Morning Insight

MAY 16, 2019

		% Chg		
	15-May	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,115	(0.5)	(4.6)	3.6
NIFTY Index	11,157	(0.6)	(4.6)	4.0
NSEBANK Index	28,616	(0.7)	(4.9)	6.8
NIFTY 500 Index	9,160	(0.6)	(5.7)	3.8
CNXMcap Index	16,624	(0.7)	(8.9)	2.5
BSESMCAP Index	13,782	(0.4)	(8.8)	4.0
World Indices				
Dow Jones	25,648	0.5	(3.0)	(0.9)
Nasdaq	7,822	1.1	(2.2)	4.7
FTSE	7,297	0.8	(2.3)	0.8
NIKKEI	21,189	0.6	(5.2)	0.7
Hangseng	28,269	0.5	(6.2)	1.3
Shanghai	2,939	1.9	(9.6)	9.6

Value traded (Rs cr)	15-May	% Chg Day
Cash BSE	2,265	(0.3)
Cash NSE	31,917	(8.7)
Derivatives	1,253,355	17.3

Net inflows (Rs cr)	14-May	MTD	YTD
FII	(1,958)	(1,902)	66,319
Mutual Fund	1,901	6,259	3,598

Nifty Gainers & Losers 15-May	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Bajaj Finance	3,003	4.2	2.5
Eicher Motor	19,998	4.0	0.2
UPL	970	1.5	2.3
Losers			
Yes Bank	143	(8.3)	95.9
Tata Motors	169	(8.2)	31.4
Zee Entertainment	322	(6.9)	43.3

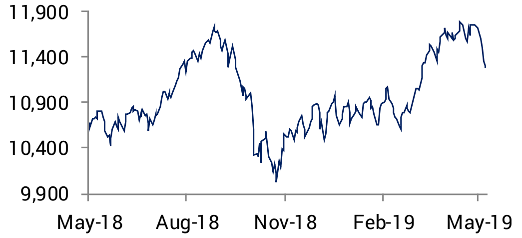
Advances / Declines (BSE)

15-May	A	B	T	Total	% total
Advances	146	369	46	561	100
Declines	314	583	64	961	171
Unchanged	1	39	10	50	9

Commodity		% Chg		
	15-May	1 Day	1 Mth	3 Mths
Crude (US$/BBL)	72.1	0.5	0.5	8.8
Gold (US$/OZ)	1,298.0	0.2	1.7	(1.7)
Silver (US$/OZ)	14.8	0.1	(1.2)	(6.0)

Debt / Forex Market	15-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.4	7.4	7.4	7.4
Re/US$	70.3	70.4	69.4	71.2

Nifty



Source: Bloomberg

News Highlights

- India's trade deficit widened to $15.33 bn in April from a year ago, the trade ministry said in a statement. Trade deficit was $13.72 bn in April 2018 and was $10.89 bn in March 2019. (Mint)
- This year, the statistical model forecast suggests that the monsoon onset over Kerala is likely to be slightly delayed. The southwest monsoon onset is likely to set over Kerala on 6th June with a model error of plus or minus 4 days, according to the IMD. (BS)
- The government plans to raise up to Rs100bn by selling the subsidiaries of Air India and other assets to repay a part of the national carrier's debt of Rs 290bn that the government has taken over from the national carrier. (ET)
- In a major streamlining of its businesses, Tata Sons Ltd. transferred its consumer products business from **Tata Chemicals Ltd** to **Tata Global Beverages Ltd**. (Mint)
- The 500-page case filed by US states charged global biggies like Teva, Pfizer, Sandoz and Mylan, as well as domestic companies like **Sun Pharma's** US arm Taro, **Zydus, Lupin**, **Aurobindo, Dr Reddy's, Wockhardt** and **Glenmark** with conspiring to inflate prices of medicines, and stifling competition for generic drugs. (ET)
- **Maruti Suzuki (MSIL)** is likely to transport at least half of its cars via Indian Railways by 2030. This is a major fillip for the railways as MSIL had transported only 500,000 cars via the rail route in the last four years. MSIL sold a total of 1.75 mn vehicles in the domestic market in 2018-19. (BS)
- The two promoter of IndiGo are believed to be having differences with each other and have engaged law firms to iron out their issues, ET Now learns exclusively from sources. Rahul Bhatia and Rakesh Gangwal came together in 2004 to form **InterGlobe Aviation**, the owner of Indigo, with an investment of Rs3.5bn. (ET)
- With little signs of any investor willing to buy 76 per cent, the lenders' consortium led by **State Bank of India** has now initiated a process to find investors who could hold small stakes along with Etihad. The lenders are of the opinion that the ownership of **Jet Airways** can be divided between three entities, each holding 20 per cent, while Etihad could keep 24 per cent. (BS)
- **Varroc Engineering** is in advanced talks with Sintex Plastic Technology to acquire the latter's domestic automotive custom moulding business, according to several people familiar with the development. (ET)
- **Engineers India Ltd** said it has signed an agreement to provide project management consultancy for a new 1.5 million tonne refinery being set up in Mongolia. The pact was signed with Mongol Refinery State Owned LLC. (ET)

What's Inside

- **Result Update**: Welspun Corp Ltd, Shankara Building Products Ltd, FIEM Industries Ltd

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

Result Update

WELSPUN CORP LTD

PRICE RS.133 **TARGET RS.171** **BUY**

Welspun Corp (WCL) Q4FY19 reported numbers were below estimates due to one-off expenses pertaining to the fair value/MTM of bonds and provisions pertaining to provident fund. Adjusting for the same, EBITDA increased to Rs2.57 bn (reported EBITDA of Rs322 mn), supported by strong U.S operations.

