



## Economy News

- ▶ The net Direct Tax collections by the government up to January 15 in the current fiscal (2017-18) stood at Rs 6.89 trillion (provisional) -- which is 18.7 per cent higher than during the corresponding period of last year. The net Direct Tax collections represent 70.3 per cent of the total Budget Estimates of Direct Taxes for 2017-18 (Rs 9.8 trillion), the finance ministry said. (BS)
- ▶ The Union government is holding talks to increase foreign investment limits in private sector banks to 100%, from 74% at present. It is also considering a hike in the foreign investment cap for public sector banks (PSBs), from 20% to 49%, a top government official said. (BS)
- ▶ The Finance Ministry announced that it would scale back its additional borrowing to Rs200bn for the fiscal, from its earlier plan to raise an extra Rs500bn from the market. (BL)
- ▶ India will begin the auction of 55 oil and gas exploration blocks from today under new rules, the country's first licensing round after eight years, as it seeks to unlock its vast hydrocarbon resources, the upstream regulator said. (ET)

## Corporate News

- ▶ **JSW Group** has emerged as the highest bidder for Binani Cement, exceeding submissions from billionaire Rakesh Jhunjhunwala and UltraTech, said three people familiar with the development. JSW's bid is worth about Rs 59 bn, they said. (ET)
- ▶ Japanese steel major JFE is taking the lead role in the consortium comprising **JSW Steel** and Bain-Piramal to make an aggressive bid for **Bhushan Steel** next week. (BS)
- ▶ **Ashok Leyland** has signed a Letter of Intent (LoI) with Phinergy of Israel for its electric commercial vehicle solutions. Ashok Leyland and Phinergy will work towards the adaptation of competitive and sustainable solutions for high-energy applications in the commercial vehicles space. (BL)
- ▶ **J B Chemicals & Pharmaceuticals** has said the Medicines Authority of Malta has granted European GMP approval for its manufacturing facilities located at Panoli in Gujarat. (BL)
- ▶ **Tata Power** said it will convene shareholders' meeting on February 19 to seek approval for the proposed amalgamation of four group entities with the company. (BL)
- ▶ Realty firm **Puravankara Ltd** said it will invest Rs6 bn to construct an affordable housing project in Bengaluru. (Mint)
- ▶ The Board of Directors of **Varun Beverages** considered and approved to acquire franchisee rights for PepsiCo India's previously franchised sub-territory in the State of Bihar. Upon completion of this acquisition, company will be a franchisee for PepsiCo products across 20 States and 2 Union Territories of India. (BSE)
- ▶ **Pitti Laminations** has commenced the commercial production on 16 January 2018 at its new manufacturing facility situated at Aurangabad, Maharashtra. The plant will manufacture lamination and assemblies, exciter motors and machined components. The operations of Hyderabad-Plant I and Pune Plant are moved to the Aurangabad Plant. (BS)
- ▶ **Premier Explosives** announced that on 17 January 2018 the PSOM-XL strap-on motor supplied on trial order was put to 'static test' at SHAR (ISRO), Sriharikota and the test was successful. (BS)

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

### Equity

	17-Jan	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	35,082	0.9	4.4	7.7
NIFTY Index	10,789	0.8	3.8	5.7
BANKEX Index	29,812	1.6	3.1	9.7
BSET Index	12,183	1.3	11.7	17.5
BSETCG INDEX	20,140	1.6	9.2	15.3
BSEOIL INDEX	15,967	0.1	(2.2)	(0.2)
CNXMcap Index	21,516	1.0	6.9	14.0
BSESMCAP INDEX	19,688	0.4	7.9	15.4
<b>World Indices</b>				
Dow Jones	26,116	1.3	5.3	12.8
Nasdaq	7,298	1.0	4.3	10.2
FTSE	7,725	(0.4)	2.5	2.4
NIKKEI	23,868	(0.3)	4.7	12.2
HANGSENG	31,983	0.2	10.7	12.0

### Value traded (Rs cr)

	17-Jan	% Chg Day
Cash BSE	5,611	(21.5)
Cash NSE	38,740	0.4
Derivatives	910,681	52.2

### Net inflows (Rs cr)

	16-Jan	% Chg	MTD	YTD
FII	746	388	2,509	2,509
Mutual Fund	(7)	(102)	3,537	3,537

### FII open interest (Rs cr)

	16-Jan	% Chg
FII Index Futures	21,783	6.7
FII Index Options	84,267	4.1
FII Stock Futures	75,291	1.8
FII Stock Options	9,405	3.6

### Advances / Declines (BSE)

17-Jan	A	B	T	Total	% total
Advances	240	471	115	826	100
Declines	149	500	128	777	94
Unchanged	2	15	10	27	3

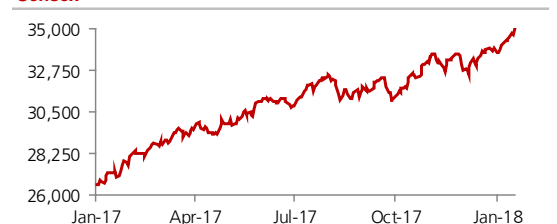
### Commodity

	17-Jan	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	64.2	0.4	12.4	23.4
Gold (US\$/OZ)	1,327	(0.8)	5.1	3.5
Silver (US\$/OZ)	17.0	(1.1)	5.4	0.1

### Debt / forex market

	17-Jan	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.2	7.4	7.1	6.8
Re/US\$	63.9	64.0	64.2	65.0

### Sensex



Source: Bloomberg

## RESULT UPDATE

Ritwik Rai

ritwik.raai@kotak.com

+91 22 6218 6426

## TV18 BROADCAST LTD

PRICE: RS.63

TARGET PRICE: RS.67

RECOMMENDATION: ACCUMULATE

FY20E PE: 23.4x

TV18 Broadcast's 3QFY18 results came in below estimates, as both regional news and entertainment operations underperformed expectations. While TV18 Broadcast/ JV entities have continued to perform well in terms of operational metrics, financial metrics continue to be weak as marketing/ distribution spends on new initiatives continue to appear high, while advertising revenue growth is yet to catch up (with viewership growth). We continue to be positive on the medium-term outlook on account of improving viewership, high exposure of the company to upcoming elections. We roll-forward our valuation to FY20E, and value TV18 Broadcast at 25X FY20E PER, or Rs 67 (earlier Rs.50). ACCUMULATE (BUY earlier).

