBIT margin (%)	3.5	4.5	5.4	5.6
Net profit margin (%)	2.9	3.1	3.6	4.2
Adjusted EPS growth (%)	127.3	17.4	22.4	35.9
Receivables (days)	72.1	77.5	72.0	72.0
Inventory (days)	51.5	66.8	67.0	67.0
Sales / Net Fixed Assets (x)	19.0	19.1	19.1	22.5
ROE (%)	13.7	14.5	16.5	20.3
ROCE (%)	12.2	13.1	14.1	16.9
EV/ Sales	1.6	1.5	1.5	1.3
EV/EBITDA	33.9	26.4	22.0	17.9
Price to earnings (P/E)	56.8	48.4	39.5	29.1
Price to book value (P/B)	7.3	6.8	6.3	5.6
Price to cash earnings	38.7	33.7	28.6	21.8

Source: Company, Kotak Securities – Private Client Research

Result Update

GABRIEL INDIA LTD (GABRIEL)

PRICE RS.142 **TARGET RS. 185** **BUY**

Gabriel reported healthy growth in revenue, EBITDA and net profit in 1QFY19. During the quarter, the two wheeler, passenger vehicle and commercial vehicle segment witnessed high growth in production.

Stock Details

Market cap (Rs mn)	:	20426
52-wk Hi/Lo (Rs)	:	223 / 129
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	118,364
Shares o/s (mn)	:	144

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	18,331	21,454	24,108
Growth (%)	20.6	17.0	12.4
EBITDA	1,713	2,033	2,389
EBITDA margin (%)	9.3	9.5	9.9
Net profit	942	1,124	1,325
EPS (Rs)	6.6	7.8	9.2
Growth (%)	14.0	19.3	17.9
Book value (Rs/share)	37	42	50
Dividend per share (Rs)	1.4	1.5	1.5
ROE (%)	19.3	19.8	20.0
ROCE (%)	27.3	27.6	28.0
P/E (x)	21.6	18.1	15.4
EV/EBITDA (x)	11.3	9.8	7.9
EV/Sales (x)	1.1	0.9	0.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	54.0	54.0	54.0
FII	12.0	10.9	11.1
DII	0.8	1.4	2.4
Others	33.2	33.7	32.5

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Gabriel India	(0.6)	(5.8)	(13.5)
Nifty	5.7	6.8	9.7

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Arun Agarwal
arun.agarwal@kotak.com
+91 22 6218 6443

Key Highlights

Revenue in the quarter came in at Rs5,146mn, 23% YoY increase, led by growth across segments. EBITDA in the quarter stood at Rs490mn, growth of 26% YoY. Majority of growth in EBITDA came from higher revenues. EBITDA margin improved marginally by 20bps YoY and QoQ to 9.5%. PAT for the quarter stood at Rs267mn, 31% growth over 1QFY18 PAT of Rs204mn. PAT came in marginally ahead of our estimate of Rs255mn.

Valuation and Outlook

Auto demand in the domestic market was robust in 1QFY19 and the same is expected to continue in FY19. We expect the two wheeler industry (largest revenue contributor to Gabriel) and commercial vehicle segment to witness strong double-digit volume growth in FY19. We expect improved product mix (higher share of two wheeler and commercial vehicle revenue) and cost control efforts to help the company's margin witness marginal increase in FY19/FY20. We retain BUY on the stock with revised price target of Rs185 (earlier Rs193).

Quarterly performance

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenues	**5,146**	**4,176**	**23.2**	**4,968**	**3.6**
Total expenditure	4,656	3,786	23.0	4,504	3.4
RM consumed	3,672	2,976	23.4	3,546	3.6
Employee cost	398	317	25.3	361	10.3
Other expenses	586	492	19.0	598	(2.0)
EBITDA	**490**	**390**	**25.5**	**464**	**5.7**
EBITDA margin (%)	9.5	9.3	-	9.3	-
Depreciation	106	96	9.8	107	(0.9)
Interest cost	8	7	2.4	7	5
Other Income	19	16	19.1	25	(24.5)
Exceptional gain / (loss)					
PBT	**395**	**302**	**30.7**	**374**	**5.6**
PBT margins (%)	7.7	7.2		7.5	
Tax	128	98	30.9	117	9.4
Tax rate (%)	32.5	32.4	-	31.4	-
Reported PAT	**267**	**204**	**30.7**	**257**	**3.9**
PAT margins (%)	5.2	4.9	-	5.2	-
EPS (Rs)	**1.9**	**1.4**	**30.7**	**1.8**	**3.9**