Key Highlights:

- Revenue during the quarter stood at Rs27.56 bn, up 115.9% YoY and 14.7% QoQ, supported by higher volume and better realisation. Pipes sales volume during the quarter stood at 369kt (including 77Kt of Saudi Arabia plant). FY19 sales volume was 1.28 MT, highest ever volume in the history.
- WCL reported EBITDA of Rs322 mn, down 65.4% YoY and 83.1% QoQ, largely due sharp increase in other expenses. For FY19, the U.S operations reported EBITDA of $200/tonne and India operations EBITDA stood at Rs5,000/tonne.
- After reporting losses for the last few quarters, Saudi Arabia plant reported positive EBITDA of SAR 12 mn, supported by a change in order/product mix. On PBT level, it continued to report loss of SAR 7mn down from SAR 24mn in 3QFY19.
- FY20 opening order book was 1.66MT (Rs 141 bn) and as on May 14, 2019, WCL order book stands at 1.712 MT (Rs 150 bn), to be executed over the next 15-18 months.
- **Guidance:** Management expects pipe sales volume of 1.1-1.2 MT (excl. Saudi Arabia) and EBITDA of Rs11-12 bn for FY20E.
- WCL announced buy-back for a maximum consideration of Rs3.9 bn, at a price not exceeding Rs140 per share.
- Factoring Q4FY19 performance, we have revised our estimates upwards for FY20E to Rs15.4 (earlier Rs12.3) and FY21E to Rs16.7 (earlier Rs13.8)

Quarterly Table

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	**27,561**	**12,766**	**115.9**	**24,030**	**14.7**
Raw Materials	20,132	8,950		17,297	
Employee	1,641	990		1,494	
Other Expenses	5,466	1,898		3,336	
Total Expenses	27,239	11,837		22,127	
EBITDA	**322**	**929**	**(65.4)**	**1,903**	**(83.1)**
EBITDA Margin	1.2	7.3		7.9	
Depreciation	614	614		654	
EBIT	**(292)**	**316**		**1,250**	
Interest	536	367		418	
Other Income	91	344		400	
EBT	**(736)**	**293**		**1,232**	
Tax	462	72		447	
PAT	**(1,198)**	**221**		**785**	
Share of JV	(54)	(257)		(236)	
Reported PAT	**(1,253)**	**(36)**		**549**	
Discontinued Operations	(238)	(40)		(271)	
Profit after discontinued op.	**(1,490)**	**(76)**		**279**	

Source: Company

Stock Details

Market cap (Rs mn)	:	35089
52-wk Hi/Lo (Rs)	:	187 / 87
Face Value (Rs)	:	5
3M Avg. daily vol	:	855,479
Shares o/s (m)	:	265

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	89,535	89,583	90,923
Growth (%)	40.7	0.1	1.5
EBITDA	5,731	8,600	8,890
EBITDA margin (%)	6.4	9.6	9.8
PAT	(216)	4,093	4,441
EPS	-0.8	15.4	16.7
EPS Growth (%)	(114.1)	583.8	8.5
BV (Rs/share)	106	120	138
Dividend/share (Rs)	0.5	0.5	0.5
ROE (%)	2.1	12.7	12.2
ROCE (%)	7.3	13.1	12.6
P/E (x)	(163.0)	8.6	7.9
EV/EBITDA (x)	6.6	4.1	3.3
P/BV (x)	1.3	1.1	1.0

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	48.7	48.7	48.3
FII	6.2	6.2	5.5
DII	8.7	8.7	8.6
Others	36.2	36.2	37.6

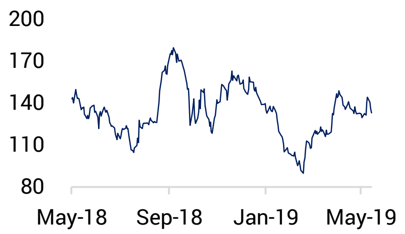
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Welspun Corp	(5.2)	44.0	(10.6)
Nifty	(4.6)	4.0	5.1

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Retain BUY

Given its strong manufacturing and execution capabilities, strong order backlog coupled with robust bids in the pipeline (~3.3 MT) and future potential of ~18MT (management indicated in a conference call), we believe, WCL is better placed compared to its peers, to take advantage of renewed pipe demand globally and in the domestic market. Going ahead, a large part of operational profit is expected to come from the U.S, due to execution of high margins order. Backed by improvement in operating performance and decline in interest outgo (focus is on reducing debt), PAT (continuing operations) is expected to grow at ~43% CAGR during FY18-21E period. Due to loss of Rs815 mn from discontinued operations (PCMD), the company reported loss of Rs2.2 bn in FY19. At CMP, the stock is trading at 4.1x/3.2x FY20E/FY21E EV/EBITDA and is at a discount to its historical multiple of its last seven years average. We continue to maintain our positive view on the stock and reiterate BUY, with revised target price of Rs171 (earlier Rs161).

Higher MTM provisions dragged the performance

Despite reporting a revenue of Rs27.56 bn, up 155.9% YoY and 14.7% QoQ, WCL reported a sharp fall in EBITDA to Rs322 mn, due to 188.1% YoY and 63.9% QoQ jump in other expenses to Rs5.47 bn. The increase in other expenses is largely attributed to change in fair valuation /MTM on bond investments (Rs2.19 bn), provisions for provident fund (Rs198 mn), transactional forex loss (Rs161 mn) and currency impact on the U.S closing stock inventory (Rs206 mn). Adjusting to the same, the EBITDA stood at Rs2.57 bn, higher than our estimates of Rs1.9 bn. Lower than expected operating performance and loss of Rs238 mn from discontinued operations (PCMD), resulted in loss of Rs1.49 bn at PAT.