## Summary table

(Rs bn)	FY18E	FY19E	FY20E
Sales	10,271	12,087	14,039
Growth (%)	4.9	17.7	16.1
EBITDA	554	1,866	3,277
EBITDA margin (%)	5.4	15.4	23.3
PBT	655	2,775	5,369
Net profit (adj.)	750	2,549	4,584
EPS (Rs)	0.44	1.49	2.68
Growth (%)	293	240	80
CEPS (Rs)	0.8	1.9	3.1
Book value (Rs/share)	19.9	21.4	24.0
Dividend per share (Rs)	0	0	0
ROE (%)	2.2	7.2	11.8
ROCE (%)	2.2	7.3	11.8
Net cash (debt)	-2,207	-247	3,689
NW Capital (Days)	129	138	144
P/E (x)	143.2	42.1	23.4
P/BV (x)	3.2	2.9	2.6
EV/Sales (x)	NM	NM	NM
EV/EBITDA (x)	NM	NM	NM

Source: Company, Kotak Securities – Private Client Research

## Consolidated Financials

Rs mn, FY Ends Mar	3QFY18	3QFY17	% chg y/y	2QFY18	% chg q/q
<b>Total Income from Operations</b>	<b>2711</b>	<b>2500</b>	<b>8.5</b>	<b>2272</b>	<b>19.3</b>
Personnel Expenses	932	826	12.9	997	-6.5
Mkting, Distbn, and Promotional Exp.	439	383	14.6	456	-3.8
Other Expenses	1016	944	7.6	821	23.8
<b>EBITDA</b>	<b>324</b>	<b>347</b>	<b>-6.7</b>	<b>-1</b>	<b>NM</b>
Margin (%)	12.0	13.9		0.0	
Depreciation and Amortization	157	172	-8.9	152	3.3
<b>EBIT</b>	<b>167</b>	<b>175</b>	<b>-4.6</b>	<b>-153</b>	<b>-209.1</b>
Other Income	62	47	31.4	77	-19.4
Interest Expenses	65	59	9.3	49	32.2
<b>PBT</b>	<b>165</b>	<b>163</b>	<b>0.9</b>	<b>-125</b>	<b>-232.0</b>
Share of P/L of JVs	186	71	164.0	258	-27.8
Profit before tax	351	234	50.1	133	163.1
Tax Expenses	192	61	214.7	60	220.0
<b>PAT</b>	<b>159</b>	<b>173</b>	<b>-8.1</b>	<b>73</b>	<b>116.5</b>

Source: Company Reports

TV18 Broadcast's 3QFY18 results came in below estimates. The company reported revenues Rs 2711 mn (+8.5%, y/y). Standalone (business news + English News + Hindi news) operations of the company registered 14% y/y growth, backed by strong growth in business news as well as Hindi news. On expected lines, regional news (approximated by consolidated less standalone results) revenue growth continued to be in the negative territory, on account of weak revenue growth in regional markets as well as weak government advertising. Reported (consolidated) revenues were in line with estimates.

Personnel expenses registered 13% y/y growth, with the growth largely on account of standalone operations. Marketing and distribution expenses continued to be driven by the sharp rise in the marketing and distribution expenses (largely carriage expenses for regional channels). Overall, expenses came in higher than our estimates, leading to a negative EBITDA surprise.

We note that the following the adoption of Ind-AS, the company's consolidated results, until the EBIT level, include only news operations. The entertainment operations of the company are consolidated as a single line item (Income from JV/ associates).

Income from JV/associates came in well lower than our estimates, as the JV/ associate revenues (excluding movies) registered 12% y/y growth, missing our estimates. We note that as per industry sources, industry revenues have registered 12-14% y/y growth. As such, advertising revenue growth for entertainment operations has not outperformed the industry. This is likely a result of high-impact advertising (such as advertising rupees spent on glossier shows such as "Bigg Boss") has not grown sufficiently in the quarter.

Reported PAT was well below our estimates on account of misses in regional news and entertainment, as also one-offs in taxes (likely write-backs for prior quarters).

Operationally, the company continues to register improvement in several areas – (1) Hindi news channel “News18 India” now consistently figures in the top 5 channels (in Week 1, 2018, the channel was the #3 Hindi news channel), (2) regional news cluster viewership as a percentage of total news viewership rose to 4.5% (up from 2.5% in 3QFY17), (3) Hindi movie channel “Rishtey Cineplex” has risen to #4 in a relatively short period since launch, (4) VOOT gross downloads have risen to 56 mn, and the average viewership time is 40 minutes+.

The key takeaway from the quarter’s results is that the company is yet to capitalize on the opportunities it has created for itself (via execution in enhancing viewership). Partly, this is on account of insufficient enthusiasm among advertisers (particularly high-impact seekers and government advertising), and partly on the fact that gains in viewership are somewhat recent (especially in regional news) – these appear to be transitory factors. In regional news, the company had taken a decision to enhance viewership aided by higher carriage fees (4QFY17 onwards). We believe the management is watchful of the diminished profitability in regional news (a result of a higher carriage fees paid since 4QFY17); we are hopeful that the management will make necessary cost changes if revenues fail to rise to the desired extent over the next few quarters.