Source: Company

Result highlights

Revenue in the quarter came in at Rs5,146mn, 23% YoY increase, led by growth across segments. In 1QFY18, OEM production volume growth was 15%/11%/68% for two wheeler/ passenger vehicle and commercial vehicle segment. Gabriel's revenue in the two wheeler segment grew by 25% YoY, ahead of the industry volume growth of 15%, led by pick-up in motorcycle segment and market share gains. In the passenger vehicle segment, revenue growth remained on the lower side (mid-single digit as per our calculation) as against 11% production increase for the industry. Commercial vehicle segment revenue grew in excess of 50% YoY, in line with high production growth reported by OEM's. Given strong demand for new vehicles, share of OEM's in the revenue mix increased in 1QFY19 to 86%, from 84% in 1QFY18 and 82% in 4QFY18.

EBITDA in the quarter stood at Rs490mn, growth of 26% YoY. Majority of growth in EBITDA came from higher revenues. EBITDA margin improved marginally by 20bps YoY and QoQ to 9.5%. In the quarter, improved product mix (higher share of two wheeler / commercial vehicle segment) helped the company offset impact of commodity price inflation. Accordingly, gross margin at 28.6% remained unchanged QoQ and was marginally lower YoY. Company has pass through clause with customers, but the same happens with quarterly lag. Employee cost increase came on a lower last year base. Other expense increase is due to higher revenues and increase in management fees to 2% of revenue from earlier 1.5% of revenue (additional impact of Rs26mn in the quarter).

PAT for the quarter stood at Rs267mn, 31% growth over 1QFY18 PAT of Rs204mn. PAT came in marginally ahead of our estimate of Rs255mn.

Conference Call Highlights

- Auto industry volume growth remained strong in 1QFY19. Management is hopeful of robust volume growth across segments in FY19.
- In the aftermarket segment, the company is witnessing gradual recovery.
- Gabriel won business from Maruti Suzuki for its upcoming new product in FY20 (codenamed Y1K).
- Gabriel inaugurated a new assembly facility at Hosur to cater to TVS Motors. Management highlighted that this facility has helped them gain higher share of business with TVS Motor.
- Gabriel market share in various segments are – two wheeler – 25%, passenger vehicle 25% (40% in utility vehicle), three wheeler – 65%, commercial vehicle – 85% and aftermarket – 40-43%.

Outlook and Valuations

Auto demand in the domestic market was robust in 1QFY19 and the same is expected to continue in FY19. We expect the two wheeler industry (largest revenue contributor to Gabriel) and commercial vehicle segment to witness strong double-digit volume growth in FY19. Further, the passenger car volumes are also expected to grow strongly. With 86% volume coming from OEM's, Gabriel is expected to witness healthy revenue growth. We factor in 15% revenue CAGR for Gabriel over FY18-FY20E.

Company's EBITDA margin in 1QFY19 was marginally better than estimate. Company has increased management fees by 50bps. We expect improved product mix (higher share of two wheeler and commercial vehicle revenue) and cost control efforts to help the company's margin to witness marginal increase in FY19/FY20.

We have marginally revised our estimates. We retain BUY on the stock with revised price target of Rs185 (earlier Rs193). We continue to value the company at PER of 20x FY20E earnings.

Change in estimates

(Rs mn)	FY19			FY20		
	Old	New	% chg	Old	New	% chg
Revenues	21,602	21,454	(0.7)	24,268	24,108	(0.7)
EBITDA margin (%)	9.6	9.5	-	10.0	9.9	-
Adjusted PAT	1,194	1,124	(5.9)	1,388	1,325	(4.5)

Source: Kotak Securities – Private Client Research

Key risk

Slowdown in auto demand and significant increase in input cost are key risk to our estimates.

