

MAY 27, 2019

	24-May	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	39,435	1.6	1.0	9.9
NIFTY Index	11,844	1.6	1.0	9.8
NSEBANK Index	31,213	2.6	4.5	16.2
NIFTY 500 Index	9,722	1.8	0.4	9.0
CNXMcap Index	17,700	2.2	(0.8)	7.0
BSSEMCAP Index	14,700	2.4	(1.0)	8.7
World Indices				
Dow Jones	25,586	0.4	(3.6)	(1.5)
Nasdaq	7,637	0.1	(6.1)	1.1
FTSE	7,278	0.6	(2.0)	2.4
NIKKEI	21,117	(0.2)	(4.8)	(1.7)
Hangseng	27,354	0.3	(8.3)	(5.6)
Shanghai	2,853	0.0	(8.0)	(3.9)

Value traded (Rs cr)	24-May	% Chg Day
Cash BSE	3,529	(5.8)
Cash NSE	41,508	(20.7)
Derivatives	981,158	(62.0)

Net inflows (Rs cr)	23-May	MTD	YTD
FII	1,440	(1,136)	67,085
Mutual Fund	94	6,662	4,001

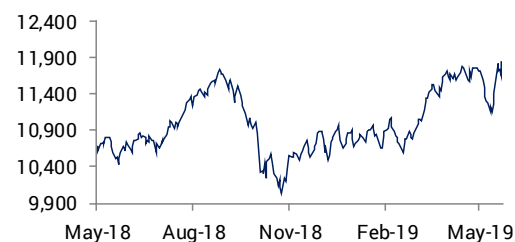
Nifty Gainers & Losers	Price	Chg	Vol
24-May	(Rs)	(%)	(mn)
Gainers			
ICICI Bank Ltd	432	5.1	37.7
L&T	1,544	4.6	5.6
Zee Entertainment	377	4.6	19.5
Losers			
Tech Mahindra	736	(1.0)	3.6
NTPC Ltd	129	(0.5)	9.4
TCS	2,048	(0.3)	2.3

Advances / Declines (BSE)					
24-May	A	B	T	Total	% total
Advances	388	787	62	1,237	100
Declines	72	185	56	313	25
Unchanged	1	31	11	43	3

	24-May	% Chg		
		1 Day	1 Mth	3 Mths
Commodity				
Crude (US\$/BBL)	68.8	0.1	(4.7)	3.6
Gold (US\$/OZ)	1,284.8	0.1	0.0	(2.5)
Silver (US\$/OZ)	14.6	(0.2)	(3.2)	(7.2)

Debt / Forex Market	24-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.2	7.2	7.4	7.4
Re/US\$	69.5	70.0	69.9	71.0

Nifty



Source: Bloomberg

News Highlights

- ▶ The cement industry witnessed its first full year double-digit growth last financial year, after a gap of nine years, as government schemes gave a fillip to rural housing demand. (BS)
- ▶ The RBI has proposed a set of strict norms for non-banking financial companies (NBFCs), including mandatory investments in government bonds and maintenance of cash thresholds, to enable them to tide over liquidity problems without causing disruptions to the broader financial system. (ET)
- ▶ **FDC Ltd.'s** board approved buyback of 34.3 lakh shares at Rs 350 per share aggregating to Rs 1.2 bn. June 7 is the record date for the buyback. (Bloomberg)
- ▶ **Jaypee Infratech's** financial creditors, which include bankers and homebuyers, will meet on May 30 to discuss state-owned NBCC's bid to acquire the realty firm and complete stuck housing projects. (BS)
- ▶ **Salzer Electronics** has acquired 72.32 per cent stake in Kaycee Industries Limited of CMS group, a pioneer in industrial switches for more than 75 years. The acquisition is in line with company's focus to strengthen Salzers position in the industrial switchgear market by increasing its product offering and expand its footprint in railway business, manufacturing set-up in western India and access to all-India dealer network. (Mint)
- ▶ **Omaxe Ltd.** entered into an agreement to sell its arm to Darshita Landed Property for Rs 882 mn. (Bloomberg)
- ▶ **Grasim Industries** plans to invest an additional Rs 64 bn in expanding its capacity as its existing plants are unable to meet growing demand from the local customers. Dilip Gaur, managing director of Grasim, said the investment would be made in the speciality fiber business, which would increase its capacity by about 40 per cent in the next two years. (BS)
- ▶ **Larsen and Toubro (L&T)** acquired over 2.49 million shares of **Mindtree** from open market, taking its shareholding in the IT services firm to 28.45 per cent, according to a regulatory filing. (BS)
- ▶ Air Asia India has dropped its plan to lease B737 aircraft of grounded **Jet Airways** as the Tata group venture carrier wants to continue with one type of aircraft. (Mint)
- ▶ **Biocon Ltd.'s** new drug application for Pemetrexed Disodium received tentative approval from the U.S. Food and Drug Administration on May 23. (Bloomberg)
- ▶ **Music Broadcast Ltd** terminated its Business Transfer Agreement to acquire radio business of Ananda Offset's 'Friends 91.9 FM' on account of uncertainty of receipt of regulatory approval. (Bloomberg)
- ▶ **Ashok Leyland** has lined up a capital expenditure (capex) of Rs 20 bn for FY20 and FY21. Among the fresh investments it is planning are funds infusion for BS-VI and new projects related to light commercial vehicles (LCVs). (BS)

What's Inside

- ▶ **Result Update:** Surya Roshni Ltd, Bajaj Electricals Ltd, Indo Count Industries Ltd, Nagarjuna Construction Co Ltd & NIIT 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

SURYA ROSHNI LTD (SURL)

Stock Details

Market cap (Rs mn)	:	13833
52-wk Hi/Lo (Rs)	:	388 / 185
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	123,772
Shares o/s (mn)	:	54

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	59,770	64,876	69,614
Growth (%)	21.2	8.5	7.3
EBITDA	3,720	4,248	4,762
EBITDA margin (%)	6.2	6.5	6.8
PAT	1,209	1,550	1,945
EPS	22.2	28.5	35.7
EPS Growth (%)	11.9	28.3	25.4
BV (Rs/share)	212	238	271
Dividend/share (Rs)	2.0	2.0	2.1
ROE (%)	11.0	12.7	14.1
ROCE (%)	12.1	13.4	14.6
P/E (x)	11.6	9.0	7.2
EV/EBITDA (x)	6.8	5.8	5.0
P/BV (x)	1.6	1.4	1.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	62.9	62.9	62.9
FII	1.3	1.3	1.4
DII	2.3	2.3	0.0
Others	33.4	33.4	35.7

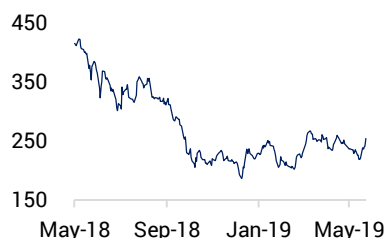
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Surya Roshni Ltd	3.4	12.5	17.4
Nifty	1.0	9.8	12.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE Rs.256

TARGET Rs.328

BUY

SURL Q4FY19 result outperformed our estimates; sales grew on back of improved demand in lighting and steel pipe division. EBITDA margin contracted y/y due to higher contribution from steel pipe division (in line with estimate). We note that Q4FY19 revenue trend signals sustainable recovery in company's financials across divisions, supporting our investment thesis.

Key Highlights

- SURL revenue reported at c. Rs 17 Bn in Q4FY19 (+19.7% y/y) was driven by both segments-steel pipes and lighting & consumer appliances. EBITDA margin slightly contracted y/y to 6.9% in Q4FY19 vis-à-vis 7.1% in Q4FY18 due to increased contribution from steel pipe division which attracts lower margin vis-à-vis lighting division.
- Lighting and consumer appliances division reported 18.9% y/y growth in revenues, reported at Rs 4.7 Bn in Q4FY19. Steel pipe division reported encouraging y/y growth of c. 19.5% in Q4FY19 (c. 22.2% y/y growth in FY19)

Valuation & outlook

At current price of Rs 254, SURL stock is trading at attractive valuation- FY20 EV/EBITDA 5.8x. We value SURL using SOTP valuation methodology- ascribe EV/EBITDA of 14x to the lighting business and 6x to the steel pipe business. We arrive at a revised target price of Rs 328 (Rs 330 earlier) and maintain 'BUY' rating on the company's stock.