### Outlook and Investment View

Factoring in the results into our estimates, as also an expectation that the company is likely to take a longer time to cut distribution expenses on regional news channels, we cut our EPS estimate by 34% for FY19. In FY20, we expect the company to bring in Rs 2.7 in EPS.

In the fourth quarter, the company has two important events that could lead to significant upside/ downside in earnings – one being the launch of its Tamil GEC, and the other being the release of Padmavat. These events impact the visibility for 4QFY18, and could potentially lead to another weak quarter.

We continue to have a positive outlook on FY19 earnings of the company, on account of several general elections that are due in the year, in addition to improved market share in new genres. The company is significantly exposed to election in four election states (Karnataka, MP, Chhattisgarh, and Rajasthan). TV18 Broadcast is also likely to benefit from rising government/ political advertising in FY19/FY20.

We recommend  
**ACCUMULATE** on TV18  
Broadcast Ltd with a price  
target of Rs.67

Further to our strong medium-term outlook for TV18 Broadcast, we believe that the subscription revenue story of the company is also fairly strong, especially relative to peers. We believe that following the implementation of TRAI’s tariff order, the company is likely to be better positioned against peers (which rely on larger bouquets). This could have a positive impact on earnings estimates, not yet factored into our estimates.

We roll forward our valuation to FY20, and value TV18 Broadcast at 25x FY20E PER (discount to c. 30X FY20E PER that ZEEL commands, on lower earnings visibility for TV18 Broadcast), or Rs 67. We note that the stock has run up 51% since our last update, and the upside is somewhat modest. We downgrade the stock to **ACCUMULATE** (BUY earlier).

## RESULT UPDATE

Ritwik Rai

ritwik.raikotak.com

+91 22 6218 6426

## HINDUSTAN UNILEVER LTD (HUL)

PRICE: RS.1393

TARGET PRICE: RS.1520

RECOMMENDATION: ACCUMULATE

FY20E PE: 38.8X

HUL has reported strong 3QFY18 results. Although profits are broadly in line with estimates, volume growth (+11% y/y, on a weak base), and comparable sales growth (+17% y/y) provide strong indications that demand is recovering, and HUL is able to register benefits. Further, we note that the company's 24% y/y growth in EBITDA has come in despite aggressive expansion in advertising spends, indicating higher quality of earnings (greater sustainability). As we roll forward our valuation to FY20, we believe that the market is likely to be generous with HUL valuations, and we accordingly value the stock at 43X FY20E PER. We raise our price target to Rs 1520, and raise our recommendation to ACCUMULATE (REDUCE earlier).

## Summary table

(Rs bn)	FY18E	FY19E	FY20E
Sales	348.6	399.1	456.8
Growth (%)	11.4	14.5	14.5
EBITDA	71.4	87.7	106.8
EBITDA margin (%)	20.5	22.0	23.4
PBT	73.1	89.8	109.3
Adj. PAT	50.8	62.9	76.5
Adj. EPS (Rs)	23.5	29.0	35.4
Growth (%)	19.6	23.7	21.7
CEPS (Rs)	26.7	32.5	39.1
Book value (Rs/share)	31.7	35.5	45.6
Dividend per share (Rs)	17.0	20.0	21.0
ROE (%)	76.2	86.6	87.3
Net cash (debt)	61.5	74.1	100.9
NWC (Days)	-34.2	-32.6	-31.2
P/E (x)	58.4	47.2	38.8
P/BV (x)	43.3	38.7	30.1
EV/Sales (x)	8.3	7.2	6.3
EV/EBITDA (x)	40.7	33.0	26.8

Source: Company, Kotak Securities – Private Client Research

## Results Summary

Rs Bn, FY Ends Mar	3QFY18	3QFY17	% chg y/y	2QFY18	% chg q/q
Sale of Products	83.23	81.24	2.4	81.99	1.5
Other Operating Revenues	2.67	1.93	38.3	1.1	142.7
<b>Total Revenues from Operations</b>	<b>85.9</b>	<b>83.17</b>	<b>3.3</b>	<b>83.09</b>	<b>3.4</b>
Excise Duties	0	6.12	-100.0	0	NM
Net Sales from Operations	85.9	77.05	11.5	83.09	3.4
Raw Material Expenses	39.05	37.44	4.3	39.29	-0.6
Cost of Materials	31.88	25.74	23.9	28.85	10.5
Purchase – Stocks in trade	7.68	10.21	-24.8	10.61	-27.6
Changes in Inventory	-0.51	1.49	-134.2	-0.17	200.0
Employee Expenses	4.91	4.09	20.0	4.35	12.9
Advertising Expenses	11.07	8.85	25.1	10.23	8.2
Other Expenses	14.07	13.12	7.2	12.4	13.5
<b>EBITDA</b>	<b>16.8</b>	<b>13.55</b>	<b>24.0</b>	<b>16.82</b>	<b>-0.1</b>
Margin (%)	19.6	17.6		20.2	
Depreciation	1.21	1	21.0	1.15	5.2
<b>EBIT</b>	<b>15.59</b>	<b>12.55</b>	<b>24.2</b>	<b>15.67</b>	<b>-0.5</b>
Other Income	1.52	0.83	83.1	2.04	-25.5
Financial Expenses	0.05	0.05	0.0	0.06	-16.7
PBEI and Tax	17.06	13.33	28.0	17.65	-3.3
Exceptional Items	-0.21	1.53	-113.7	0.36	-158.3
<b>PBT</b>	<b>16.85</b>	<b>14.86</b>	<b>13.4</b>	<b>18.01</b>	<b>-6.4</b>
Provision for Tax	3.59	4.48	-19.9	5.25	-31.6
<b>PAT</b>	<b>13.26</b>	<b>10.38</b>	<b>27.7</b>	<b>12.76</b>	<b>3.9</b>

Source: Company Reports

HUL delivered strong set of financials for 3QFY18. The company reported 'comparable' (reported financials are not comparable on y/y basis due to impact of GST on financials) domestic sales growth of 17% y/y, with underlying volume growth of 11% y/y. The comparable sales growth reported by the company was strong across segments.