Company background

Gabriel is the flagship company of ANAND Group. Gabriel was set up in 1961 in collaboration with Maremont Corporation (now Gabriel Ride Control Products of Arvin Meritor Inc, USA). The company provides wide range of ride control products, including shock absorbers, struts and front forks to the automotive segment. Gabriel segment revenue mix is - 58% from two wheeler, 27% from passenger vehicle and 15% from commercial vehicle segment. In terms of channel mix – revenue from OEM / replacement/ exports stands at 86%/11%/3%. Company has seven manufacturing facility and four satellite plants in India.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**15,206**	**18,331**	**21,454**	**24,108**
% change YoY	5.7	20.6	17.0	12.4
EBITDA	**1,461**	**1,713**	**2,033**	**2,389**
% change YoY	14.6	17.2	18.7	17.5
Depreciation	353	383	434	539
EBIT	**1,108**	**1,330**	**1,599**	**1,850**
% change YoY	17.4	20.0	20.3	15.7
Net interest	39	29	13	12
Other Income	58	71	43	82
Exceptional income/(loss)	0	0	0	0
Profit before tax	**1,128**	**1,372**	**1,629**	**1,921**
% change YoY	18.1	21.6	18.8	17.9
Tax	301	429	505	595
as % of PBT	26.7	31.3	31.0	31.0
Profit after tax	**827**	**942**	**1,124**	**1,325**
Adjusted PAT	**827**	**942**	**1,124**	**1,325**
% change YoY	9.0	14.0	19.3	17.9
Shares outstanding (m)	144	144	144	144
Adjusted EPS (Rs)	**5.8**	**6.6**	**7.8**	**9.2**
DPS (Rs)	1.3	1.4	1.5	1.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	810	1,123	593	1,502
Accounts receivable	2,118	2,792	3,233	3,633
Inventories	1,312	1,491	1,688	1,890
Loans and Adv & Others	544	537	586	638
Current assets	4,784	5,942	6,100	7,663
LT investments	4	23	23	23
Net fixed assets	2,900	3,043	4,209	4,170
Total assets	**7,688**	**9,008**	**10,332**	**11,856**
Payables	2,147	2,650	3,056	3,435
Other liabilities	548	528	581	639
Current Liabilities	2,695	3,179	3,637	4,073
Provisions	268	278	325	348
Deferred Tax Liability	141	198	198	198
Debt	82	104	75	75
Equity	144	144	144	144
Reserves	4,358	5,105	5,952	7,018
Total liabilities	**7,688**	**9,008**	**10,332**	**11,856**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	1,108	1,330	1,599	1,850
Depreciation	353	383	434	539
Change in working capital	(33)	(348)	(232)	(224)
Chg in other net current asset	(74)	(3)	51	29
Operating cash flow	1,354	1,361	1,852	2,193
Interest	(39)	(29)	(13)	(12)
Tax	(264)	(372)	(505)	(595)
Other Income	58	71	43	82
EO income	-	-	-	-
Others	81	36	-	-
Cash flow from operations	**1,191**	**1,067**	**1,376**	**1,668**
Capex	(506)	(526)	(1,600)	(500)
(Inc)/dec in investments	(287)	(359)	623	-
Cash flow from investments	**(793)**	**(885)**	**(977)**	**(500)**
Proceeds from issue of equities	(0)	0	-	-
Inc/(dec) in debt	(27)	22	(29)	-
Proceeds from share premium	-	-	-	-
Dividends	(206)	(231)	(277)	(260)
Cash flow from financing	**(233)**	**(209)**	**(306)**	**(260)**
Opening cash	362	527	500	593
Closing cash	527	500	593	1,502

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	9.6	9.3	9.5	9.9
EBIT margin (%)	7.3	7.3	7.5	7.7
Adj. net profit margin (%)	5.4	5.1	5.2	5.5
Working capital days				
Inventory (days)	32	30	29	29
Receivable (days)	51	56	55	55
Payable (days)	52	53	52	52
Ratios				
Debt/equity ratio (x)	0.0	0.0	0.0	0.0
ROE (%)	19.9	19.3	19.8	20.0
ROCE (%)	26.7	27.3	27.6	28.0
Valuations				
EV/ Sales	1.3	1.1	0.9	0.8
EV/EBITDA	13.5	11.3	9.8	7.9
Price to earnings (P/E)	24.7	21.6	18.1	15.4
Price to book value (P/B)	4.5	3.9	3.3	2.8

Source: Company, Kotak Securities – Private Client Research

kotak Securities

Result Update

BAJAJ ELECTRICALS LTD (BAEL)

PRICE RS.625 **TARGET RS. 545** **SELL**

BAEL reported Q1FY19 PAT in line with our estimate; consumer durable (CD) business grew 27.1% y/y on the low base of Q1FY18 (affected by GST implementation). E&P business revenue/PBIT normalized after a robust Q4FY18.