Standalone Result

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Income from Operations	17,065	14,259	19.7	16,053	6.3
Decrease/ (Increase) in stock	842	(70)		26	
Material consumed	11,876	10,551	12.6	11,789	0.7
Purchase of traded goods	743	840		808	
Employee expenses	794	688	15.4	725	9.5
Other expenses	1,629	1,231	32.3	1,744	
Total Expenses	15,884	13,241	20.0	15,091	5.3
EBITDA	1,181	1,018	16.0	962	22.8
Other income	17	15	16.0	8	132.0
Depreciation	228	223	2.3	226	1.2
EBIT	970	810	19.8	744	30.5
Finance cost	314	277	13.4	298	
Exceptional Items	0	0		0	
PBT	656	533	23.2	446	47.3
Total tax	215	162	32.7	135	59.9
PAT	441	371	19.1	311	41.8
Adjusted PAT	441	371	19.1	311	41.8
Adj. EPS (Rs)	8.1	6.8	19.1	5.7	41.8
EBITDA (%)	6.9	7.1		6.0	
Tax Rate (%)	32.8	30.4		30.2	
RM/Sales	78.9	79.4		78.6	

Source: Company, Kotak Securities – Private Client Research

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Result Highlights

Sales continues to report traction on robust demand across division

SURL revenue reported at c. Rs 17 Bn in Q4FY19 (+19.7% y/y) was driven by both segments-steel pipes and lighting & consumer appliances. EBITDA margin slightly contracted y/y to 6.9% in Q4FY19 vis-à-vis 7.1% in Q4FY18 due to increased contribution from steel pipe division which attracts lower margin vis-à-vis lighting division.

Lighting and consumer appliances division reported 18.9% y/y growth in revenues, reported at Rs 4.7 Bn in Q4FY19. We note that SURL is expected to outperform the industry growth in the lighting division due to its extensive presence in buoyant tier 2/rural markets. SURL is the second largest player in the Indian Lighting Industry with 14% market share. For SURL c.82% of lighting sales is derived from the rural/tier ii areas.

Steel pipe division reported encouraging y/y growth of c. 19.5% in Q4FY19 (c. 22.2% y/y growth in FY19) driven by increased public spending in infrastructure, primarily oil & gas transportation and city gas distribution.

Segment reporting (Standalone)

Segment Revenue (Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Steel Pipe & Strips	12327	10313	19.5	11997	2.7
Lighting & Consumer Durables	4745	3989	18.9	4073	16.5
Segment EBIT					
Steel Pipe & Strips	555	440	26.2	387	43.4
Lighting & Consumer Durables	415	370	12.3	357	16.5
Segment Margins (%)					
Steel Pipe & Strips	4.5	4.3		3.2	
Lighting & Consumer Durables	8.8	9.3		8.8	

Source: Company, Kotak Securities – Private Client Research

Company maintained EBIT margin in steel pipe division, reported at 4.5% in Q4FY19. Margin expanded q/q due to inclusion of inventory write down (c. Rs 80 mn hit) in Q3FY19. We highlight that the company sources inventory on order to order basis, thus mitigating inventory risk to a large extent.

Finance cost increased 13.4% y/y to Rs 314 mn (in line with our estimates) due to working capital requirement in the pipes business. However, we expect borrowings/financial charges to peak out at current level of Rs 11.3 Bn. We estimate interest expense at Rs 1.12 bn and Rs 1.1 bn in FY19 and FY20 respectively. Note that our debt forecast does not include the advantages that can flow from channel financing.

Conglomerate discount should get narrowed with the demerger of consumers and steel pipes business

Typically, consumer durables companies trade at a much premium valuations vis-à-vis steel pipe companies due to the higher capital efficiency, better return ratios and lower capital requirements.

SURL management has recognized the need of having two separate entities-having a precise focus and dedicated bandwidth for both the lighting/consumer durable and pipes business. We believe that the corporate action would likely provide an enhanced focus on both the businesses and finally lead to the re-rating of company's stock.

Attractive valuation on relative basis; maintain BUY rating and a SOTP based target price of Rs 328

At current price of Rs 254, SURL stock is trading at attractive valuation- FY20 EV/EBITDA 5.8x. While we acknowledge that a conglomerate discount is warranted, we highlight that the implied upside remains attractive. We value SURL using SOTP valuation methodology- ascribe EV/EBITDA of 14x to the lighting business and 6x to the steel pipe business. We arrive at a revised target price of Rs 328 (Rs 330 earlier) and maintain 'BUY' rating on the company's stock.

Valuation

Rs mn	FY20E
B2C	
EBITDA (Lighting/CD)	1757
Target EV/EBITDA (Lighting/CD)	14
Target EV (B2C) (a)	24601
EBITDA (Steel Pipes)	2625
Target EV/EBITDA (Steel Pipes)	6.0
Target EV (B2B)(b)	15751
Target EV (SURL) (a+b)	40352
Less Debt	11100
Add Cash	530
Market Capitalization	29783
Conlomerate Discount @40%	11913
Target Market Capitalization	17870
Target price per share (SURL)	328
Upside (%)	34.1%

Source: Kotak Securities – Private Client Research

About the company

SURL (estd. 1973), founded by Mr J.P. Agarwal, is a manufacturing company with business interest aligned broadly divided into two areas- Lighting and Steel pipes. Under Lighting, the Company offers a wide range of lighting products- from GLS, CFL, Luminaries to LEDs and luminaries. Company also operates its fans and appliances business where it offers several models of fans and kitchen appliances. The Company's lighting manufacturing units are located in Uttarakhand and Madhya Pradesh. While company manufactures an array of pipes, it has been the largest manufacturer of ERW-GI pipes in India. The company's pipe manufacturing units are located in Haryana, Gujarat, Andhra Pradesh and Madhya Pradesh. SURL has a wide presence across the length and breadth of India along with considerable overseas presence spread across 50 countries.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	49,312	59,770	64,876	69,614
% change yoy	27.0	21.2	8.5	7.3
EBITDA	3,459	3,720	4,248	4,762
% change yoy	10.5	7.5	14.2	12.1
Depreciation	873	885	921	972
EBIT	2,586	2,835	3,327	3,789
% change yoy	12.7	9.6	17.3	13.9
Net Interest	1,052	1,151	1,121	1,012
Earnings Before Tax	1,561	1,726	2,247	2,819
% change yoy	32.8	10.5	30.2	25.4
Tax	481	517	697	874
as % of EBT	30.8	30.0	31.0	31.0
XO Items	-	-	-	-
Recurring PAT	1,080	1,209	1,550	1,945
% change yoy	25.2	11.9	28.3	25.4
Shares outstanding (m)	54.4	54.4	54.4	54.4
EPS (Rs)	19.9	22.2	28.5	35.7
DPS (Rs)	2.0	2.0	2.0	2.1
CEPS	35.9	38.5	45.4	53.6

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PBT	1,561	1,726	2,247	2,819
Depreciation	873	885	921	972
Current liabilities incl provisions	792	110	1,794	571
Increase in inventory	(1,727)	(150)	(2,229)	(779)
Increase in sundry Debtors	(808)	(1,251)	(510)	(649)
Increase in advances	-	-	-	-
Tax Paid	(481)	(517)	(697)	(874)
Other Adjustments	1,046	1,159	600	1,034
Net cash from operations	1,256	1,962	2,126	3,094
(Inc)/Dec in F.A+CWIP	(472)	(1,486)	(141)	(970)
Net investments	-	(1)	1	-
Net cash from investing	(472)	(1,486)	(142)	(970)
Change in Borrowings	401	601	(215)	(900)
Dividend Paid	(132)	(132)	(132)	(139)
Net Cash from financing	(754)	(710)	(1,474)	(2,056)
Net Cash Flow	31	(233)	510	68
Cash at the end of year	254	21	530	598