## Segment Revenues

(Rs Bn)	3QFY18	3QFY17	% chg y/y	2QFY18	% chg q/q	CSG (y/y)
Home Care	27.4	26.9	1.9	27.4	0.1	20
Personal Care	40.9	39.8	2.8	39.1	4.6	17
Foods	3	2.8	7.5	2.8	6.4	18
Refreshments	12.5	11.6	7.2	12.2	2.1	13
Other	2.1	1.95	8.2	1.5	40.7	NA

Source: Company Reports. Note: CSG stands for comparable sales growth

Raw material expenses were lower on account of strong savings program. The company, however, raised advertising expenses substantially in order to support

innovations and market development. As a result of higher gross margins, EBITDA margin registered 110 bps rise on a comparable basis. Reported EBITDA registered 24% y/y growth. Segment-wise profits were driven by growth in home care (+51.3% y/y), while personal care lagged (+9% y/y).

#### Segment profits

Segment PBIT (Rs Bn)	3QFY18	3QFY17	% chg y/y	2QFY18	% chg q/q
Home Care	3.54	2.34	51.3	3.83	-7.6
Personal Care	10.07	9.21	9.3	9.48	6.2
Foods	0.11	0.26	-57.7	0.17	-35.3
Refreshments	1.69	1.71	-1.2	2.14	-21.0
Other	-0.11	-0.16	-31.3	-0.06	83.3

Source: Company Reports

Other income came in significantly higher on account of higher dividend income from subsidiary. Tax amount was low in the quarter on account of reversal of tax provisions for the previous year. Reported PAT came in 8% ahead of our estimates. Adjusted for one-offs and exceptional items, PAT was broadly in line with our estimates.

In terms of near-term outlook, the company believes that there is a gradual improvement in demand which is likely to sustain over the near-term, while there is likely to be further inflation in input costs.

#### Outlook and Investment View

While profit numbers have come in broadly in line with estimates, we are positively surprised by the strong volume growth in the quarter; although the volume growth comes on the back of a weak base (-4% volume growth in 3QFY17), the same is a strong indicator for normalization in demand. The management has indicated that there is no sign of volume growth in the quarter being significantly impacted by up-stocking in any of the channels. Further, the company has invested significantly in advertising and promotion and employee expenses, which provides a better quality to the reported profit figures, in our view.

Given a stronger macroeconomic environment, stabilization in demand from channels, we believe that growth of the company is likely to remain strong over the coming quarters. While raw material prices (crude-derivatives) are a concern, volume growth indicates demand is improving, and raw material price changes can significantly be passed on, with healthy volume growth.

HUL's valuations have been receiving support from expectations that the company shall continue to drive margins higher, something that the company has demonstrated over the past few quarters. We believe valuations, although rich, are likely to sustain. We value HUL at 43x FY20E PER, or Rs 1520, and recommend **ACCUMULATE** (REDUCE earlier).

We recommend  
**ACCUMULATE** on Hindustan  
Unilever Ltd with a price  
target of Rs.1520

## RESULT UPDATE

Ritwik Rai

ritwik.rai@kotak.com

+91 22 6218 6426

## ZEE ENTERTAINMENT ENTERPRISES LTD (ZEEL)

PRICE: RS.593

TARGET PRICE: RS.610

RECOMMENDATION: REDUCE

FY20E PE: 29.1X

Zee Entertainment's operating performance was largely in line with our estimates. The company brought in a strong performance in advertising revenues, far exceeding the industry growth rates. However, the quarter failed to produce confidence in subscription revenue growth as negotiations got delayed. Our negative stance on ZEEL over the past few quarters has hinged on questioning the ability of an entrenched incumbent, deriving strength from large bouquets, to be able to manage growth in what could be an adverse pricing regulation. While we continue to have reservations on that count, we acknowledge that ZEEL has filled significant holes (viewership of its flagship Hindi GEC, for example) over recent quarters, and stands a better chance of managing change. We raise our price target to Rs 610 (30X FY20E PER) as we roll-forward to FY20, and raise our target multiple to 30X FY20E PER.

## Summary table

(Rs mn)	FY18E	FY19E	FY20E
Sales	67,774	77,110	86,668
Growth (%)	5.3	13.8	12.4
EBITDA	21,184	24,403	28,746
EBITDA margin (%)	31.3	31.6	33.2
PBT	22,520	25,310	30,134
Adj. PAT	14,745	16,429	19,537
Adj. EPS	15.4	17.1	20.4
Growth (%)	47.9	11.4	18.9
CEPS (Rs)	16.3	18.0	21.3
Book value (Rs/share)	86.4	98.4	106.5
Dividend per share (Rs)	3.8	4.3	10.2
ROE (%)	19.0	18.5	19.9
ROCE (%)	16.6	16.6	18.4
Net cash (debt)	33,987	45,581	60,211
NW Capital (Days)	91.1	82.8	74.8
P/E (x)	38.6	34.7	29.1
P/BV (x)	6.9	6.0	5.6
EV/Sales (x)	7.5	6.4	5.5
EV/EBITDA (x)	23.9	20.2	16.7