Reconciliation of operating EBITDA

Particulars (Rs Mn)	Q4FY18	3QFY19	4QFY19	FY18	FY19
Reported EBITDA	**929**	**1,903**	**322**	**5,813**	**5,731**
Less:					
Treasury Income	(156)	(245)	(98)	(1,050)	(834)
Gain on sale/fair valn. Of investments	(16)	(138)	(41)	(16)	(179)
Add:					
Fair valn. on IL&FS bonds incl. its SPVs			983		1,169
MTM loss/Fair valn. of other bonds	(31)	110	1,202	(27)	1,405
Other Provisions		44	198		328
Operating EBITDA	**726**	**1,674**	**2,566**	**4,720**	**7,620**

Source: Company, Kotak Securities – Private Client Research

Aggressive Guidance

During FY19, the company reported highest ever sales volume of 1.28 MT and expects the FY20E sales volume to be in the range of 1.1-1.2 MT (India and U.S), taking into consideration 70% from the current order book and 30% from the prospective order and 0.4-0.5 MT at Saudi Arabia. On EBITDA front, we expect WCL to report EBITDA of Rs8.6 bn and Rs8.89 bn in FY20E and FY21E, as against management guidance of Rs11-12 bn in FY20E. As per management, the U.S. operation is likely to report EBITDA/tonne of $180-$200, thanks to its presence in key markets and low competition, as against our expectations of $170-180. India operations likely to remain stable, due to excess capacity in the domestic market.

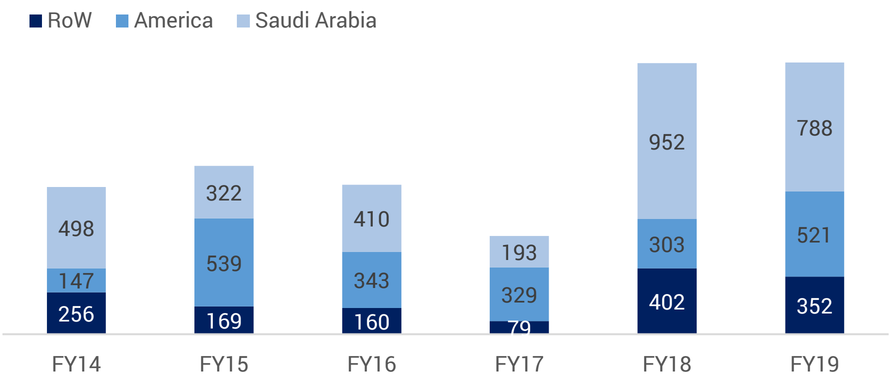
Divestment of non-core assets to strengthen balance sheet

During the quarter, the company entered into agreement to divest (non-core assets) PCMD and 43 MW Power plant at a consideration of Rs9.4bn. The PCMD transaction is expected to complete by end of Dec'19 (power plant by May'19). During FY19, PCMD reported negative EBITDA of Rs840 mn. The transaction will strengthen the company balance sheet by providing enough liquidity and deleverage the balance sheet. The gross debt currently stands at Rs13.05 bn and net debt of ~Rs2.86 bn. We believe RoCE to expand by 350 bps, post the completion of the transaction.

Revenue visibility – backed by global presence

FY20 opening order book was 1.66MT (Rs 141 bn) and as on May 14, 2019, WCL order book stands at 1.712 MT (Rs 150 bn), to be executed over the next 15-18 months. FY18 and FY19 revenue from continuing operations was Rs63.6 bn and Rs89.54 bn, respectively. Given the strong order book, we expect the company to report revenue of Rs89.58 bn and Rs90.92 bn in FY20E and FY21E, respectively.

Order book by region ('000 T)



Source: Company, Kotak Securities – Private Client Research

The company has been a key beneficiary in the U.S. from the increased demand from the spiral pipes, backed by an increase in shale gas production and curb in imports, thereby supporting higher volumes and better EBITDA (Welspun Corp has one of the largest manufacturing facility). U.S order book stand at 352KT, to be executed over the next four quarters.

In addition, the company has actively participated in various bids, which are in the pipeline and if converted into the order book, then it could further enhance the revenue visibility in the coming months. The bid books currently stand ~3.3 Mn tonnes, as per management, bid to win ratios stands at ~25%. Besides these, global opportunities of 12,000 KT pipeline are likely to come from the USA and Saudi Arabia, where the company has a strong presence and is one of the strongest contenders.

Saudi JV: EBITDA positive

Management indicated that huge business potential exists in Saudi region, as most of the desalination plants are far from demand area. Management sees strong demand in both, Oil & Gas and Water sectors, driven by Saudi Aramco and SWCC respectively. Given the receipt of fixed price order due to lack of order and volatility in the raw material prices, JV was making a loss in the past two years. The operations reported positive EBITDA in Q4FY19, with a change in product mix.

Saudi Arabia Operations

Particulars	Q4FY18	1QFY19	2QFY19	3QFY19	4QFY19
Operational					
Production ('000 t)	49	35	44	80	105
Sales ('000 t)	55	38	44	78	77
Financials					
EBITDA (mn SAR)	(13)	(13)	(16)	(6)	12
EBITDA/MT (mn SAR)	(238)	(351)	(371)	(71)	161
EBITDA/MT (USD)	(63)	(94)	(99)	(19)	43
PBT (mn SAR)	(27)	(27)	(33)	(24)	(7)

Source: Company, Kotak Securities – Private Client Research

Management indicated that, low margin order which is yet to execute is to the tune of ~180kt, to be executed over the next two years. Now, since order mix is likely to change in the favour of high margin orders, management expects JV to report EBITDA/T of US$100. We expect JV to report profit of Rs200 mn for WCL. The current order book in Saudi currently stands at 788KT, which provides huge revenue visibility.

Other Highlights

- Management indicated large portion of provision on investments into bonds has been already taken. During FY19, the company took provision of Rs2.45 bn on various bond investments.
- Phase I of Bhopal project is completed and pipe plant is now commercial operations with an order book of 76kt (capacity = 150kt), phase II project (coating plant) is under process and expected to come on stream by end of 3QFY20. Beyond, which no further capex is envisage.
- The company prepaid $25mn of additional debt at U.S in the month of April, 2019 and all the future cash flows will be directed to lower the debt and reward the shareholders
- Cash conversion cycle reduced to 29 days from 35 days in FY18, this also includes trades advances from the customers in the U.S.

