

MAY 30, 2019

	29-May	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	39,502	(0.6)	1.2	10.1
NIFTY Index	11,861	(0.6)	1.0	9.9
NSEBANK Index	31,296	(1.0)	5.1	16.8
NIFTY 500 Index	9,757	(0.6)	1.0	8.9
CNXMcap Index	17,856	(0.8)	1.7	6.8
BSESMCAP Index	14,934	(0.6)	2.1	9.1
World Indices				
Dow Jones	25,126	(0.9)	(5.5)	(3.0)
Nasdaq	7,547	(0.8)	(6.8)	0.2
FTSE	7,185	(1.2)	(3.1)	1.6
NIKKEI	21,003	(1.2)	(6.4)	(2.6)
Hangseng	27,236	(0.6)	(8.9)	(5.5)
Shanghai	2,915	0.2	(6.3)	(1.9)

Value traded (Rs cr)	29-May	% Chg Day
Cash BSE	2,210	(18.3)
Cash NSE	31,572	(40.4)
Derivatives	1,136,295	7.3

Net inflows (Rs cr)	28-May	MTD	YTD
FII	4,671	6,861	75,082
Mutual Fund	(227)	6,123	3,462

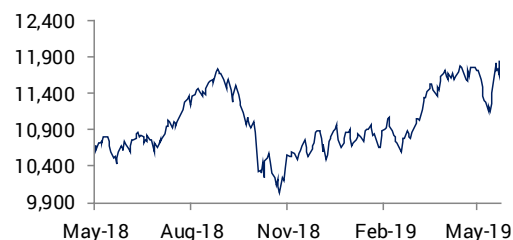
Nifty Gainers & Losers	29-May	Price	Chg	Vol
		(Rs)	(%)	(mn)
Gainers				
Sun Pharma		424	2.7	28.1
Bharti Infra		276	2.5	4.6
Tata Consultancy		2,108	1.6	3.3
Losers				
JSW Steel Ltd		281	(4.2)	7.9
SBI		349	(3.2)	28.4
Tata Steel		493	(2.7)	8.5

Advances / Declines (BSE)					
29-May	A	B	T	Total	% total
Advances	137	374	64	575	100
Declines	322	588	46	956	166
Unchanged	2	27	13	42	7

Commodity	29-May	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	69.6	0.2	(4.4)	5.4
Gold (US\$/OZ)	1,279.8	0.0	(0.4)	(2.7)
Silver (US\$/OZ)	14.4	0.5	(3.8)	(7.9)

Debt / Forex Market	29-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.1	7.1	7.4	7.4
Re/US\$	69.8	69.7	70.0	70.7

Nifty



Source: Bloomberg

News Highlights

- ▶ The Reserve Bank of India (RBI) constituted a committee to review the existing state of mortgage securitisation in India and suggest measures to deepen it. (Mint)
- ▶ The RBI extended minimum holding period requirement for NBFCs to raise funds via loan securitisation to help the sector overcome liquidity shortage. NBFCs have been permitted to securitise loans of over five-year maturity after holding them for six months on their books. Earlier, they were supposed to hold it for at least a year. (Mint)
- ▶ The Reserve Bank of India (RBI) constituted a task force on the development of secondary market for corporate loans. (BS)
- ▶ The finance ministry may look at a 10-year tax holiday for real estate developers on profits earned from rental housing as it looks to revive investment and boost a slowing economy, sources said. (Mint)
- ▶ The NCLAT asked IL&FS group companies, which are being upgraded to 'green' category, to start servicing their debts as per the payment schedule. (Mint)
- ▶ **West Coast Paper Mills (WCPM)** has entered into a share-purchase agreement to acquire about 51-60 per cent stake in NYSE-listed International Paper's (IP) Indian unit, International Paper APPM Ltd. The deal, which is pursuant to regulatory approvals and an open offer, would be for about Rs5.58-6.56 bn in cash. (BL)
- ▶ Hero FinCorp, the retail lending arm of **Hero MotoCorp Ltd**, is in advance talks to buy Reliance General Insurance (RGI) from **Reliance Capital** at Rs 55-60bn valuation, as Anil Ambani continues to deleverage his group balance sheet, said several people aware of the discussions. (ET)
- ▶ **Larsen and Toubro Ltd.** has acquired 97,815 shares of Mindtree from the open market, taking its overall holding in the mid-sized software services company to 28.87%, according to a regulatory filing. (Mint)
- ▶ **Adani group** has made an unsolicited and non-binding bid to acquire **Jaypee Infratech** and is ready to infuse up to Rs17bn to expedite the construction of stuck housing projects of the debt-laden realty firm and deliver flats to home buyers, sources said. (ET)
- ▶ **Punjab National Bank** intends to recover Rs200bn of bad loans in the current financial year through one-time settlements and resolutions under the Insolvency and Bankruptcy Code (IBC). The state-owned bank's target is 25% higher than recoveries of Rs160bn in the previous financial year. (ET)
- ▶ The promoters of **JB Chemicals** have put their business up for sale, mandating investment bank to look for a buyer for their 57% stake in the company, said four people with direct knowledge of the development. (ET)
- ▶ **GAIL India** approached the National Company Law Tribunal (NCLT) seeking admission of its Rs3.9bn claim from Videocon Industries, which the resolution professional (RP) rejected earlier. (Mint)
- ▶ **SBI** said it will raise up to Rs50bn by issuing Basel III-compliant bonds. (Mint)