Source: Company, Kotak Securities – Private Client Research

## Results Summary

Rs mn, FY Ends Mar	3QFY18	3QFY17	% chg y/y	2QFY18	% chg q/q
<b>Income from operations</b>	<b>18381</b>	<b>16391</b>	<b>12.1</b>	<b>15821</b>	<b>16.2</b>
Advertising Revenues	12020	9555	25.8	9867	21.8
Subscription Revenues	5017	5935	-15.5	5014	0.1
Other Sales	1344	902	48.9	939	43.1
Expenses	12437	11233	10.7	10909	14.0
<b>Operating Cost</b>	<b>6730</b>	<b>7035</b>	<b>-4.3</b>	<b>5789</b>	<b>16.3</b>
Employee Expenses	1535	1419	8.2	1814	-15.4
Advertising and Publicity	1796	1049	71.2	1410	27.4
Other Expenses	2375	1731	37.2	1896	25.3
<b>EBITDA</b>	<b>5944</b>	<b>5158</b>	<b>15.2</b>	<b>4912</b>	<b>21.0</b>
Margin (%)	32.3	31.5	2.8	31.0	4.2
Depreciation and Amortzn.	505	249	102.6	411	22.7
<b>EBIT</b>	<b>5440</b>	<b>4909</b>	<b>10.8</b>	<b>4501</b>	<b>20.9</b>
Other Income	480	525	-8.4	2031	-76.4
Financial Expenses	24	90	-73.8	3	742.9
Fair Value through P&L	419	714	-41.2	148	183.6
<b>PBT</b>	<b>5477</b>	<b>4630</b>	<b>18.3</b>	<b>6381</b>	<b>-14.2</b>
Exceptional Item	0	0	NM	1346	-100.0
Share of Profit from JV/ associates	-1	-41	-98.5	12	-104.9
PBT after exceptional items	5477	4589	19.3	7740	-29.2
Tax	2260	2081	8.6	1832	23.4
Net Profit for the period	3217	2508	28.3	5908	-45.5

Source: Company Reports

Zee Entertainment's 3QFY18 revenues, Rs 18.4 Bn, came in ahead of estimates. The positive surprise in revenues was led by strong 26% y/y growth in advertising revenues, while subscription revenues lagged estimates. Domestic advertising revenue growth excluding sports was up 30.4% y/y. Domestic subscription revenues adjusted for sports registered 7.5% y/y growth.

The company's release points to strong rebound in advertising categories as the prime factor behind advertising revenue growth. In addition, we note that the company's viewership share has come in strongly at 18.3% during the quarter, which has likely aided advertising revenue growth. The earnings release explains the weakness in subscription revenues as a result of the fact that early closure of content deals had helped 3QFY17 revenues resulting in a high base.

Expenses during the quarter came in higher than our estimates. Rise in programming costs (q/q) is on account of release of two mid-budget Hindi movies

during the quarter. Advertising, promotion and other expenses have risen on account of brand refresh, 25-year celebration events.

Reported EBITDA, Rs 5.9 Bn, came in 3% ahead of our estimates. Reported PAT came in lower than our estimates on account of lower than expected other income, and on higher loss provisioning for RPS.

Among important factors to watch for, the company highlighted that Zee5, its new OTT app, shall be launched in the coming February. Although the company did not share details on the intended expenditure on the same, management indicated that the EBITDA margin for the company shall remain above 30% for FY18, as well as FY19, even after accounting for these expenses.

### Outlook and Investment View

Over the past few quarters, Zee Entertainment has consistently beaten industry advertising revenue growth, we believe on the back of good tactical calls (in terms of sales, during the weaker quarters), as well as (more recently) stronger viewership in the regional markets. Zee Entertainment has also regained its stature in the Hindi GEC space, where the company's flagship channel now competes well against peers. That said, we believe that this quarter's advertising revenue growth partly benefits from items that may be considered one-offs (Zee Cine Awards held in 3Q, from 4Q usually); over the next few quarters, we believe the degree of outperformance shall moderate. Also, we think that while TV operations shall likely continue to bring in strong performance (given improving industry environment, and viewership gains that should assure performance in the near-term), losses on account of Zee5 could be significant. We note that our estimates factor in margins well ahead of the 30% (guidance of 30%+ by management). As such, we believe that in the near-term, the possibility of a significant earnings surprise is contained.

Our longer-term concern on Zee Entertainment is on the subscription revenues of the company – both considering the impending implementation of the tariff order (which, in our opinion, could be a negative for entrenched incumbents of the sector), as well as the threat in international subscription revenues, where Zee Entertainment has been a leader by far. In this matter, the quarter's results provide no indication of an improvement. While the management continues to guide for a low-teen growth in domestic advertising revenues, the signals from the quarter aren't encouraging for the longer-term. However, we appreciate that the implementation of the tariff order may take long enough that valuations of the stock could sustain. We raise our price target to 30x FY20E PER, or Rs 610. We maintain **REDUCE**.

We maintain **REDUCE** on  
Zee Entertainment Ltd with  
a price target of Rs.610

## COMPANY UPDATE

Jatin Damania

jatin.damania@kotak.com

+91 22 6218 6440

## GHCL LTD

PRICE: RS. 324

TARGET PRICE: RS. 365

RECOMMENDATION: BUY

FY19E PE: 8.4x

GHCL has rallied ~44% since our initiation report dated 2nd Nov, 2017. GHCL being one of the leading manufacturers of soda ash with 25% (vs 23% last year) domestic market share, is likely to report further improvement in profitability in the coming quarters on the back of increase in soda ash realisation and improvement in textile business. The concern pertaining to Turkey's 2.5MT new capacity is behind us. As per media reports, the contract for 2018 has been settled and all the plant's prospective production has been sold out. Indicating that, expected softness in realisation is ruled out and tightness is likely to prevail in soda ash market. Soda ash prices in West EU and China export prices are up by US\$28/tonne and US\$35/tonne to US\$278/tonne and US\$293/tonne, respectively in 2017. Given the tightness in the soda ash market and firm prices, we believe domestic players are likely to increase the soda ash prices in the range of Rs500-750/tonne in the coming months. We have revised our realisation assumption higher and our revised EPS estimates For FY18 and FY19 now stands at Rs33.8 and Rs38.4, respectively. Looking at the financial parameter and upside in soda ash prices coupled with improvement in textile business, we believe stock is likely to get further rerated. We continue to maintain BUY with a revised target price of Rs365 (earlier Rs325). At CMP, the stock trades at 9.6x/8.4x FY18E/FY19E earnings.