About the company

Welspun Corp (WCL) is a leading global manufacturer of the large diameter pipes with an installed capacity of 2.4MT, offering a one stop solution for all line pipe related requirements with its wide product range of high grade line pipes and meeting stringent specifications. Its manufacturing facilities are located across USA, Saudi Arabia and India and it is a preferred vendor for major oil and gas companies, both overseas and locally. Over the last two decades, the company has demonstrated its strength and capability to execute key projects overseas, including the world's deepest pipeline project in the Gulf of Mexico, LNG pipeline project in Peru and longest pipeline project from Canada to the US.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Net sales	**63,633**	**89,535**	**89,583**	**90,923**
growth (%)	5.4	40.7	0.1	1.5
Operating expenses	57,820	83,804	80,983	82,033
EBITDA	**5,813**	**5,731**	**8,600**	**8,890**
growth (%)	13.4	-1.4	50.1	3.4
Depreciation &amortisation	2,582	2,597	2,583	2,683
EBIT	**3,231**	**3,134**	**6,017**	**6,207**
Other income	1,288	1,347	845	975
Interest paid	1,702	1,774	1,672	1,527
PBT	**2,818**	**2,706**	**5,190**	**5,655**
Exceptional	0	0	0	0
Tax	202	1,223	1,298	1,414
Effective tax rate (%)	7.2	45.2	25.0	25.0
Net profit	**2,616**	**1,484**	**3,893**	**4,241**
Minority interest /share of Ass.	(859)	(885)	200	200
Net profit	**1,756**	**599**	**4,093**	**4,441**
Discontinued Operations	(227)	(815)		
Profit after Disc. Op.	**1,530**	**(216)**	**4,093**	**4,441**
growth (%)	1,412.2	-114.1	583.8	8.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash & Bank balances	6,282	6,704	8,135	13,135
Other Current assets	33,957	39,467	40,031	40,556
Investments	4,876	4,756	4,756	4,756
Net fixed assets	30,624	16,143	17,154	15,721
Asset held for sale	6	11,642	11,642	11,642
Other non-current assets	1,185	428	428	428
Total assets	**76,929**	**79,140**	**82,146**	**86,238**
Current liabilities	31,545	36,507	36,082	36,892
Borrowings	12,845	12,530	11,530	10,530
Other non-current liabilities	3,434	2,178	2,178	2,178
Total liabilities	47,823	51,215	49,790	49,600
Share capital	1,326	1,326	1,326	1,326
Reserves & surplus	27,215	26,650	30,930	35,212
Shareholders' funds	28,541	27,976	32,256	36,538
Minority interest	566	(51)	100	100
Total equity & liabilities	**76,930**	**79,141**	**82,146**	**86,238**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-tax profit	2,818	2,706	5,190	5,655
Depreciation	2,582	2,597	2,583	2,683
Chg in working capital	2,653	(1,183)	(2,864)	285
Total tax paid	(458)	(1,223)	(1,298)	(1,414)
Other operating activities	2,428	1,509	1,672	1,527
Operating CF	**10,022**	**4,407**	**5,284**	**8,737**
Capital expenditure	487	(2,613)	(1,021)	(1,050)
Chg in investments	1,898	120	0	0
Other investing activities	555	756	0	0
Investing CF	**2,939**	**(1,737)**	**(1,021)**	**(1,050)**
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	(5,863)	(315)	(1,000)	(1,000)
Dividend (incl. tax)	(160)	(160)	(160)	(160)
Other financing activities	(2,951)	(1,774)	(1,672)	(1,527)
Financing CF	**(8,973)**	**(2,248)**	**(2,832)**	**(2,687)**
Net chg in cash & bank bal.	3,988	422	1,431	5,000
Closing cash & bank bal	**6,282**	**6,704**	**8,136**	**13,135**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability and return ratios (%)				
EBITDAM	9.1	6.4	9.6	9.8
EBITM	5.1	3.5	6.7	6.8
NPM	2.8	0.7	4.6	4.9
RoE	6.2	2.1	12.7	12.2
RoCE	7.1	7.3	13.1	12.6
Per share data (Rs)				
O/s shares	265.2	265.2	265.2	265.2
EPS	5.8	(0.8)	15.4	16.7
CEPS	16.4	12.0	25.2	26.9
BV	107.6	106.2	120.3	137.8
DPS	0.5	0.5	0.5	0.5
Valuation ratios (x)				
PE	23.1	(163.0)	8.6	7.9
P/BV	1.2	1.3	1.1	1.0
EV/EBITDA	6.6	6.6	4.1	3.3
EV/Sales	0.6	0.4	0.4	0.3
D/E (x)	0.5	0.4	0.4	0.3

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	11053
52-wk Hi/Lo (Rs)	:	1968 / 316
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	153,799
Shares o/s (mn)	:	22.8

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	25,487	26,541	31,193
Growth (%)	10.3	4.1	17.5
EBITDA	1,752	1,194	1,534
EBITDA margin (%)	6.9	4.5	4.9
Net profit	738	324	550
EPS (Rs)	32.3	14.2	24.1
Growth (%)	22.5	-56.1	69.6
BVPS (Rs)	199.4	209.7	229.8
DPS (Rs)	3.3	1.5	1.5
ROE (%)	17.4	6.9	10.9
ROCE (%)	23.7	14.6	18.2
P/E (x)	15.0	34.1	20.1
EV/EBITDA (x)	9.5	13.4	10.5
P/BV (x)	2.4	2.3	2.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	56.2	56.2	56.2
FII	22.3	22.3	21.6
DII	4.9	4.9	6.4
Others	16.6	16.6	15.7

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Shankara Bldg	(7.1)	13.7	(45.9)
Nifty	(4.6)	4.0	5.1

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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SHANKARA BUILDING PRODUCTS LTD

PRICE RS.484 **TARGET RS.457** **SELL**

Shankara Building Products Ltd results were lower than our estimates due to de-growth in the channel business. Margins were also impacted by lower processing margins. Company has initiated a lot of measures to rationalize production volumes and reducing sales of lower margin steel products and reduce the expenses. Results of these measures are likely to be reflected in coming quarters.