Key Highlights

- BAEL reported net revenues of Rs 11.4 Bn (+11.7% y/y) in Q1FY19 driven by 27.1% y/y growth (aided by low base of Q1FY18) in the CD business. Management highlighted that nearly 10% of volume growth in the quarter can be attributed to the GST effect in the quarter.
- In E&P segment, BAEL reported revenues of Rs 5.4 Bn (-3% y/y) with EBIT margins at 6.1% against 7.1% in Q1FY18.

Valuation & Outlook

We revise FY20 earnings estimate; build higher margin in consumer business in FY20, driven by operating leverage. However reiterate our negative view driven by expensive valuations; remain cautious on 1/ sales and margin come back in the consumer business post RREP implementation and 2/ deterioration in working capital requirement and debt accretion on balance sheet driven by higher proportion of E&P business. We still maintain BAEL valuation discount vis-à-vis the peer group due to 1/ lower margin/return ratios and 2/ company's presence in capital intensive E&P business. We arrive at a SOTP based target price of Rs 545 (Rs 505 earlier; earning revision driven by improved margin outlook going forward); maintain 'SELL' rating on company's stock.

Q1FY19 Result

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	**11399**	**10205**	**11.7**	**16063**	**(29.0)**
Other Income	93	105	(11.3)	226	(58.7)
Raw material cost	671	462	45.3	1281	(47.6)
Purchase of traded goods	6755	6215	8.7	9191	(26.5)
Employee cost	1657	1682	(1.5)	1933	(14.3)
Other expenditure	1518	1394	8.9	2309	(34.2)
Total expenditure	10601	9753	8.7	14713	(27.9)
EBITDA	**798**	**452**	**76.5**	**1350**	**(40.9)**
Depreciation	92	80	14.8	89	3.4
PBIT	**800**	**477**	**67.5**	**1487**	**(46.2)**
Interest expense	177	150	17.8	155	14.4
PBT	**623**	**327**	**90.3**	**1332**	**(53.2)**
Extraordinary items	0	-		(894)	
Tax Expense	218	123	77.6	365	(40.4)
Reported PAT	**405**	**205**		**73**	
Adj. PAT	405	204.9	97.8	967	(58.1)
EPS (adj)	**4.0**	**2.0**	**97.8**	**9.5**	
EBITDA (%)	7.0	4.4		8.4	
Tax (%)	34.9	37.4		27.4	
RM/Sales (%)	65.1	65.4		65.2	

Source: Company

Stock Details

Market cap (Rs mn)	:	63787
52-wk Hi/Lo (Rs)	:	706 / 295
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	735,886
Shares o/s (m)	:	102

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	47,075	59,110	66,722
Growth (%)	10.5	25.6	12.9
EBITDA	2,934	4,138	5,138
EBITDA margin (%)	6.2	7.0	7.7
Adj. PAT	1,730	1,991	2,588
EPS	17.0	19.5	25.4
EPS Growth (%)	60.6	15.1	30.0
BV (Rs/share)	92	106	125
Dividend/share (Rs)	4.2	5.2	6.2
ROE (%)	19.2	19.7	21.9
ROCE (%)	10.2	9.2	9.8
P/E (x)	36.8	32.0	24.6
EV/EBITDA (x)	24.0	17.1	13.7
P/BV (x)	6.5	5.6	4.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	62.9	62.9	63.0
FII	9.9	9.7	9.8
DII	5.0	5.3	4.6
Others	22.0	22.1	22.6

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Bajaj Electricals	19.3	(5.3)	16.3
Nifty	5.7	6.8	9.7

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Ruchir Khare
ruchir.khare@kotak.com
+91 22 6218 6431

Result Highlights

BAEL reported net revenues of Rs 11.4 Bn (+11.7% y/y) in Q1FY19 driven by 27.1% y/y growth (aided by low base of Q1FY18) in the CD business. Management highlighted that nearly 10% of volume growth in the quarter can be attributed to the GST effect in the quarter.

Consumer durable division reported revenues at Rs 5.9 Bn against Rs 4.6 Bn in Q1FY18. Volumes were up by over 30% in the quarter on the low base of Q1FY18.

EBIT Margin for the consumer segment is reported at 7% against 0.7% in Q1FY18. We note that the company has made radical changes to its distribution (transiting from wholesaler based selling to direct retail selling under RREP model) in the last two years. As per the management, RREP roll out has been encouraging so far and company would likely report recovery from the current year onwards. Currently BAEL has covered nearly 85-90% of its distribution under RREP.