## Summary table

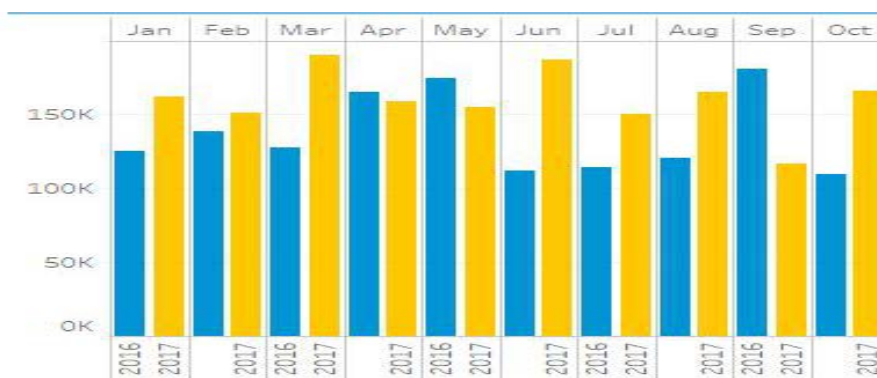
(Rs mn)	FY17	FY18E	FY19E
Sales	28,105	30,934	32,988
Growth (%)	11.1	10.1	6.6
EBITDA	7,075	6,548	7,151
EBITDA margin (%)	25.2	21.2	21.7
PBT	4,953	4,605	5,238
Net profit	3,801	3,269	3,719
Adj EPS (Rs)	38.2	33.8	38.4
Growth (%)	47.5	(14.0)	13.8
CEPS (Rs)	46.8	43.0	48.2
BV (Rs/share)	135	168	201
Dividend / share (Rs)	5.0	5.0	5.0
ROE (%)	28.2	20.1	19.1
ROCE (%)	20.8	18.1	18.4
Net cash (debt)	449	625	2,171
EV/EBITDA (x)	6.6	6.7	5.9
EV/Sales (x)	1.7	1.4	1.3
P/E (x)	8.5	9.6	8.4
P/CEPS (x)	6.9	7.5	6.7
P/BV (x)	2.4	1.9	1.6

Source: Company, Kotak Securities – Private Client Research

## Concern on Turkey's 2.5MT new capacity ruled out

Expectation of oversupply post the commissioning of Turkey's Kazan 2.5 MTPA soda ash plant has been ruled out currently. With the commissioning of the fourth line, Europe capacity will increase by 25%. As per the media reports tightness in the soda ash market is likely to prevail in 2018 as well and prices are expected to remain firm. We do not foresee any negative impact of new supply as Soda ash demand in Europe has remained strong and is expected to remain strong, as the plant's prospective production for 2018 is sold out. Besides this, new supply from Turkey is being balanced by rationalization and reduced production in other regions (notably China).

## EU soda ash imports



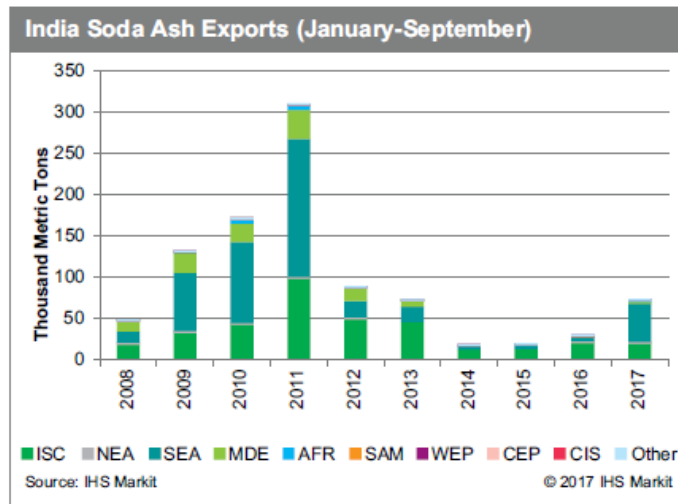
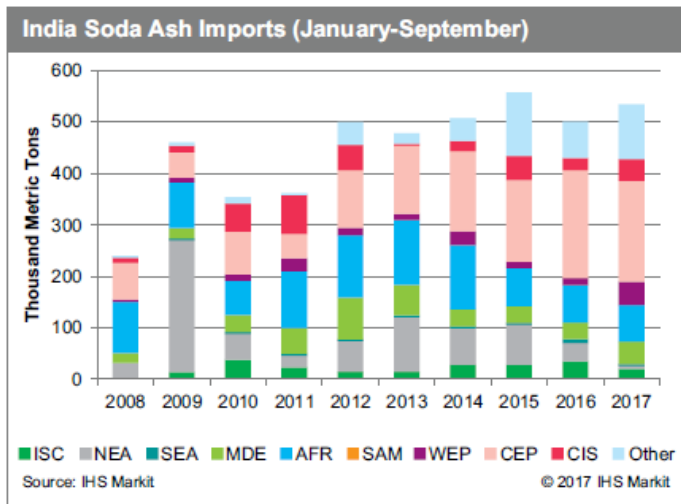
Data source: Eurostat