Key highlights

Revenues for Q4FY19 declined by 18.6% YoY led by lower than expected channel and enterprise segment revenues. Margins were impacted by steel price volatility and higher raw material cost. Depreciation moved up during the quarter due to brand amortization expenses for Vaigai and JP Sanitation. Interest charges came down due to debt reduction. Lower than expected revenues and margins led to net profits declining by 92.6% YoY for the quarter.

Valuation and outlook

At current price of Rs 484, stock is trading at 20.1x P/E and 10.5x EV/EBITDA on FY20 estimates. Stock has already moved up since our last upgrade to ADD. We believe that management is taking a lot of initiatives to reduce working capital cycle as well as borrowings. However, with the existing challenges in the macro environment related to building material sector, we believe that these initiatives and strategies are likely to take time to get reflected in financials.

Post revising our estimates, we arrive at a revised price target of Rs 457 based on 9.5.x EV/EBITDA for retail division and 4.0x EV/EBITDA for channel and enterprise segment. Stock price is currently factoring in the upsides likely to come from these initiatives. We thus downgrade the stock to SELL.

Consolidated financial highlights

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net sales	**6196.6**	**7608.1**	**-18.6%**	**6053.3**	**2.4%**
Expenditure	6032.2	7067.2	-14.6%	5822.8	3.6%
EBITDA	**164.4**	**540.9**	**-69.6%**	**230.51**	**-28.7%**
EBITDA margin (%)	2.7%	7.1%		3.8%	
Depreciation	46.4	43.1		48.6	
EBIT	**118.0**	**497.8**	**-76.3%**	**181.9**	**-35.1%**
Interest	124.1	137.4		151.9	
EBT (Exc other income)	-6.1	360.4	-101.7%	30.0	-120.3%
Other income	22.0	1.4		4.3	
EBT	**15.9**	**361.8**	**-95.6%**	**34.3**	**-53.6%**
Tax	-0.28	145.6		8.84	
Tax %	-1.8%	40.2%		25.7%	
PAT	**16.2**	**216.2**	**-92.5%**	**25.5**	**-36.4%**
Other comprehensive income	-0.15	1.05		-0.15	
Non-controlling interest	0.00	0.047		0.00	
PAT after comprehensive income	16.1	217.2	-92.6%	25.4	-36.6%
Share capital	228.5	228.5		228.5	
EPS (Rs)	**0.7**	**9.5**	**-92.6%**	**1.1**	**-36.6%**

Source: Company

Revenue growth impacted by lower than expected channel and enterprise segment revenues

Revenues for Q4FY19 declined by 18.6% YoY led by lower than expected channel and enterprise segment revenues. There was no store addition during Q4FY19. During FY19, company added 5 stores taking the total store count to 134 and retail area also increased by 12% YoY to 5,67,202 sq ft. With addition of large format stores in FY19, average store size has also increased from 3915 sq ft in FY18 to 4233 sq ft in FY19. Revenues from retail stores were up by 17% YoY in FY19 but margins have further declined to 8.8% in FY19 as compared to 10.7% in FY18 due to the impact of lower processing margins on retail business.

Company has decided to sell land, building and equipment of Taurus Value Steel and Pipes to APL Apollo tubes for a consideration of Rs 700 mn. The performance of Taurus was impacted due to steel price volatility and was also not expected to improve significantly owing to smaller scale of business. So the asset sale is likely to reduce volatility in the business and release of funds from this process is likely to reduce debt and enhance focus of the company on expanding retail business, warehouses, supply chain and logistics. The loss of revenues post sale of this division is likely to be recouped by undertaking trading activities in standardized products available in the market.

It is also taking a lot of initiatives to enhance the reach of its products such as organizing customer meets, collaboration with partner brands, product training sessions etc which should start yielding results in medium to long term.

Company has mentioned that in order to achieve synergies in business, 6 stores are likely to be closed down during FY20. So going forward, there would be new addition as well as closing down of few stores and hence we expect a net addition of 10 stores during FY20. We thus expect retail revenues to grow by 15% as against management’s expectation of 20% growth in retail revenues.

Lower than expected margins in processing business led to bet profits coming below our estimates

Margins were impacted by steel price volatility and higher raw material cost. Depreciation moved up during the quarter due to brand amortization expenses for Vaigai and JP Sanitation. Interest charges came down due to debt reduction. Lower than expected revenues and margins led to net profits declining by 92.6% YoY for the quarter.

During the quarter, retail segment margins stood at 7.3% while processing segment margins stood at 2.5%. For the full year, retail segment margins stood at 8.8% while processing segment margins stood at 3.6%. Company is taking a lot of initiatives to reduce costs such as reduction in employee costs, reduction on store count, sale of lower margin business. These initiatives are likely to improve margins going forward. Also the impact of inventory losses and Kerala floods was to the tune of Rs 250 mn during FY19 which is not expected to be repeated during FY20. We thus expect FY20 margins to improve marginally over FY19.

Valuation and recommendation

At current price of Rs 484, stock is trading at 20.1x P/E and 10.5x EV/EBITDA on FY20 estimates. Stock has already moved up since our last upgrade to ADD. We believe that management is taking a lot of initiatives to reduce working capital cycle as well as borrowings. However, with the existing challenges in the macro environment related to building material sector, we believe that these initiatives and strategies are likely to take time to get reflected in financials.