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	254	21	530	598
Accounts receivable	7,126	8,377	8,887	9,536
Inventories	8286	8435	10665	11443
Other current assets	8,286	8,435	10,665	11,443
Current Assets	17,210	18,602	21,862	23,268
Net fixed assets	10,710	10,886	10,107	10,105
Investments	-	1	-	-
Other non-current assets	380	778	779	779
Total Assets	28,554	30,287	33,279	34,750
Debt	10,714	11,315	11,100	10,200
Equity & reserves	10,473	11,519	12,931	14,731
Other liabilities (deferred tax)	1,450	1,427	1,427	1,427
Current Liabilities	5,917	6,027	7,821	8,392
Total Liabilities	28,554	30,287	33,278	34,750
BVPS (Rs)	192	212	238	271

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	7.0	6.2	6.5	6.8
EBIT margin (%)	5.2	4.7	5.1	5.4
Net profit margin (%)	2.2	2.0	2.4	2.8
Receivables (days)	52.7	53.0	50.0	50.0
Inventory (days)	61.3	62.0	60.0	60.0
Sales / Net Fixed Assets (x)	4.6	5.5	6.4	6.9
Interest coverage (x)	2.5	2.5	3.0	3.7
Debt/ equity ratio	1.0	1.0	0.9	0.7
ROE (%)	10.8	11.0	12.7	14.1
ROCE (%)	11.8	12.1	13.4	14.6
EV/ Sales	0.5	0.4	0.4	0.3
EV/EBITDA	7.1	6.8	5.8	5.0
Price to earnings (P/E)	12.9	11.6	9.0	7.2
Price to book value (P/B)	1.7	1.6	1.4	1.2
Price to cash earnings	7.2	6.7	5.7	4.8

Source: Company, Kotak Securities – Private Client Research

Result Update

BAJAJ ELECTRICALS LTD (BAEL)

Stock Details

Market cap (Rs mn)	: 56269
52-wk Hi/Lo (Rs)	: 659 / 379
Face Value (Rs)	: 2
3M Avg. daily vol (Nos)	: 269,984
Shares o/s (mn)	: 102

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	66,794	64,255	68,973
Growth (%)	41.9	-3.8	7.3
EBITDA	3,401	4,177	4,690
EBITDA margin (%)	5.1	6.5	6.8
Adj. PAT	1,614	1,943	2,322
EPS	15.8	19.1	22.8
EPS Growth (%)	-6.7	20.4	19.6
BV (Rs/share)	104	116	132
Dividend/share (Rs)	5.2	6.2	7.2
ROE (%)	16.2	17.3	18.3
ROCE (%)	7.0	6.9	7.9
P/E (x)	33.0	27.4	22.9
EV/EBITDA (x)	17.7	14.4	12.8
P/BV (x)	5.8	5.2	4.5

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	62.7	62.7	62.8
FII	7.1	7.1	9.6
DII	7.3	7.3	5.3
Others	23.0	23.0	22.3

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Bajaj Electricals	(2.4)	19.9	17.6
Nifty	1.0	9.8	12.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE Rs.548

TARGET Rs.530

SELL

BAEL reported Q4FY19 PAT below our estimate due to significant margin contraction in the E&P business; consumer durable (CD) business grew 15% y/y with increasing RREP based distribution coverage. E&P business revenue reported at Rs 10.3 Bn (+7.3% y/y) driven by execution of UP rural electrification project.

Key Highlights

- BAEL reported net revenues of Rs 17.7 Bn (+10.4% y/y) in Q4FY19 driven by 15% y/y growth in the consumer appliances/lighting business.
- EBIT margin for the consumer segment is expanded to 6.2% against 5.8% in Q4FY18 on back of improved volumes.. In E&P segment, BAEL reported revenues at Rs 10.3 Bn (+7.3% y/y) with EBIT margin at 4.2% against 11.2% in Q4FY18 (Q4FY18 was an aberration). EBIT margins in the quarter were also impacted by the higher overheads in the UP electrification contract.

Valuation & Outlook

We tweak our FY20 earnings estimate downwards to factor in margin pressure in T&D business. We arrive at a SOTP based revised target price of Rs 530 (Rs 550 earlier); move recommendation to 'SELL' from 'ACCUMULATE' earlier on company's stock.

Quarterly performance

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	17,729	16,063	10.4	21,618	(18.0)
Other Income	263	226	16.4	55	375.9
Raw material cost	954	1,281	(25.5)	451	111.6
Purchase of traded goods	11,036	9,191	20.1	15,562	(29.1)
Employee cost	2,654	1,933	37.3	1,954	35.8
other expenditure	2,391	2,309	3.6	2,273	5.2
Total expenditure	17,036	14,713	15.8	20,241	(15.8)
EBITDA	694	1,350	(48.6)	1,378	(49.7)
Depreciation	99	89	11.7	100	(0.9)
PBIT	857	1,487	(42.3)	1,333	(35.7)
Interest expense	419	155	171.1	333	25.8
PBT	438	1,332	(67.1)	1,000	(56.2)
Extraordinary items	0	-		0	
Tax Expense	153	365	(58.1)	361	(57.6)
Reported PAT	285	73	639		
Adj. PAT	285	966.8	(70.5)	639	(55.4)
EPS (adj)	2.8	9.5	(70.5)	6.3	
EBITDA (%)	3.9	8.4		6.4	
Tax (%)	34.9	27.4		36.1	
RM/Sales (%)	67.6	65.2		74.1	

Source: Company

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Result Highlights

BAEL reported net revenues of Rs 17.7 Bn (+10.4% y/y) in Q4FY19 driven by 15% y/y growth in the consumer appliances/lighting business. Fans/appliances contributed to the segment sales in Q4FY19. E&P division reported revenues at Rs 10.3 Bn against Rs 9.6 Bn in Q4FY18.

EBIT margin for the consumer segment expanded to 6.2% against 5.8% in Q4FY18 on back of improved volumes. 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 few years. As per the management, RREP roll out has been encouraging so far and company would likely report recovery from the current year onwards.

In E&P segment, BAEL reported revenues at Rs 10.3 Bn (+7.3% y/y) with EBIT margin at 4.2% against 11.2% in Q4FY18 (Q4FY18 was an aberration). EBIT margins in the quarter were also impacted by the higher overheads in the UP electrification contract.

As, per management margins are headed for modest y/y contraction in FY20 in the E&P business due to execution of Rs 50 Bn UP power distribution contract. Current order book, stands at Rs 48.4 Bn, including Rs 7 bn in transmission line, Rs 40.3 bn of rural electrification and Rs 1.1 bn of special projects.

Segment Results (Rs mn)

Consolidated revenues	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Consumer Durables	7410	6446	15.0	7606	(2.6)
Engg Projects	10318	9615	7.3	14011	(26.4)
PBIT					
Consumer Durables	459	376	22	552	(16.8)
Engg Projects	434	1082	(60)	790	(45.1)
PBIT (%)					
Consumer Durables	6.2	5.8		7.3	
Engg Projects	4.2	11.2		5.6	

Source: Company

Interest charges increased to Rs419 mn in Q4FY19 vis-à-vis Rs 155 mn last year. We note (consistent with management view) that the borrowings are bound to increase, to fund working capital related to E&P business.

Adjusted net profit in Q4FY19 stood at Rs 285 mn vis-à-vis Rs 966 mn in Q4FY18. The de-growth in EBITDA/PAT is largely accounted by large base of Q4FY18, where E&P business reported abnormally high margin.

Valuation and Recommendation

We tweak our FY20 earnings estimate downwards to factor in margin pressure in T&D business. We arrive at a SOTP based revised target price of Rs 530 (Rs 550 earlier); move recommendation to 'SELL' from 'ACCUMULATE' earlier on company's stock.