Data Source: Eurostat

## Market to prevail tightness, post disruptions in December 2017

China's soda ash market had witnessed some correction in prices in the month of December 2017, as supply outstripped demand. This is due to the government's stricter anti-smog measures for winter, which required heavy polluting plants, including those in the glass industry, to cut output and increase in inventory levels. As per IHS, ~5MT of capacity (19% of the total capacity) in China was running at low capacity or is planning to operate at lower levels in the coming weeks. This will lead to tightness in the China's soda ash market and support the prices. Europe market is expected to remain tight, as it has been observed that switch in the UK

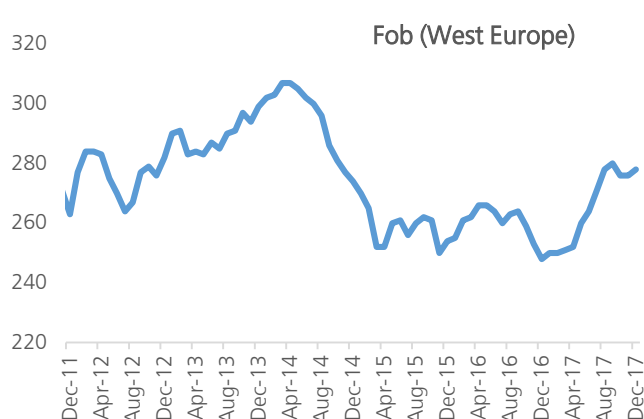
to soda ash from a traditional caustic soda customer who had been using caustic for decades. The new soda ash demand is said to be in the region of 12,000 mt per year. As far as the domestic market is concerned, the fall in China export prices in the month of December 2017 is not going to impact the domestic prices due to freight (US\$25-35/tonne) charges. Imports have grown by 7% in 9MC17 to 535KT (declined from China), due to the optimal utilisation of capacity.



**Prices to remain firm**

Soda ash prices had witnessed some pressure in the month of December 2017, due to higher supply. However, going ahead, we believe that with the low operating capacity of 5MT in China and booking of prospective production of Turkey new capacity, we expect the market to remain tight and support the prices. Besides this, an increase in the cost curve the contract for 2018 is likely to be at a higher levels.

**Soda ash price trend (US\$/)**



Source: Bloomberg

As per the industry estimates, the soda ash market is balanced and expects prices to remain firm on the healthy demand growth in core developing markets. Chinese prices have marginally corrected downwards from an abnormally high level witnessed since September onwards, they are still substantially higher than prices ruling in the first half of 2017.

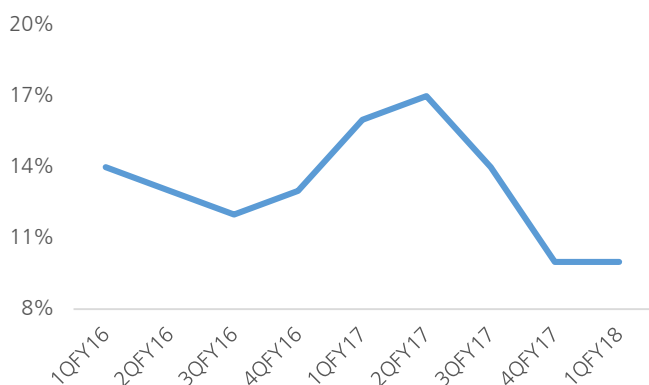
**Textiles business on verge of turnaround**

GHCL's textile business benefits from backward integration (in yarn), however, its late entry in the home textiles division has led to lower margins compared to its peers. Textile business contributed 42% to the overall revenue and 26% to its EBITDA in FY17. Within the Textile business, Home textile accounts for 70% of the revenue, while remaining 30% comes from spinning. Textile segment reported

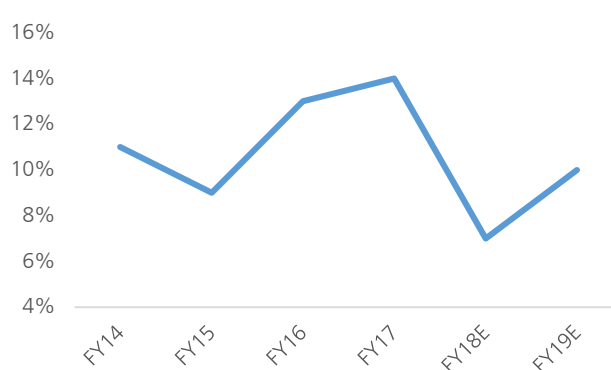
EBIT loss of Rs60.4mn in 2QFY18. The sharp drop in textile segment performance is due to loss of high margin business and financial stress faced by certain customers. With the improvement in operating efficiencies and change in product mix, we expect textile business to see modest recovery in the coming quarter from 1% EBITDA margin in 2QFY18.

Going forward, thrust is on improving its product mix, but we believe that due to slowdown in textile segment, EBITDA margin for FY18E could decline to ~7% and then inch up to ~10-11% in FY19E, supported by capacity utilization and product mix. Textile segment is expected to contribute Rs11.9bn/12.9bn of revenue in FY18E/FY19E. 1HFY18 margin came in at 5.9%.

Margin on declining trend...



...will inch up in FY19E to 10%



Source: Company, Kotak Securities – Private Client Research

**Maintain BUY**

GHCL is expected to witness steady single digit revenue growth going forward backed by higher capacity utilization in both the segments. EBITDA margin is expected to dwindle in FY18 and to improve thereafter on the back of recovery in textile business. Even after building in the ongoing capex program in the Soda Ash business the company should be able to generate healthy cash flows. The management’s focus on reviving the textile business should see result from FY19E onwards. Though GHCL is a commodity player (in its Soda Ash business), large entry barriers (low asset turnover), and high market share should re-rate the stock further. Besides this, improvement in the textile segment should help the company to report EBITDA margin of more than 20%. Looking at the financial parameter and upside in soda ash prices coupled with improvement in textile business, we believe stock is likely to get further re-rated. We continue to maintain **BUY** with a revised target price of Rs365 (earlier Rs325). At CMP, the stock trades at 9.6x/8.4x FY18E/FY19E earnings.