Post revising our estimates, we arrive at a revised price target of Rs 457 based on 9.5.x EV/EBITDA for retail division and 4.0x EV/EBITDA for channel and enterprise segment. Stock price is currently factoring in the upsides likely to come from these initiatives. We thus downgrade the stock to SELL.

About the company

Shankara Building Products is one of India's leading organized retailers of home improvement and building products in India, based on the number of stores operating under brand "Shankara Buildpro". Company has three segments – Retail, Enterprise and Channel and also has processing capacities in products like Steel tubes, galvanized strips, cold rolled strips, bright rods, scaffolding.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19	FY20E
Revenues	**23,101**	**25,487**	**26,541**	**31,193**
% change YoY	13.0	10.3	4.1	17.5
EBITDA	**1,544**	**1,752**	**1,194**	**1,534**
% change YoY	29.0	13.5	(31.8)	28.4
Other Income	3	6	44	4
Depreciation	114	136	186	199
EBIT	**1,433**	**1,622**	**1,052**	**1,339**
% change YoY	29.0	13.3	(35.1)	27.2
Net interest	508	464	567	496
Profit before tax	925	1,159	485	843
% change YoY	43.0	25.3	(58.1)	73.7
Tax	322	421	158	293
as % of PBT	34.8	36.3	32.5	34.8
Profit after tax	**603**	**738**	**328**	**550**
Minority interest	0.1	(0.1)	(0.1)	(0.1)
Share of profit of associates	0	0	-3	0
Net income	**603**	**738**	**324**	**550**
% change YoY	48.0	22.5	(56.1)	69.6
Shares outstanding (m)	22.8	22.9	22.8	22.8
EPS (reported) (Rs)	**26.4**	**32.3**	**14.2**	**24.1**
CEPS (Rs)	31.4	38.3	22.3	32.8
DPS (Rs)	-	3.25	1.50	1.50

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19	FY20E
Cash and cash equivalents	662	60	175	190
Accounts receivable	3,123	4,272	3,375	3,418
Inventories	2,795	4,157	3,829	3,589
Loans and Adv & Others	311	642	477	671
Current assets	6,891	9,131	7,857	7,869
Other non current assets	-	25	-	-
LT investments	140	140	140	140
Net fixed assets	2,450	2,831	3,123	3,224
Total assets	**9,481**	**12,127**	**11,120**	**11,234**
Payables	2,659	4,612	3,814	3,418
Others	293	85	166	166
Current liabilities	2,952	4,697	3,980	3,584
Provisions	194	94	23	23
LT debt	2,236	2,610	2,119	2,119
Min. int and def tax liabilities	162	170	207	207
Equity	228	229	228	228
Reserves	3,708	4,329	4,562	5,071
Total liabilities	**9,481**	**12,128**	**11,119**	**11,234**
BVPS (Rs)	172.3	199.4	209.7	231.9

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19	FY20E
EBIT	1,432	1,623	1,049	1,339
Depreciation	114	136	186	199
Change in working capital	(311)	(889)	591	(393)
Chg in other net current assets	131	(444)	73	-
Operating cash flow	1,367	425	1,899	1,145
Interest	(508)	(464)	(567)	(496)
Tax	(322)	(421)	(158)	(293)
Cash flow from operations	**537**	**(459)**	**1,175**	**356**
Capex	(358)	(517)	(479)	(300)
(Inc)/dec in investments	-	-	-	-
Cash flow from investments	**(358)**	**(517)**	**(479)**	**(300)**
Proceeds from issue of equity	10	-	-	-
Increase/(decrease) in debt	9	374	(491)	-
Proceeds from share premium	440	-	-	-
Dividends	-	-	(89.1)	(41.1)
Cash flow from financing	**459**	**374**	**(580)**	**(41)**
Opening cash	24	662	60	175
Closing cash	**662**	**60**	**176**	**190**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19	FY20E
EBITDA margin (%)	6.7	6.9	4.5	4.9
EBIT margin (%)	6.2	6.4	4.0	4.3
Net profit margin (%)	2.6	2.9	1.2	1.8
Receivables (days)	46.9	53.0	45.0	40.0
Inventory (days)	42.3	49.8	42.0	42.0
Sales/assets(x)	9.4	9.0	8.5	9.7
Interest coverage (x)	2.8	3.5	1.9	2.7
Debt/equity ratio(x)	0.7	0.6	0.5	0.4
ROE (%)	17.6	17.4	6.9	10.9
ROCE (%)	24.7	23.7	14.6	18.2
EV/ Sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	10.2	9.5	13.4	10.5
Price to earnings (x)	18.3	15.0	34.1	20.1
Price to book value (x)	2.8	2.4	2.3	2.1
Price to Cash Earnings (x)	15.4	12.7	21.7	14.8

Source: Company, Kotak Securities – Private Client Research

Result Update

FIEM INDUSTRIES LTD (FIEM)

PRICE RS.430 **TARGET RS.720** **BUY**

Stock Details

Market cap (Rs mn)	:	5653
52-wk Hi/Lo (Rs)	:	920 / 419
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	19,272
Shares o/s (mn)	:	13

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	14,440	15,666	17,854
Growth (%)	16.6	8.5	14.0
EBITDA	1,553	1,724	1,993
EBITDA margin (%)	10.8	11.0	11.2
Adjusted Net profit	555	631	789
Adjusted EPS (Rs)	42.2	47.9	60.0
Growth (%)	12.9	13.7	25.1
Book value (Rs/share)	362	405	451
Dividend per share (Rs)	12.0	12.0	12.0
ROE (%)	12.0	12.5	14.0
ROCE (%)	16.3	16.9	18.5
P/E (x)	10.2	9.0	7.2
EV/EBITDA (x)	4.5	4.0	3.3
P/BV (x)	1.2	1.1	1.0

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	63.6	63.6	63.6
FII	13.2	13.2	14.4
DII	7.6	7.6	7.8
Others	15.6	15.6	14.2

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
FIEM Industries	(14.6)	(2.4)	(28.9)
Nifty	(4.6)	4.0	5.1

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

FIEM reported strong 4QFY19 results in a relatively weak demand situation. Revenues grew despite de-growth in two wheeler industry production and EBITDA margin improved YoY and QoQ.