Valuation

(Rs mn)	FY20E
B2C	
EBIT B2C	2843
Interest	(300.00)
Tax	(839.25)
PAT	1704
Target PER	27
Target Market Capitalization (B2C) (a)	46006
EBIT B2B	2284
Interest	(800)
Tax	(490)
PAT	995
Target PER	8
Target Market Capitalization (B2B)(b)	7957
Target Market Capitalization (BAEL) (a+b)	53963
Target price per share (BAEL)	530

Source: Kotak Securities – Private Client Research

About the company

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)	FY18	FY19	FY20E	FY21E
Revenues	47,075	66,794	64,255	68,973
% change yoy	10.5	41.9	(3.8)	7.3
EBITDA	2,934	3,401	4,177	4,690
% change yoy	20.9	15.9	22.8	12.3
Depreciation	339	385	443	465
EBIT	2,595	3,016	3,734	4,225
% change yoy	21.9	16.2	23.8	13.2
Net Interest	589	1,176	1,134	1,059
Earnings Before Tax	1,748	2,490	2,899	3,466
% change yoy	51.0	(1.9)	16.5	19.6
Tax	809	875	957	1,144
as % of EBT	46.2	33.0	33.0	33.0
Recurring PAT	1,730	1,614	1,943	2,322
% change yoy	60.6	(6.7)	20.4	19.6
Shares outstanding (mn)	101.9	101.9	101.9	101.9
EPS (Rs)	17.0	15.8	19.1	22.8
DPS (Rs)	4.2	5.2	6.2	7.2
CEPS	20.3	19.6	23.4	27.4

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PBT	1,748	2,490	2,899	3,466
Depreciation	339	385	443	465
Current liabilities incl provisions	1,414	7,311	(2,055)	1,368
inc in inventory	(80)	(2,511)	205	(595)
inc in sundry Debtors	(3,655)	(11,317)	1,511	(2,197)
inc in advances	(12)	(4)	(0)	1
Tax Paid	(809)	(875)	(957)	(1,144)
Other Adjustments	(942)	(2,904)	45	(261)
Net cash from operations	(1,995)	(7,425)	2,090	1,104
Purchase of fixed Assets	(321)	(759)	(456)	(500)
Net investments	643	(31)	-	-
Long term provisions	20.9	-57	0	0
Net cash from investing	343	(847)	(456)	(500)
Change in Borrowings	1,721	8,677	(727)	1
Dividend Paid	(428)	(530)	(632)	(734)
Net Cash from financing	1,293	8,147	(1,359)	(733)
Net Cash Flow	(359)	(125)	275	(129)
Cash at the end of year	294	169	444	315

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	294	169	444	315
Accounts receivable	20,121	31,438	29,927	32,125
Inventories	5,792	8,303	8,098	8,693
Other current assets	3,546	5,419	5,578	5,634
Current Assets	29,459	45,160	43,603	46,451
Investments	77	108	108	108
Net fixed assets	3,161	3,534	3,547	3,582
Other non-current assets	1,669	2,878	2,187	2,391
Total Assets	34,659	51,848	49,889	52,848
Debt	7,176	15,853	15,126	15,127
Equity & reserves	9,161	10,354	11,665	13,253
Other liabilities	1,803	1,750	1,751	1,752
Current Liabilities	16,519	23,830	21,775	23,143
Total Liabilities	34,659	51,787	50,316	53,275
BVPS (Rs)	91.9	103.6	116.5	132.1

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	6.2	5.1	6.5	6.8
EBIT margin (%)	5.5	4.5	5.8	6.1
Net profit margin (%)	1.8	2.4	3.0	3.4
Receivables (days)	156.0	171.8	170.0	170.0
Inventory (days)	44.9	45.4	46.0	46.0
Sales / Net Fixed Assets (x)	3.4	4.6	4.1	4.3
Interest coverage (x)	4.4	2.6	3.3	4.0
Debt/ equity ratio	0.8	1.5	1.3	1.1
ROE (%)	19.2	16.2	17.3	18.3
ROCE (%)	10.2	7.0	6.9	7.9
EV/ Sales	1.3	0.9	0.9	0.9
EV/EBITDA	20.5	17.7	14.4	12.8
Price to earnings (P/E)	30.7	33.0	27.4	22.9
Price to book value (P/B)	6.5	5.8	5.2	4.5
Price to cash earnings	29.5	30.6	25.6	21.9

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	8380
52-wk Hi/Lo (Rs)	:	90 / 30
Face Value (Rs)	:	2
3M Avg. daily vol (mn)	:	506,678
Shares o/s (mn)	:	197

Source: Bloomberg

Financial Summary - Consolidated

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	19,342	21,720	22,793
Growth (%)	4.1	12.3	4.9
EBITDA	1557	1997	2195
EBITDA margin (%)	8.1	9.2	9.6
PAT	598	914	1036
EPS	3.0	4.6	5.2
EPS Growth (%)	-52.2	52.8	13.3
BV (Rs/share)	49	53	57
Dividend/share (Rs)	0.6	0.9	1.0
ROE (%)	6.2	9.0	9.5
ROCE (%)	8.4	11.3	11.9
P/E (x)	14.2	9.3	8.2
EV/EBITDA (x)	7.1	5.6	4.9
P/BV (x)	0.9	0.8	0.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	58.9	58.9	58.9
FII	8.2	8.2	8.7
DII	1.5	1.5	1.9
Others	31.2	31.2	30.9

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Indo Count Ind	1.6	17.9	(28.4)
Nifty	1.0	9.8	12.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

INDO COUNT INDUSTRIES LTD (ICIL)

PRICE Rs.43

TARGET Rs.42

REDUCE

ICIL disappointed again in Q4FY19 in terms of margins and volume. The company reported 1.1%, 51.3% and 75% yoy decline in revenue, EBITDA and PAT, respectively in Q4FY19.

Key Highlights

- Standalone net revenues (excl other operating income) for the quarter declined by 1.1% yoy to Rs 4 bn driven by below expected volume and change in product mix. In FY19, the company reported volume of 57.5 mn mtr, up 5.9%, which was slightly below management guidance (58-60 mn mtrs) and our estimates as well.
- EBITDA margins (including OOI) for the quarter declined sharply to 6.2% (from 14.1%) due to net forex loss of Rs 100 mn in the quarter as against forex gain of Rs 170 mn in Q4FY18. On adjusted basis, EBITDA margin in the quarter declined by 280 bps to 7.6%.
- The company has guided for 63-65 mn mtr of volume in FY20E, implies ~10-13% growth. The company expects improvement in FY20E EBITDA margin due to increased government incentives, higher currency realization and improved capacity utilization, offsetting concerns over increasing raw material prices.

Quarterly performance table - Standalone

Year to March (INR Mn.)	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg
Net Revenues	4,016	4,059	(1.1)	4,889	(17.9)
Raw Materials Cost	2,214	2,034	8.9	2,568	(13.8)
Gross Profit	1,802	2,026	(11.0)	2,321	(22.4)
Employee Expenses	273	272	0.6	298	(8.2)
Other Expenses	1,325	1,337	(0.9)	1,651	(19.8)
Operating Expenses	3,812	3,642	4.7	4,517	(15.6)
EBITDA	204	418	(51.3)	372	(45.3)
EBITDA margin	5.1%	10.3%		7.6%	
Other Op. Income (OOI)	47	178	(73.5)	(105)	(145.0)
EBITDA (Inc OOI)	251	596	(57.9)	267	
EBITDAM (Inc OOI)	6.2%	14.1%		5.6%	
Depreciation	83	77	7.8	83	(0.7)
Net finance expense	83	99	(16.6)	82	0.7
Profit before tax	85	420	(79.7)	102	(16.1)
Provision for taxes	18	152	(88.1)	35	(48.1)
Reported net profit	67	268	(75.0)	67	0.8
As % of net revenues					
Gross Margin	44.9	49.9		47.5	
Employee Expenses	6.8	6.7		6.1	
Other Expenses	33.0	32.9		33.8	
Operating expenses	94.9	89.7		92.4	
Reported net profit	1.7	6.6		1.4	
Tax rate (% of PBT)	21.2	36.1		34.4	

Source: Company

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Valuation & outlook

We have factored in higher raw material prices, increased incentives and volume guidance in our estimates for FY20E. We have revised FY20E EPS to Rs 4.6 (Vs Rs 4.9) and introduced estimates for FY21E at Rs 5.2, Based on FY20E/21E EPS, the stock is trading at PE of 9.3x/8.2x, respectively. We maintain **Reduce** on the stock with revised target price of Rs 42 (vs Rs 39 earlier), valuing the stock at 8x FY21E EPS (as we roll forward to FY21E).

Volume disappointment, targets 10-13% volume growth in FY20E

Standalone net revenue for the quarter declined by 1.1% yoy to Rs 4 bn. The revenue decline was driven by decline in volume and change in mix. The volume in the quarter declined on yoy and qoq to 13.3 mn mtr (Vs 14 mn mtr yoy/qoq). In FY19, the company reported volume of 57.5 mn mtr, up 5.9% which was slightly below management guidance (58-60 mn mtrs) and our estimates as well. The company has given volume guidance of 63-65 mn mtr in FY20E, which implies 10-13% yoy growth.