In E&P segment, BAEL reported revenues of Rs 5.4 Bn (-3% y/y) with EBIT margins at 6.1% against 7.1% in Q1FY18. We note that the company incurred c. Rs 50 mn of expenses towards the preliminary activities in UP electricity board order. Management maintained its EBIT margin guidance of 7-8% in the E&P segment. Order book, reported at Rs 76.5 Bn includes Rs 12.8 Bn of transmission line orders, 61.5 Bn of distribution and Rs 2.21 Bn of illumination orders. Order book includes USD 4.2 mn power distribution turnkey order in Africa (Zambia) and c. Rs 50 Bn in UP (rural power distribution project) it won recently.

Management expects Uttar Pradesh order (over 65% of company's E&P order book) to get executed through Q2FY19-FY20.

Segment Results

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Consolidated revenues					
Consumer Durables	5969	4695	27.1	6446	(7.4)
Engg Projects	5430	5598	(3.0)	9615	(43.5)
PBIT					
Consumer Durables	420	33	1181	376	11.7
Engg Projects	333	398	(16)	1082	(69.2)
PBIT (%)					
Consumer Durables	7.0	0.7		5.8	
Engg Projects	6.1	7.1		11.2	

Source: Company

Interest charges came down to Rs177 mn in Q1FY19 vis-à-vis Rs 150 mn last year. We note (consistent with management view) that the borrowings are bound to increase (by Rs 4-5 Bn) over FY19/20 to fund working capital related to E&P business. Adjusted net profit in Q1FY19 stood at Rs 405 mn vis-à-vis Rs 205 mn in Q1FY19.

RREP program should get implemented over the period of next two years

BAEL launched RREP (Retail reach expansion program) in FY16 to reach out to dealers more efficiently as against traditional wholesaler based model of selling. The RREP programs (TOC-Theory of constraints based model) is currently under implementation and has had diminishing effect on company's primary sales over the last few quarters. Management has earlier highlighted that TOC model would start yielding benefits (partially) from FY19 onwards. However, full benefits from TOC based distribution model are expected to materialize from FY20.

Management believes that TOC based RREP model would provide benefits in terms of 1) improved engagement with dealers, 2) establish efficient feedback mechanism, 3) expand product reach for premium/newly launched products and 4) achieve lower inventory levels.

Under RREP (where supply chain is highly centralized) company is optimistic of seeking benefits from 1) improved purchases in terms of bulk buying, 2) savings from lower investment in ideal inventory (slow moving products) and 3) reduction in discounts offered to large wholesalers.

As a second step under TOC based selling, company would aim at increasing sales and expect recovery from FY18 onwards. We suspect that the company has lost market share in the past few quarters (reflected in company's poor sales in last few quarters' vis-à-vis competitors). As of now, TOC covers nearly 90% of distributors.

We note that in the past, some of the other competitors have also made attempts to realign the distributor discounts. For instance, in FY16 Havells too has averted the practice of offering additional discounts to the large distributors and had experiences temporary fall in sales. However, we fail to identify any major players who have completely done away with wholesalers' based selling. Most of the players, we believe have resorted to a combination (40-60 or 50-50) of wholesalers and direct selling model. We therefore believe that the company would have to be swift and efficient in ramping up sales (by means of aggressive advertising campaigns to create demand pull) post full commencement of RREP and regain lost market share. We believe that the successful rollout of RREP is critical for the company and remain watchful of the developments and progress made in this direction.

Valuation and recommendation

We build higher margin in consumer business in FY20, driven by operating leverage (expect CD business EBIT at Rs 2.8 Bn vis-à-vis Rs 2.5 Bn earlier). However reiterate our negative view driven by expensive valuations; remain cautious on 1/ sales and margin come back in the consumer business post RREP implementation and 2/ deterioration in working capital requirement and debt accretion on balance sheet driven by higher proportion of E&P business. We still maintain BAEL valuation discount vis-à-vis the peer group due to 1/ lower margin/return ratios and 2/ company's presence in capital intensive E&P business. We arrive at a SOTP based target price of Rs 545 (Rs 505 earlier; earning revision driven by improved margin outlook going forward); maintain 'SELL' rating on company's stock.