Key result highlight

FIEM's revenue in the quarter grew by 6% YoY despite 10% YoY fall in two wheeler production in 4QFY19. For FIEM, two wheeler segment accounts for ~94% of its revenue. Increase in commodity prices and a lag of 6-9 months in pass through of raw material cost to the customers led to 50bps YoY decline in gross margin. EBITDA in 4QFY19 grew by 16% YoY and 15% QoQ. LED luminaries' business reported positive EBIT in the quarter. FIEM reported PAT of Rs155mn.

Outlook and Valuation

We expect revenue to grow by 11% CAGR over FY19-FY21, driven by two wheeler industry volume growth, increased share of business with certain customers and value growth from transition to LED. We expect EBITDA margin to improve on the back of pass through of raw material cost. Given current slowdown in two wheeler demand, we marginally lower our FY20 estimates. We also introduce FY21E earnings. We retain BUY on the stock with a revised price target of Rs720 (earlier Rs800). We value the stock at a PE of 12x (earlier 16x on FY20E earnings) on FY21E earnings.

Quarterly performance

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Revenues	3,561	3,352	6.2	3,330	6.9
Total expenditure	3,136	2,987	5.0	2,961	5.9
RM consumed	2,183	2,038	7.1	2,024	7.9
Employee cost	460	442	4.1	476	(3.2)
Other expenses	493	507	(2.7)	461	6.8
EBITDA	425	365	16.3	369	14.9
EBITDA margin (%)	11.9	10.9	-	11.1	-
Depreciation	123	112	9.8	125	(1.9)
Interest cost	55	50	9.4	56	(2)
Other Income	2	8	(78.5)	1	32.4
Exceptional gain / (loss)		34			
PBT	249	245	1.4	189	31.3
PBT margins (%)	7.0	7.3		5.7	
Tax	94	92	1.7	63	49.2
Tax rate (%)	37.8	37.6	-	33.2	-
Reported PAT	155	153	1.2	126	22.4
PAT margins (%)	4.3	4.6	-	3.8	-
EPS (Rs)	11.8	11.6	-	9.6	22.4

Source: Company

Result Highlights

FIEM's continued to report healthy revenue growth in a challenging demand environment. FIEM's revenue in the quarter grew by 6% YoY despite 10% YoY fall in two wheeler production in 4QFY19. For FIEM, two wheeler segment accounts for ~94% of its revenue. Honda Motorcycle and Scooters India (HMSI) is the key client for FIEM accounting for ~40% of the company's revenue. In

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4QFY19, HMSI's two wheeler production declined by 32% YoY. Amid declining two wheeler production trend, FIEM was able to report growth and that was supported by increasing business with clients like India Yamaha & Suzuki Motorcycles and increasing adoption of LED lights in the two wheeler segment.

Raw material cost in 4QFY19 stood 61.3% as against 60.8% in 4QFY18. Increase in commodity prices and a lag of 6-9 months in pass through of raw material cost to the customers led to 50bps YoY decline in gross margin. In the quarter employee cost and other expenses remained under control and that lead to YoY increase in EBITDA margin. FIEM reported 100 bps YoY EBITDA margin expansion. EBITDA in 4QFY19 grew by 16% YoY and 15% QoQ. LED luminaries' business reported positive EBIT in the quarter. FIEM reported PAT of Rs155mn, 18% growth over 4QFY18 adjusted net profit. FIEM 4QFY19 results came in better than estimates.

Conference call highlight

- Management guided for 10-15% revenue growth in FY19 and remained confident on outperforming industry volume growth. Company has ~27-30% market share in the domestic two wheeler auto lighting industry.
- Management categorically stated that the company will not make any further investments in the LED luminaries business and the focus going ahead will remain in the core two wheeler business.
- In FY19, FIEM's revenue growth with HMSI remained low (HMSI share in FIEM's auto business revenue came down from 45.6% in FY18 to 41% in FY19) on account of HMSI's production volume de-growth and lower share of business with Activa 5G. For headlamp, FIEM had 60% share of business in Activa 4G (halogen headlamp) and that dropped to 39% in Activa 5G (LED headlamp). FIEM share of business with HMSI is – 39% for head lamps, 80% for tail lamps and 85% for blinker lamps.
- In FY19, company invested Rs620mn in fixed assets. For FY20, management guided for capex of Rs400-500 mn and for FY21 there is no major capex planned as of now. Company's capacity utilization across plants (except Tapukara plant) stands at 75%. At Tapukara plant, the capacity utilization is at 25%.
- For Aisan JV, the company expects commercial production to start in 2HFY20. This JV will supply fuel pump module to Bajaj Auto. Current capacity is 2.4mn units and management expects the JV revenues to be ~Rs500-600mn in FY20.
- FIEM would be supplying bank angle sensor to HMSI and revenue from this plant is expected to start from FY21.

Outlook and Valuation

In FY19, FIEM reported revenue growth of 17% YoY as against ~6% growth in two wheeler production by OEM's. Industry growth outperformance by FIEM can be attributed to market share gains with certain customers and increased adoption of LED in the two wheeler segment. We expect revenue to grow by 11% CAGR over FY19-FY21, driven by two wheeler industry volume growth, increased share of business with certain customers and value growth from transition to LED.

Company's EBITDA margin has been under pressure in FY19 on account of rising raw material prices. Going ahead, we expect EBITDA margin to improve on the back of pass through of raw material cost and increased utilization of Tapukara plant.