As per management, there is recovery in demand from US and EU markets. The demand situation has witnessed improvement after destocking by major retailers in US. Further, the company is also focusing on other markets where it has witnessed increased offtake. In terms of geography, ICIL is looking to strengthen its business from new geographies. It is focusing on growing business from Europe, Middle East, Australia and Japan. It is also focusing on growing business from India under 'Boutique Living' brand, but currently there is a slowdown in demand for premium category in India.

EBITDA below our estimates

EBITDA (including other operating income) declined by 57.9% yoy to Rs 251 mn with EBITDA margins (including OOI) for the quarter declined by 790 bps yoy to 6.2%. This is primarily due to net forex loss of Rs 100 mn in the quarter as against forex gain of Rs 170 mn in Q4FY18. On adjusted basis, EBITDA margin in the quarter declined by 280 bps to 7.6%. Further, margins also got affected on account of increase in raw material prices and other expenses (due to increased job working charges and power expenses). As a result, PAT for the quarter declined by 75% yoy to Rs 67 mn. On raw material front, cotton prices have increased and is expected to remain above Rs 45,000 per candy due to expectation of lower output led by concerns over monsoon. Further trend will depend upon global prices and final rain fall in the season.

Targets higher margins in FY20E

The company targets 12-14% EBITDA margins in FY20E based on favourable hedges, improved volume and additional duty benefits. As per management, the currency realization is expected to improve in FY20E, as the new hedges are priced at USD/INR rate of Rs 71/dollar (Vs Rs 68-69/ dollar). The company hedges 70% of its position. The company also expects margin improvement on account of 200 bps net duty benefit proposed by the government for FY20E, assuming MEIS scheme expected to be scrapped in FY20E.

Additional duty advantage positive for home textiles exporters

In the month of March 2019, the central government had approved a scheme for rebate of all state and central embedded levies for apparel and made-up textile segments. This was important as incentives (of 4%) for apparel and made-ups under the Merchandise Exports from India Scheme (MEIS) were not WTO compatible anymore and is expected to be scrapped in the current year. Rates under the Remission of State Levies (RoSL) have been revised upwards for

apparel and made-ups sector. Earlier, maximum RoSL available for made-up sector was 2.2% which has now been revised upwards to 5%. In addition, rebate will also be available for central levies upto 3.2%. This will take the overall RoSCTL rebate to 8.2% from earlier 2.2% (RoSL) and thus would give net advantage of 2% post discontinuation of incentive under MEIS. Hence, the net positive impact of this revised incentive scheme will be to the tune of 2% and will positively impact margins of home textiles exporters in FY20E.

Update on Capex

Regarding phase 2 capex, the company has scrapped capex of Rs 2 bn for expansion of greenfield weaving unit. The company does not see any problem in sourcing raw material due to availability of the same in nearby locations. The company targets for Rs 250-300 mn capex in FY20E (spent Rs 650 mn in FY19) for normal maintenance capex.

Other highlights

- At the beginning of the year, ICIL's forex revenue was hedged at lower exchange rate of ~Rs68-69 per dollar. Due to this, the company incurred forex loss in the quarter. The company expects realization to improve as it is presently hedging at higher rates.
- The company has comfortable leverage position with net debt/equity in Q4FY19 end was at 0.3x. It has net debt of Rs 2.81 bn at the end of the year.
- The company has focused on increasing its revenue pie from value added product in institution, fashion and utility segment. It is also positive on higher growth from domestic market, new geographies and European market in the longer run. The segment contributed 14% to FY19 revenue

Outlook and valuation

We have factored in higher raw material prices, increased incentives and volume guidance in our estimates for FY20E and introduce estimates for FY21E. As per the management, the business outlook is expected to improve based on improved demand from US and EU. It has guided for 63-65 mn mtr of volume which implies 10-13% yoy volume growth. Based on our conservative estimates of 6% volume CAGR in FY19-21E and higher incentives in FY20E, we expect revenue and PAT of the company to grow at a CAGR of 9% and 32% respectively on a low base of FY19E. Based on FY20E/21E EPS of Rs 4.6 and Rs 5.2, the stock is trading at PE of 9.3x/8.2x respectively. We maintain **Reduce** on the stock with revised target price of Rs 42 (vs Rs 39 earlier), valuing the stock at 8x FY21E EPS (as we roll forward to FY21E).

Revision in estimates

Particulars (Rs mn)	Previous	Revised	% Chg	New
	Estimates	Estimates		
	FY20E	FY20E	FY20E	FY21E
Revenue	20543	21720	5.7	22793
EBITDA margin (%)	10.0	9.2	(80) bps	9.6
PAT	957	914	-4.5	1036
EPS (Rs)	4.9	4.6	-4.5	5.2

Source: Kotak Securities Private Client Research

Company Background

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

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	18,585	19,342	21,720	22,793
% change yoy	(13.7)	4.1	12.3	4.9
EBITDA	1,625	1,557	1,997	2,195
% change yoy	(49.8)	(4.2)	28.2	9.9
Depreciation	331	353	368	379
EBIT	1,294	1,205	1,628	1,816
Other Income	997	105	105	105
Interest	347	356	327	327
Profit Before Tax	1,944	954	1,407	1,594
% change yoy	(45.0)	(50.9)	47.5	13.3
Tax	691	355	492	558
as % of EBT	35.5	37.2	35.0	35.0
PAT	1,253	598	914	1,036
% change yoy	(46.0)	(52.2)	52.8	13.3
Shares outstanding (mn)	197	197	197	197
EPS (Rs)	6.3	3.0	4.6	5.2
DPS (Rs)	0.8	0.6	0.9	1.0
CEPS (Rs)	8.0	4.8	6.5	7.2
BVPS (Rs)	48.4	49.4	53.1	57.3

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PBT (Exl EO)	1,944	954	1,407	1,594
Depreciation	331	353	368	379
Change in WC	(1,406)	1,243	(953)	(495)
Other operating activities	(700)	(432)	(492)	(558)
Operating Cash Flow	169	2,118	330	921
Capex	(552)	(589)	(300)	(300)
Free Cash Flow	(383)	1,530	29	621
Change in Investments	-	(464)	-	-
Investment cash flow	(552)	(1,052)	(300)	(300)
Equity Raised	-	-	-	-
Debt Raised	602	(567)	-	-
Dividend & others	(151)	(415)	(181)	(205)
CF from Financing	452	(982)	(181)	(205)
Change in Cash	68	84	(152)	416
Opening Cash	186	255	335	183
Closing Cash	254	339	183	599

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	395	395	395	395
Reserves	9,169	9,353	10,086	10,917
Net worth	9,564	9,748	10,481	11,312
Minority Interest	74	70	70	70
Borrowings	3,711	3,144	3,144	3,144
Net Deferred tax	1,200	1,086	1,086	1,086
Total Liabilities	14,549	14,048	14,781	15,612
Gross block	9,419	10,082	10,382	10,682
Depreciation	3,985	4,338	4,706	5,085
Net block	5,434	5,745	5,676	5,597
Capital work in progress	237	163	163	163
Total fixed assets	5,671	5,908	5,839	5,760
Inventories	5,905	5,307	6,129	6,432
Sundry debtors	2,872	2,553	2,856	2,997
Cash and equivalents	255	335	183	599
Loans and advances & Others	2,244	1,586	1,745	1,919
Total current assets	11,276	9,781	10,914	11,948
Sundry creditors and others	2,404	2,055	2,380	2,498
Provisions	39	57	62	69
Total CL & provisions	2,443	2,111	2,443	2,566
Net current assets	8,833	7,670	8,471	9,381
Other net assets	44	7	7	7
Total Assets	14,549	14,048	14,781	15,612