We maintain **BUY** on GHCL Ltd with a revised price target of **Rs.365**

## Bulk deals

## Bulk deals

Date	Scrp name	Name of client	Buy/ Sell	Qty of Shares	Avg Price
17-Jan	7NR	Guinness Securities Ltd	S	72,000	34.5
17-Jan	ADVIKCA	A1 Solutions (Prop. Aju Kumar)	S	3,88,150	4.0
17-Jan	ADVIKCA	Sudipta Biswas	B	3,25,000	4.0
17-Jan	AMSONS	Future Investments	S	1,57,573	5.3
17-Jan	ARYACAPM	Santosh Devi Bansal	S	75,000	32.1
17-Jan	ARYACAPM	Kanodia Group	B	1,50,000	32.1
17-Jan	ARYACAPM	Gopal Bansal	S	70,000	32.4
17-Jan	BASML	Purvaj Advisors Pvt Ltd	B	2,80,000	345.0
17-Jan	BCP	Blossom Impex Private Ltd	S	75,000	128.0
17-Jan	BILENERGY	Shilpa Shah	S	10,00,000	1.6
17-Jan	BILENERGY	Keshav Securities Pvt Ltd	S	10,00,000	1.6
17-Jan	CAMEXLTD	Renudevi Nakhat	S	72,274	38.9
17-Jan	CONFIPET	Eq India Fund	B	30,00,000	29.6
17-Jan	DHARFIN	Shiv Ratan Bhauka	B	29,513	16.8
17-Jan	EMAMIPAP	Jekay International Track Pvt Ltd	S	5,87,000	225.0
17-Jan	EMAMIPAP	Parwati Devi Jalan	S	5,71,773	225.0
17-Jan	EMAMIPAP	Ganpati Industrial Pvt Ltd	S	22,42,000	225.0
17-Jan	EML	Fastner Machinery Dealers Pvt Ltd	S	1,50,000	60.3
17-Jan	GUJBOROS	Chandra Gopilal Rajgarhia	S	3,59,712	130.0
17-Jan	INTELLCAP	Vipul Jayantilal Modi	S	10,30,000	9.5
17-Jan	INTELLCAP	Santosh Antony	B	10,20,000	9.5
17-Jan	IRBINVIT	Bnp Paribas Arbitrage	S	1,31,80,000	88.1
17-Jan	IRBINVIT	Prusik Asia Fund Public Ltd Co	B	1,66,75,000	88.1
17-Jan	NEHAINT	Seema Aggarwal	S	2,98,523	8.6
17-Jan	NEHAINT	Nimish Ajitkumar Shah	B	2,95,610	8.6
17-Jan	OMNIAX	Kailash Chand	B	55,000	1.8
17-Jan	SAGAR	Marwadi Shares & Finance Ltd	B	93,000	41.3
17-Jan	SAGAR	Jackpot Vintrade Pvt Ltd	S	1,23,000	41.3
17-Jan	SUPREMEX	Vraj Enterprises	B	3,00,000	24.9
17-Jan	SYSTMTXC	Lotus Global Investments Ltd	S	4,68,000	18.0
17-Jan	SYSTMTXC	Shashikant Jain	B	4,68,000	18.0
17-Jan	TAHL	Suhas Dinkar Bhattbhatt	S	15,600	14.1
17-Jan	TAHL	Mehul Maheshbhai Shah	B	25,000	14.1
17-Jan	UTTAMSTL	Albula Investment Fund Ltd	S	8,50,000	22.4
17-Jan	YOGYA	Sunfast Tradecomm Pvt Ltd	B	48,000	13.1

Source: [www.bseindia.com](http://www.bseindia.com)

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
Axis Bank Ltd	585	3.9	NA	8.5
State Bank of India	307	3.7	NA	26.3
ICICI Bank	343	2.7	NA	43.3
<b>Losers</b>				
Zee Entertainment	593	(3.3)	NA	8.6
Wipro	326	(1.9)	NA	3.0
Hindustan Unilever	1,371	(0.8)	NA	1.4

Source: Bloomberg

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- BUY** – We expect the stock to deliver more than 12% returns over the next 9 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 9 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 9 months
- SELL** – We expect the stock to deliver negative returns over the next 9 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.
- 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
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- NOTE** – Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

## FUNDAMENTAL RESEARCH TEAM

### Sanjeev Zarbade

Capital Goods, Engineering  
sanjeev.zarbade@kotak.com  
+91 22 6218 6424

### Ruchir Khare

Capital Goods, Engineering  
ruchir.khare@kotak.com  
+91 22 6218 6431

### Amit Agarwal

Logistics, Paints, Transportation  
agarwal.amit@kotak.com  
+91 22 6218 6439

### Nipun Gupta

Information Technology  
nipun.gupta@kotak.com  
+91 22 6218 6433

### K. Kathirvelu

Production  
k.kathirvelu@kotak.com  
+91 22 6218 6427

### Teena Virmani

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

### Ritwik Rai

FMCG, Media  
ritwik.rai@kotak.com  
+91 22 6218 6426

### Jatin Damania

Metals & Mining  
jatin.damania@kotak.com  
+91 22 6218 6440

### Jayesh Kumar

Economy  
kumar.jayesh@kotak.com  
+91 22 6218 5373

### Arun Agarwal

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

### Sumit Pokharna

Oil and Gas  
sumit.pokharna@kotak.com  
+91 22 6218 6438

### Pankaj Kumar

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

### Ashini Shah

Midcap  
ashini.shah@kotak.com  
+91 22 6218 5438

## 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

prasenjit.biswas@kotak.com  
+91 33 6625 9810

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