Given current slowdown in two wheeler demand, we marginally lower our FY20 estimates. We also introduce FY21E earnings. We retain BUY on the stock with a revised price target of Rs720 (earlier Rs800). We value the stock at a PE of 12x (earlier 16x on FY20E earnings) on FY21E earnings. We cut our PE multiple in view of slowdown in two wheeler demand.

Change in estimates - FY20E

Rs mn	Old	New	% change
Revenues	16,257	15,666	(3.6)
EBITDA margin (%)	10.9	11.0	-
Adjusted PAT	658	631	(4.1)

Source: Kotak Securities – Private Client Research

Risk and Concerns

High dependence on few clients - FIEM's revenue dependence is high on Honda Motorcycle and Scooters India (HMSI) and TVS Motors (TVSM). Slowdown in sales for HMSI and TVSM can have significant impact on FIEM's financial performance.

Increase in input cost – In the event of rising input cost, company's earnings gets impacted. While the company has raw material cost pass through with the clients; the same happens with a lag of 6-9 months.

Company Background

FIEM is one of the leading manufacturers of automotive lighting and signaling equipment for the two wheeler segment in India. Apart from automotive lighting, FIEM's product portfolio comprises of rear view mirrors, sheet metal parts and plastic components for two /four wheeler segment. FIEM generates ~98% of its revenues from the automotive business and small revenue comes from the IPIS & LED luminaries segment. Within the automotive space, FIEM is largely an OEM focused company with ~93% of revenues coming from domestic OEM's and two wheeler segment accounts for ~96% of automotive revenues. For FIEM, Honda Motorcycle and Scooters India Limited (HMSI) and TVS Motors (TVSM) are the top clients. FIEM also has presence in LED luminaries and Integrated Passenger Information System (IPIS). FIEM has nine plants across India catering to various clients.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**12,384**	**14,440**	**15,666**	**17,854**
% change YoY	22.1	16.6	8.5	14.0
EBITDA	**1,407**	**1,553**	**1,724**	**1,993**
% change YoY	19.9	10.4	11.0	15.6
Depreciation	443	489	550	583
EBIT	**963**	**1,063**	**1,174**	**1,410**
% change YoY	23.3	10.4	10.4	20.2
Net interest	227	221	220	214
Other Income	45	9	9	9
Exceptional income/(loss)	34	-	-	-
Profit before tax	**816**	**851**	**963**	**1,205**
% change YoY	79.7	4.3	13.2	25.1
Tax	290	296	332	416
as % of PBT	35.6	34.8	34.5	34.5
Profit after tax	**526**	**555**	**631**	**789**
Adjusted PAT	491	555	631	789
% change YoY	4.5	12.9	13.7	25.1
Shares OS (mn)	13.2	13.2	13.2	13.2
Adjusted EPS (Rs)	**37.3**	**42.2**	**47.9**	**60.0**
DPS (Rs)	9.0	12.0	12.0	12.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Fixed Assets	5,607	5,756	5,906	6,023
Long Term Investments	9	277	277	277
Current assets	3,735	3,584	4,309	5,087
Inventory	1,403	1,472	1,630	1,852
Debtors	1,452	1,476	1,717	1,957
Current Investments	191	-	-	-
Cash & Bank	15	15	291	554
Loans and Adv & Others	674	621	671	724
Total Assests	**9,351**	**9,617**	**10,492**	**11,387**
Equity	132	132	132	132
Reserves	4,358	4,635	5,202	5,802
Debt	1,590	1,314	1,557	1,507
Current Liabilities & Prov.	2,832	3,017	3,082	3,428
Payables	2,197	1,888	2,146	2,446
Other liabilities	571	1,043	848	889
Provisions	64	86	88	93
Deferred Tax Liability	438	519	519	519
Total liabilities	**9,351**	**9,617**	**10,492**	**11,387**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	963	1,063	1,174	1,410
Depreciation	443	489	550	583
Change in working capital	153	(403)	(140)	(162)
Chg in other net current asset	(121)	548	(244)	(7)
Operating cash flow	1,439	1,697	1,340	1,825
Interest	(227)	(221)	(220)	(214)
Tax (incl. def tax liability)	(177)	(216)	(332)	(416)
Other Income	45	9	9	9
EO income	34	-	-	-
Others	(7)	(9)	-	-
Cash flow from operations	**1,108**	**1,260**	**797**	**1,204**
Capex	(1,202)	(638)	(700)	(700)
(Inc)/dec in investments	667	(77)	(0)	-
Cash flow from investments	**(535)**	**(715)**	**(700)**	**(700)**
Proceeds from issue of equities	-	(0)	0	-
Increase/(decrease) in debt	(659)	(276)	243	(50)
Proceeds from share premium	(0)	-	-	-
Dividend Paid	(127)	(270)	(63)	(190)
Cash flow from financing	**(786)**	**(546)**	**179**	**(240)**
Opening cash	228	15	15	291
Closing cash	**15**	**15**	**291**	**554**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Margins				
EBITDA margin (%)	11.4	10.8	11.0	11.2
EBIT margin (%)	7.8	7.4	7.5	7.9
Adj. net profit margin (%)	4.0	3.8	4.0	4.4
Working capital days				
Inventory (days)	41	37	38	38
Receivable (days)	43	37	40	40
Payable (days)	65	48	50	50
Ratios				
Debt/equity ratio (x)	0.4	0.3	0.3	0.3
ROE (%)	11.4	12.0	12.5	14.0
ROCE (%)	15.3	16.3	16.9	18.5
Valuations				
EV/ Sales	0.6	0.5	0.4	0.4
EV/EBITDA	5.0	4.5	4.0	3.3
Price to earnings (P/E)	11.5	10.2	9.0	7.2
Price to book value (P/B)	1.3	1.2	1.1	1.0

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% 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

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