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability Ratios				
EBITDA margin (%)	8.7	8.1	9.2	9.6
EBIT margin (%)	7.0	6.2	7.5	8.0
Net profit margin (%)	6.7	3.1	4.2	4.5
Adjusted EPS growth (%)	(46.0)	(52.2)	52.8	13.3
Balance Sheet Ratios:				
Receivables (days)	56	48	48	48
Inventory (days)	116	100	103	103
Loans & Advances (days)	44	30	29	31
Payable (days)	47	39	40	40
Cash Conversion Cycle	169	139	140	142
Asset Turnover	1.3	1.4	1.5	1.5
Net Debt/ Equity	0.4	0.3	0.3	0.2
Return Ratios:				
RoCE (%)	9.5	8.4	11.3	11.9
RoE (%)	13.9	6.2	9.0	9.5
Valuation Ratios:				
P/E (x)	6.6	13.9	9.1	8.0
P/BV (x)	0.9	0.9	0.8	0.7
EV/EBITDA (x)	7.2	7.1	5.6	4.9
EV/Sales (x)	0.6	0.6	0.5	0.5

Source: Company, Kotak Securities – Private Client Research

Result Update

NAGARJUNA CONSTRUCTION CO LTD (NCC)

Stock Details

Market cap (Rs mn)	:	68534
52-wk Hi/Lo (Rs)	:	126 / 63
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	1,01,37,690
Shares o/s (mn)	:	601

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	120,798	134,745	150,915
Growth (%)	59.8	11.5	12.0
EBITDA	14,230	14,822	16,601
EBITDA margin (%)	11.8	11.0	11.0
Net profit	5,639	5,496	6,429
EPS (Rs)	9.4	9.2	10.7
Growth (%)	96.6	-2.5	17.0
BVPS (Rs)	79.2	86.8	96.0
DPS (Rs)	1.5	1.5	1.5
ROE (%)	12.5	11.0	11.7
ROCE (%)	21.6	19.7	20.7
P/E (x)	12.1	12.5	10.7
EV/EBITDA (x)	6.0	5.8	5.1
P/BV (x)	1.4	1.3	1.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	18.1	18.1	18.1
FII	15.9	15.9	16.0
DII	31.8	31.8	30.5
Others	34.2	34.2	35.3

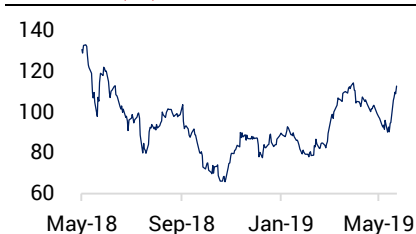
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Nagarjuna Cons	12.3	34.6	31.1
Nifty	1.0	9.8	12.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE RS.114

TARGET RS.146

BUY

NCC's net profit for the quarter was much ahead of our estimates led by better than expected execution and margins. Order inflow was also extremely healthy for the year. Robust order book provides healthy visibility of future earnings. Outcome of arbitration cases will take 9-12 months and company doesn't expect any large provisioning on pending cases where arbitration is going on with the client.

Key highlights

- Revenues for Q4FY19 stood largely in line with our estimates. Operating margins were down on YoY basis for the quarter but witnessed an improvement on a full year basis and company expects to maintain margins around these levels. Net profit performance stood ahead of our estimates led by strong margins and improved execution despite tax rate being higher for full year FY19 as compared to last year.
- Order inflow for the company stood healthy at Rs 256 bn during FY19 taking the order book to Rs 392 bn. This is the second consecutive year when company has bagged orders more than Rs 250 bn so focus going ahead will continue to remain on execution. Healthy order book provides good visibility on revenue growth.

Financial highlights

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	33,889	23,948	42%	32,265	5%
Expenditure	29,912	20,904		28,340	
EBITDA	3,977	3,044	31%	3,925	1%
EBITDA margin	11.73%	12.71%		12.16%	
Depreciation	(404)	(311)		(390)	
EBIT	3,573	2,733	31%	3,535	1%
Interest	(1,170)	(997)		(1,245)	
EBT(exc other income)	2,403	1,736	38%	2,290	5%
Other Income	246	246		196	
EBT	2,649	1,982	34%	2,486	7%
Tax	(906)	(655)		(884)	
Tax (%)	34.18%	33.04%		35.54%	
PAT	1,744	1,327	31%	1,602	9%
NPM (%)	5.15%	5.54%		4.97%	
Other comp inc	(31)	(312)		(7)	
Net profit	1,713	1,016	69%	1,595	7%
Equity Capital	1201.3	1201.3		1201.3	
EPS (Rs)	2.90	2.21		2.67	9%

Source: Company

Valuation and outlook

At Rs 114, stock is trading at 12.5x and 10.7x P/E and 5.8x and 5.1x EV/EBITDA on FY20 and FY21 estimates respectively. We maintain BUY on NCC with a revised price target of Rs 146 based on sum of the parts valuation on FY21 estimates (Rs.135 earlier). Key risk to our estimates and recommendation would come from slower than expected execution and adverse ruling on power project cases where arbitration is going on or delays in receivables.

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Revenue growth led by strong order book and healthy execution

Company's revenues for Q4FY19 were in line with our estimates. Order inflow for the company stood healthy at Rs 256 bn during FY19 taking the order book to Rs 392 bn after de-scoping of certain projects where work was not moving. Healthy order book provides good visibility on revenue growth.

Order book is diversified across roads, building, oil and gas (60%), water and railways (23%), irrigation (6%), electrical (4%), international (1%) and remaining contributed by mining, metals and power (6%). Total order book for FY19 stood at Rs 412 bn but after de-scoping, it stood at Rs 392 bn. Order inflow has been very robust in FY19 at Rs 256 bn so the focus of the management would be on execution going forward. We expect a total order inflow of Rs 100/125 bn for FY20/21 respectively. There was some slowdown witnessed in the order inflow and execution during Q1FY20 due to elections. But company expects it to ramp up going forward.

Shortfall from the NBCC project during FY19 has been compensated by other projects but now NCC has de-scoped this project from the order book due to delays in clearances from court.

Better than expected order inflow and a robust order book provides healthy visibility of future earnings. We introduce FY21 estimates and expect revenues to grow at a CAGR of 12% between FY19-21.

Margins and net profit ahead of our estimates despite extra-ordinary write off

Operating margin for Q4FY19 stood at 11.7%, ahead of our estimates. We believe that operating margin is likely to remain strong going forward as new order inflows are coming at higher margins. We maintain our margin assumptions and expect operating margin of 11% going forward for the company.

Standalone debt has come down and stood at Rs 19.93 bn (20.6 bn during Q3FY19) as NCC Urban repaid around Rs 1.35 bn to NCC during the quarter. Debt break up includes Rs 14.2 Bn of working capital loan and cash credit, short term loan of Rs 200 mn and machinery loan of Rs 5.57 bn. Interest charges have moved up due to higher bank guarantee commission, higher interest on cash credit, working capital and mobilization advances. Average interest cost stands at 9.8% for the company and is likely to come down going forward. Company plans a debt reduction of Rs 2-3 bn going forward from monetisation of investments in subsidiaries, loan repayment from subsidiaries as well as better working capital management.

For FY20, capex is expected to be around Rs 3-3.5 bn owing to strong execution and order inflow. During the quarter, company also made a provision of Rs 680 mn on consolidated basis for hydel power project and for Dubai project and Rs 110 mn on stand-alone basis.

During FY19, company had also raised an amount upto Rs 1.1 bn through issue of 9.2 convertible warrants at a price of Rs119.4 per warrant to the promoters of the company. We currently do not factor in the conversion in our estimates as the current price is lesser than the conversion price and these warrants are likely to be converted after 18 months from the date of issue.

In next 9-12 months, it is important to watch out for the developments on key cases under arbitration. Decision on Himachal Sorang case is further postponed and is likely to come in next 12 months as they have further appealed in higher courts. During Q4FY18, NCC had lost an arbitration against TAQA, Abu-dhabi based utilities firm. Company had earlier sold its stake in 100MW hydro power project in Himachal Sorang to Taqa group and due to some dispute, an arbitration was going in a tribunal court in Singapore. NCC had already provided for Rs1.15bn against the total disputed amount of Rs 1.5 bn. It believes that company has strong grounds to prove that no further provisioning will be required. In the worst case, NCC may be required to provide Rs 500-750 mn as additional liability if the judgement goes against it.

Development on Semcorp-Gayatri power project arbitration is also important as its outcome is expected by Mar 2020. NCC expects to recover the entire amount of Rs 7.5 bn from the client via arbitration project.