Estimates

Rs mn	FY20E (revised)	FY20E (prior estimates)
B2C		
EBIT B2C	2,888	2659
Interest	(300.00)	(300.00)
Tax	(854.07)	(778.62)
PAT	**1734**	**1581**
Target PER	27	27
Target Market Capitalization (B2C) (a)	**46,818**	**42682**
EBIT B2B	2,422	2403
Interest	(800)	(800)
Tax	(535)	(529)
PAT	**1,087**	**1074**
Target PER	8	8
Target Market Capitalization (B2B)(b)	**8695**	**8592**
Target Market Capitalization (BAEL) (a+b)	**55513**	**51274**
Target price per share (BAEL)	**545**	**505**

Source: Kotak Securities – Private Client Research

Company background

Bajaj Electricals business is spread across – consumer Products, exports, luminaires and EPC (Illumination, Transmission Towers and Power Distribution). . Within consumer products, it deals in a wide range of products from fans, mixers, heaters, oven, toasters etc and enjoys reasonable market share of 15-18% in each vertical. Moreover company keeps on adding new revenue streams on constant basis by introducing new product lines in the consumer business. Bajaj Electricals has pan India presence which is being supported by a chain of distributors, authorized dealers, retail outlets, and exclusive showrooms called 'Bajaj World'. BAEL also have a presence in the hi-end range of appliances with brands like Platini and Morphy Richards in India.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**42,617**	**47,075**	**59,110**	**66,722**
% change yoy	(7.6)	10.5	25.6	12.9
EBITDA	**2,427**	**2,934**	**4,138**	**5,138**
% change yoy	(6.4)	20.9	41.0	24.2
Depreciation	299	339	360	370
EBIT	**2,129**	**2,595**	**3,778**	**4,768**
% change yoy	(8.3)	21.9	45.6	26.2
Net Interest	804	589	1,014	1,086
Earnings Before Tax	1,681	1,748	3,064	3,981
% change yoy	9.5	51.0	20.7	30.0
Tax	604	809	1,072	1,394
as % of EBT	35.9	46.2	35.0	35.0
Recurring PAT	**1,077**	**1,730**	**1,991**	**2,588**
% change yoy	12.7	60.6	15.1	30.0
Shares outstanding (mn)	101.9	101.9	101.9	101.9
EPS (Rs)	**10.6**	**17.0**	**19.5**	**25.4**
DPS (Rs)	2.8	4.2	5.2	6.2
CEPS	13.5	20.3	23.1	29.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	653	294	730	1,335
Accounts receivable	16,467	20,121	28,340	31,990
Inventories	5,712	5,792	9,393	10,420
Other current assets	2,130	3,546	3,988	5,011
Current Assets	24,308	29,459	41,722	47,421
Investments	720	77	77	77
Net fixed assets	3,179	3,161	3,515	3,645
Other non-current assets	1924	1669	1290	744
Total Assets	**30,783**	**34,659**	**47,333**	**53,222**
Debt	5,455	7,176	12,676	13,576
Equity & reserves	8,429	9,161	10,623	12,579
Other liabilities	1,795	1,803	1,802	1,803
Current Liabilities	15,104	16,519	22,232	25,264
Total Liabilities	**30,783**	**34,659**	**47,333**	**53,222**
BVPS (Rs)	84.7	91.9	106.3	125.5

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	1,681	1,748	3,064	3,981
Depreciation	299	339	360	370
Current liabilities incl provisns	(3,613)	1,414	5,713	3,032
inc in inventory	(645)	(80)	(3,601)	(1,027)
inc in sundry Debtors	(2,846)	(3,655)	(8,219)	(3,650)
inc in advances	(13)	(12)	5	-
Tax Paid	(604)	(809)	(1,072)	(1,394)
Other Adjustments	2,466	(942)	(69)	(476)
Net cash from operations	**(3,275)**	**(1,995)**	**(3,820)**	**837**
Purchase of fixed Assets	(482)	(321)	(715)	(500)
Net investments	(126)	643	-	-
Long term provisions	313.2	20.9	0	0
Net cash from investing	**(294)**	**343**	**(715)**	**(500)**
Change in Borrowings	3,487	1,721	5,500	900
Dividend Paid	(341)	(428)	(530)	(632)
Net Cash from financing	**3,145**	**1,293**	**4,970**	**268**
Net Cash Flow	(423)	(359)	436	606
Cash at the end of year	653	294	730	1,335