On real estate monetization, for Dubai Real estate project, NCC is in talks with a local developer to develop the project started by NCC. NCC is likely to get 1,60,000 sqft of developed area after 2 years which will be worth Rs2.7-2.8 bn as against its initial investment of Rs 2.25 bn in the project. On domestic project of Jubilee Hills and Telapur project, it expects to free up its investments and sell land parcels over next 1-2 years.

We incorporate FY21 estimates and expect net profits to grow at a CAGR of 7% between FY19-21.

Valuation and outlook

At Rs 114, stock is trading at 12.5x and 10.7x P/E and 5.8x and 5.1x EV/EBITDA on FY20 and FY21 estimates respectively. We maintain BUY on NCC with a revised price target of Rs 146 based on sum of the parts valuation on FY21 estimates. Key risk to our estimates and recommendation would come from slower than expected execution and adverse ruling on power project cases where arbitration is going on or delays in receivables.

Sum of the parts valuation (FY21)

	Rs per share	Rationale
Core business valuation	134	Based on 12.5x one year forward P/E multiple
Road BOT	2	Based on NPV and P/BV methodology
Real estate and other inv	4	Based on P/BV of 1x of investments
International	6	Based on P/BV of 1x of investments
Total value per share	146	

Source: Kotak Securities – Private Client Research

About the company

Nagarjuna Construction Company Limited (NCC), a construction and infrastructure company has evolved to a full-fledged infrastructure solutions provider. The Company's business divisions are categorized as Building & Housing, Transportation, Electrical, Water & Environment, Irrigation, International, Power, Metals and Oil & Gas Division.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	75,593	120,798	134,745	150,915
% change YoY	(4.2)	59.8	11.5	12.0
EBITDA	8,549	14,230	14,822	16,601
% change YoY	24.8	66.5	4.2	12.0
Other Income	93	593	500	500
Depreciation	1,175	1,494	1,726	1,942
EBIT	7,467	13,330	13,596	15,159
Net interest	3,789	4,513	5,008	5,113
Profit before tax	3,678	8,817	8,588	10,045
% change YoY	37.6	139.7	(2.6)	17.0
Tax	809	3,178	3,092	3,616
as % of PBT	22.0	36.0	36.0	36.0
PAT	2,868	5,639	5,496	6,429
% change YoY	27.2	96.6	(2.5)	17.0
Net profit	2,868	5,639	5,496	6,429
Shares outstanding (m)	600.7	600.7	600.7	600.7
EPS (reported) (Rs)	4.8	9.4	9.2	10.7
CEPS (Rs)	6.7	11.9	12.0	13.9
DPS (Rs)	1.00	1.50	1.50	1.50

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	7,467	13,330	13,596	15,159
Depreciation	1,175	1,494	1,726	1,942
Change in working capital	(3,437)	(911)	(2,934)	(4,563)
Chg in other net current assets (420)	(1,457)	-	-	-
Operating cash flow	4,785	12,455	12,388	12,538
Interest	(3,789)	(4,513)	(5,008)	(5,113)
Tax	(809)	(3,178)	(3,092)	(3,616)
Cash flow from operations	186	4,765	4,289	3,808
Capex	(3,069)	(4,779)	(3,500)	(2,500)
(Inc)/decrease in investments	49	(4,297)	-	-
Cash flow from investments (3,020)	(9,076)	(3,500)	(2,500)	
Proceeds from issue of equity	89	-	-	-
Increase/(decrease) in debt	(2,729)	7,131	(2,000)	-
Proceeds from share premium	5,637	-	-	-
Dividends	(601)	(901)	(901)	(901)
Cash flow from financing	2,397	6,230	(2,901)	(901)
Opening cash	1,095	659	2,990	877
Closing cash	658	2,577	877	1,284

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	659	2,990	877	1,284
Accounts receivable	46,889	31,542	40,608	45,481
Inventories	16,956	5,129	28,795	32,250
Others	22,253	61,460	41,876	46,837
Current assets	86,757	101,121	1,12,156	1,25,853
Other non current assets	2,701	4,336	4,336	4,336
LT investments, on a/c of BOT	10,237	14,535	14,535	14,535
Net fixed assets	8,294	11,086	12,860	13,418
Total assets	108,006	131,586	144,395	158,650
Payables	51,487	62,512	72,725	81,452
Others	532	629	629	629
Current liabilities	52,019	63,140	73,354	82,081
LT debt	13,131	20,261	18,261	18,261
Other liabilities	439	617	617	617
Equity	1,201	1,201	1,201	1,201
Reserves	41,215	46,367	50,962	56,490
Total liabilities	108,005	131,586	144,395	158,651
BVPS (Rs)	70.6	79.2	86.8	96.0

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	11.3	11.8	11.0	11.0
EBIT margin (%)	9.9	11.0	10.1	10.0
Net profit margin (%)	3.8	4.7	4.1	4.3
EPS growth (%)	17.7	96.6	-2.5	17.0
Receivables (days)	202.6	118.5	110.0	110.0
Inventory (days)	77.8	33.4	78.0	78.0
Payable (days)	154	121	135	135
Sales/net assets (x)	9.1	10.9	10.5	11.2
Debt/equity ratio (x)	0.38	0.37	0.39	0.33
ROE (%)	7.5	12.5	11.0	11.7
ROCE (%)	14.1	21.6	19.7	20.7
EV/ Sales (x)	1.1	0.7	0.6	0.6
EV/EBITDA (x)	9.5	6.0	5.8	5.1
Price to earnings (x)	23.9	12.1	12.5	10.7
Price to book value (x)	1.6	1.4	1.3	1.2
Price to Cash Earnings (x)	16.9	9.6	9.5	8.2

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	17079
52-wk Hi/Lo (Rs)	:	117 / 61
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	2,380,956
Shares o/s (mn)	:	167

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	9,101	10,454	11,984
Growth (%)	7.0	14.9	14.6
EBITDA	708	925	1,092
EBITDA margin (%)	7.8	8.8	9.1
PAT	864	1,195	1,410
EPS	5.2	7.1	8.4
EPS Growth (%)	37.5	38.4	18.0
BV (Rs/share)	49.8	50.9	53.3
Dividend/share (Rs)	5.0	5.0	5.0
ROE (%)	16.2	19.7	18.8
ROCE (%)	16.0	19.2	18.4
P/E (x)	19.8	14.3	12.1
EV/EBITDA (x)	15.5	15.2	15.0
P/BV (x)	2.0	2.0	1.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	31.6	31.7	32.0
FII	15.5	16.9	17.0
DII	12.3	11.8	11.0
Others	40.4	39.4	40.0

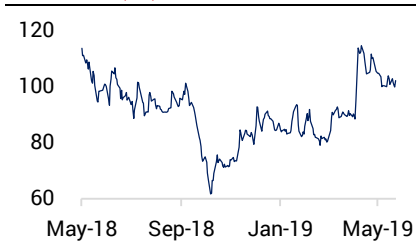
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
NIIT Ltd	(7.5)	25.6	22.1
Nifty	0.8	9.6	10.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

NIIT LTD

PRICE RS.102

TARGET RS.118

BUY

NIIT Ltd Q4FY19 revenue of Rs. 2.4 bn (+8% yoy and +5% qoq) stood higher than our estimate of Rs. 2.2 bn supported by continued strong performance in Corporate Learning Group. It has reported an EBIDTA of Rs.234 mn (6% yoy and 17% qoq) vs our estimate of Rs. 232 mn. Going ahead, the company has a revenue visibility of US\$ 245 mn in the corporate business.

Key Highlights

- Revenue from “go forward” business was up by 9% YoY. Growth in Corporate Learning vertical helped in offsetting planned ramp down of government schools business and transition in SNC business.
- In Q4FY19, Corporate Learning Group business grew by 9% yoy, Skills & Careers business grew by 5% yoy and Schools business grew by 3% yoy.
- In Corporate Learning Group, NIIT added 5 new MTS customers & 1 contract expansion during the quarter. In Skills & Careers Group, on boarded 2500+ employees for a large PSU bank. In School Learning Group, revenue from go forward private school business was up by 18%.
- **Stake sale – NIIT Technologies Ltd.:** NIIT Ltd. has divested its 30.51% stake in NIIT Technologies Ltd. and received Rs. 20.204 bn (pre-tax) from the same. The company needs to pay MAT and other charges on this transaction which is expected to be ~Rs.3.5 bn. Indemnity reserve to be kept is ~Rs. 2.20 bn. The company also intends to retire debt of Rs.1.8bn. The company is in discussion with the internal committee regarding the cash utilization. We await more clarity regarding utilization of funds. We will come out with a detailed note post clarity from the company.
- The company has declared a final dividend of Rs.5/share for FY19.

Quarterly performance table

(Rs.mn)	Q4FY19	Q3FY19	Q4FY18	YoY (%)	QoQ (%)
Income	2,397	2,278	2,228	7.6	5.2
Expenditure	2,163	2,078	2,007	7.8	4.1
EBIDTA	234	200	221	5.8	17.2
Depreciation	88	95	92	(4.3)	(7.3)
EBIT	146	104	129	13.2	39.6
Other Income	101	100	96	5.1	0.9
PBT	247	204	225	9.7	20.7
Tax	15	10	28	(45.5)	46.7
PAT	231	194	197	17.6	19.3
EPS (Rs)	1.38	1.16	1.18	17.0	19.1
EBIDTA (%)	9.8	8.8	9.9	(16)	99
EBIT (%)	6.1	4.6	5.8	30	150
Net Profit (%)	9.6	8.5	8.8	82	113

Source: Company

Valuation & outlook

We are introducing FY21E earnings and roll-forward our valuation to FY21E. We expect NIIT Ltd. to report an EPS of Rs. 7.1 in FY20E (earlier Rs.5.81) and Rs. 8.6 in FY21E. We expect revenue growth of 15% CAGR over FY19-21E and EBIDTA margin to improve by 133bps over FY19-21. We maintain BUY with a revised target price of Rs.118 (Rs.115 earlier).

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Key Takeaways

- Revenue grew by ~8% YoY to Rs. 2.4 bn. Revenue from “go forward” business was up by 9% YoY. Growth in corporate learning vertical helped in offsetting planned ramp down of government schools business and transition in SNC business.
- In Q4FY19, Corporate Learning Group business grew by 9% yoy, Skills & Careers business grew by 5% yoy and Schools business grew by 3% yoy.
- In Corporate Learning Group, NIIT added 5 new MTS customers & 1 contract expansion during the quarter. Focus on Life Sciences industry resulted in two additional multi-year MTS customers in the sector during FY19.
- In Skills & Careers Group, on boarded 2500+ employees for a large PSU bank. In FY19, EBITDA back in black. Product mix change and cost rationalization offset impact of operating leverage and cost inflation StackRoute continues on strong growth momentum; now training Full Stack Developers for 11 companies. NIIT has acquired a large PSU bank & Global system integrator as large customers.
- In School Learning Group, revenue from go forward private school business up 18%. In FY19, Overall revenue impacted due to planned ramp down of government school projects the company has completed execution & transition on government school contracts during the year. Balance receivables to be collected in FY20. Launched Marshall Cavendish Math program. 6.7 lacs users on Practice plus platform (including students and parents)
- EBITDA margin at 9.8% were below our estimates of 10.69%. Adverse forex impact of Rs. 103 mn, primarily on account of re-statement of receivables due to currency volatility.
- In Q4FY19, net debt stood at Rs. 570 mn vs Rs. 573 mn in Q3FY19
- DSO stood lower at 66 days Vs 77 days in Q3FY19
- Operational ROCE at 15.1%; up 120 bps YoY.
- School Learning Group (SLG): Move towards IP led asset light business model. In Q4FY19, NIIT Ltd. signed contracts with 523 new school. Order Intake increased by 70% yoy to Rs. 214 mn.
- NIIT Ltd. has completed all government projects; expect to collect balance receivables in FY20.

Valuation & outlook

We are introducing FY21E earnings and roll-forward our valuation to FY21E. We expect NIIT Ltd. to report an EPS of Rs. 7.1 in FY20E and Rs. 8.6 in FY21E. We expect revenue growth of 15% CAGR over FY19-21E and EBITDA margin to improve by 133bps over FY19-21. We maintain BUY with a revised target price of Rs.118 (Rs.115 earlier). We have valued the stock at 14x PE multiple based on FY21E.

Company Background

Established in 1981, NIIT Limited, a global leader in Skills and Talent Development, offers multi-disciplinary learning management and training delivery solutions to corporations, institutions, and individuals in over 40 countries. The company ranks among the world’s leading training companies owing to its vast, yet comprehensive array of talent development programs.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	8,505	9,101	10,454	11,984
% change YoY	0.6	7.0	14.9	14.6
EBITDA	679	708	925	1,092
% change YoY	-92.0	4.2	30.7	18.1
Other Income	754	998	1,259	1,380
Depreciation	401	361	384	407
EBIT	1,032	1,345	1,800	2,065
% change YoY	-87.8	30.4	33.8	14.8
Net interest	194	203	217	198
Profit before tax	838	1,142	1,583	1,867
% change YoY	-90.1	36.3	38.5	18.0
Tax	201	271	388	457
as % of PBT	24.0	23.8	24.5	24.5
Profit after tax	637	871	1,195	1,410
Minority interest	12	8	0	0
Share of profit of associates				
Net income	625	864	1,195	1,410
% change YoY	-92.6	38.2	38.4	18.0
Shares outstanding (m)	167	167	167	167
EPS (reported) (Rs)	3.8	5.2	7.1	8.4
CEPS (Rs)	6.2	7.4	9.4	10.9
DPS (Rs)	0.0	5.0	5.0	5.0

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	1,032	1,345	1,800	2,065
Depreciation	401	361	384	407
Change in working capital	607	(374)	111	181
Chgs in other net current assets	-	-	-	-
Operating cash flow	2,039	1,332	2,295	2,653
Interest	(194)	(203)	(217)	(198)
Tax	(201)	(271)	(388)	(457)
Cash flow from operations	1,645	858	1,690	1,997
Capex	(784)	(702)	(684)	(657)
(Inc)/dec in investments	(186)	(709)	-	-
Cash flow from investments	(970)	(1,411)	(684)	(657)
Others	(245)	1,242	(0)	-
Increase/(decrease) in debt	(419)	231	(56)	(173)
Proceeds from share premium	-	-	-	-
Dividends	(0)	(993)	(1,018)	(1,005)
Cash flow from financing	(664)	481	(1,074)	(1,177)
Opening cash	1,270	1,281	1,208	1,140
Closing cash	1,281	1,208	1,140	1,303

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	1,281	1,208	1,140	1,303
Accounts receivable	1,652	1,654	1,900	2,178
Inventories	28	55	63	72
Loans and Adv & Others	2,341	2,180	2,362	2,571
Current assets	5,301	5,097	5,464	6,124
Misc exp.	0	0	0	0
LT investments	6,045	6,754	6,754	6,754
Net fixed assets	2,470	2,811	3,111	3,361
Total assets	13,816	14,663	15,330	16,240
Payables	1,315	1,143	1,253	1,427
Others	3,257	2,763	3,165	3,628
Current liabilities	4,572	3,906	4,418	5,055
Provisions	225	254	274	315
LT debt	1,135	1,366	1,310	1,138
Min. int and def tax liabilities	654	805	805	805
Equity	333	335	335	335
Reserves	6,897	7,997	8,188	8,592
Total liabilities	13,816	14,663	15,330	16,240
BVPS (Rs)	43	50	51	53

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	8.0	7.8	8.8	9.1
EBIT margin (%)	12.1	14.8	17.2	17.2
Net profit margin (%)	7.3	9.5	11.4	11.8
Receivables (days)	66	66	66	66
Inventory (days)	2	2	2	2
Sales/gross assets(x)	1.0	1.1	1.1	1.1
Interest coverage (x)	2.5	3.5	4.1	5.4
Debt/equity ratio(x)	0.2	0.1	0.1	0.1
ROE (%)	14.2	16.2	19.7	18.8
ROCE (%)	14.3	16.0	19.2	18.4
EV/ Sales	1.65	1.41	1.39	1.37
EV/EBITDA	18.6	15.5	15.2	15.0
Price to earnings (P/E)	27.2	19.8	14.3	12.1
Price to book value (P/B)	2.4	2.0	2.0	1.9

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.

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