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	5.7	6.2	7.0	7.7
EBIT margin (%)	5.0	5.5	6.4	7.1
Net profit margin (%)	2.4	1.8	3.4	3.9
Receivables (days)	141.0	156.0	175.0	175.0
Inventory (days)	48.9	44.9	58.0	57.0
Sales / Net Fixed Assets (x)	3.2	3.4	4.0	4.2
Interest coverage (x)	2.6	4.4	3.7	4.4
Debt/ equity ratio	0.6	0.8	1.2	1.1
ROE (%)	13.3	19.2	19.7	21.9
ROCE (%)	8.4	10.2	9.2	9.8
EV/ Sales	1.7	1.5	1.2	1.1
EV/EBITDA	29.1	24.0	17.1	13.7
Price to earnings (P/E)	59.1	36.8	32.0	24.6
Price to book value (P/B)	7.1	6.5	5.6	4.8
Price to cash earnings	44.4	29.5	26.0	20.7

Source: Company, Kotak Securities – Private Client Research

Forthcoming Events

Forthcoming events

Date	Event
10-Aug	Allcargo, Andhra Bank, Balaji Telefilm, Dollar Industries, Endurance, GE Shipping, Glenmark, Hindalco, IGL, KNR Construction, NCC, Sun TV, Voltas earnings expected
11-Aug	India Cement, MRPL, NBCC earnings expected
13-Aug	Cadila Healthcare, Oil India, Tata Chemicals, Steel earnings expected
14-Aug	Dilip Buildcon, Grasim Industries, Sun Pharmaceuticals 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.

FUNDAMENTAL RESEARCH TEAM

Rusmik Oza
Head of Research
rusmik.oza@kotak.com
+91 22 6218 6441

Arun Agarwal
Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6218 6443

Amit Agarwal
Transportation, Paints, FMCG
agarwal.amit@kotak.com
+91 22 6218 6439

Nipun Gupta
Information Tech, Midcap
nipun.gupta@kotak.com
+91 22 6218 6433

Krishna Nain
Special Situations
krishna.nain@kotak.com
+91 22 6218 7907

Sanjeev Zarbade
Cap. Goods & Cons. Durables
sanjeev.zarbade@kotak.com
+91 22 6218 6424

Ruchir Khare
Cap. Goods & Cons. Durables
ruchir.khare@kotak.com
+91 22 6218 6431

Jatin Damania
Metals & Mining, Midcap
jatin.damania@kotak.com
+91 22 6218 6440

Cyndrella Carvalho
Pharmaceuticals
cyndrella.carvalho@kotak.com
+91 22 6218 6426

K. Kathirvelu
Support Service
k.kathirvelu@kotak.com
+91 22 6218 6427

Teena Virmani
Construction, Cement, Building Mat
teena.virmani@kotak.com
+91 22 6218 6432

Sumit Pokharna
Oil and Gas, Information Tech
sumit.pokharna@kotak.com
+91 22 6218 6438

Pankaj Kumar
Midcap
pankajr.kumar@kotak.com
+91 22 6218 6434

Jayesh Kumar
Economist
kumar.jayesh@kotak.com
+91 22 6218 5373

TECHNICAL RESEARCH TEAM

Shrikant Chouhan
shrikant.chouhan@kotak.com
+91 22 6218 5408

Amol Athawale
amol.athawale@kotak.com
+91 20 6620 3350

DERIVATIVES RESEARCH TEAM

Sahaj Agrawal
sahaj.agrawal@kotak.com
+91 79 6607 2231

Malay Gandhi
malay.gandhi@kotak.com
+91 22 6218 6420

Prashanth Lalu
prashanth.lalu@kotak.com
+91 22 6218 5497

Prasenjit Biswas, CMT, CFTe
prasenjit.biswas@kotak.com
+91 33 6625 9810

Disclosure/Disclaimer

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house.

Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/deficiency letters/ or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on www.kotak.com

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report. Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: The Phoenix Mills, PNC Infra - Yes

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

"A graph of daily closing prices of securities is available at www.nseindia.com and http://economictimes.indiatimes.com/markets/stocks/stock-quotes. (Choose a company from the list on the browser and select the "three years" icon in the price chart)."

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com/www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSE INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com.In case you require any clarification or have any concern, kindly write to us at below email ids:

- **Level 1**: For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1800222299, Offline Customers - 18002099292
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91- (022) 4285 8301.