What's Inside

- ▶ **Result Update:** Century Plyboards (I) Ltd, Jindal Stainless (Hisar) Ltd, Insecticides India 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

CENTURY PLYBOARDS (I) LTD

Stock Details

Market cap (Rs mn)	:	37836
52-wk Hi/Lo (Rs)	:	284 / 150
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	213,298
Shares o/s (mn)	:	222

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	22,638	26,150	28,309
Growth (%)	15.1%	15.5%	8.3%
EBITDA	3,004	3,687	4,077
EBITDA margin (%)	13.3	14.1	14.4
Net profit	1,580	1,929	2,230
EPS (Rs)	7.1	8.7	10.0
Growth (%)	1.2	22.1	15.6
BVPS (Rs)	43.6	51.0	59.8
DPS (Rs)	1.0	1.0	1.0
ROE (%)	17.5	18.3	18.1
ROCE (%)	17.1	19.3	20.0
P/E (x)	23.9	19.6	17.0
EV/EBITDA (x)	14.1	11.4	10.0
P/BV (x)	3.9	3.3	2.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	72.7	72.7	72.3
FII	8.7	8.7	10.0
DII	6.2	6.2	5.2
Others	12.4	12.4	12.6

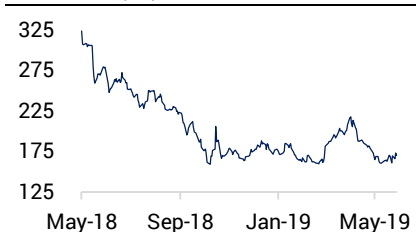
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Century Plyboards	(4.9)	1.8	(4.0)
Nifty	0.9	9.9	9.2

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE RS.170

TARGET RS.210

BUY

Century Plyboard results were lower than our estimates and were impacted by sluggish demand seen for plywood and margin pressure across most of the segments. Disappointment in margins was mainly led by pricing pressure in MDF, product mix changes in plywood, rise in other expense and inability of the company to pass on excess costs in the sluggish demand environment. CFS segment continued to face competitive pressure with entry of new players and is likely to have a similar performance going forward. On the positives, MDF capacity utilization improved to 65% in FY19 and company expects pricing to be maintained at similar levels with improvement in utilization to 80% in FY20. Plywood division volume growth is contingent upon healthy demand growth scenario. However, laminate division volumes are likely to grow by 15-20% going forward. We believe that growth going ahead is likely to be led by volume gains in each segment while pricing may remain under pressure in order to reap market share gains as well as product mix changes in near term.

Key highlights

Revenue growth of 7.2% YoY was lower than our estimates and margins also witnessed a decline due to change in sales mix, higher other expenditure as well as forex losses. This led to net profits coming below our estimates.

Valuation and outlook

At Rs 173, stock is currently trading at 19.6x/17x P/E and 11.4x/10.0x EV/EBITDA on FY20/21 estimates. We revise our estimates downward to factor in lower margins and roll over our price target on FY21 estimates. We arrive at a revised price target of Rs 210 based on 21x FY21 estimated earnings (Rs 232 earlier). We maintain BUY on the stock.

Financial highlights

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	5832.3	5441.2	7.2%	5788.9	0.7%
Total Expenditure	5195.6	4609.7	12.7%	5029.4	3.3%
EBITDA	636.7	831.5	-23.4%	759.5	-16.2%
EBITDA margins %	10.9%	15.3%		13.1%	
Depreciation	143.0	277.2		136.0	
EBIT	493.6	554.3	-10.9%	623.5	-20.8%
Interest	93.8	121.9		62.5	
Ebt (Exc other income)	399.8	432.4	-7.5%	561.0	-28.7%
Other operating income	29.0	13.0		15.7	
Other Income	0.0	0.0		0	
Ebt	428.9	445.3	-3.7%	576.7	-25.6%
Tax	87.3	88.1		162.4	
Tax %	20.4%	19.8%		28.2%	
Profit After Tax	341.6	357.2	-4.4%	414.3	-17.6%
Other comprehensive inc/(loss)	-6.6	3.7		-0.4	
Net profit	334.9	360.9		413.9	
Equity Capital	222.53	222.53		222.53	
Face Value (In Rs)	1	1		1	
EPS (Rs)	1.5	1.6	-7.2%	1.9	-19.1%

Source: Company

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Revenue growth impacted by sluggish demand scenario

Revenue growth of 7.2% YoY was lower than our estimates and was impacted by sluggish demand seen for plywood, plant shutdown in MDF and competitive pressure in CFS division. Growth in revenues was led by volume gains in segments like laminates and MDF while average realization witnessed an improvement in plywood and laminates during the quarter. For Q4FY19, plywood volumes were down by 3% YoY but realization improved by 6% YoY. Laminate volumes for Q4FY19 were up by 7% while realizations were also up by 7% YoY. MDF volumes were up by 30% YoY while realization is down by 10% YoY.

- **Plywood** division volumes declined by 3% YoY and volume growth during the quarter was impacted by real estate slowdown and sluggish demand scenario. Volume growth for the full year stood at just 6% for the plywood division as against management's expectation of 10% for the full year mainly due to sluggish demand scenario. Company is adequately positioned to capture any upswing in demand going forward as and when demand revival happens. With continued focus on mid-segment plywood, company expects plywood volumes to grow by 10% for FY19 largely in the mid and lower segment category. The share of Sainik brand stood at 31% in FY19 versus 25% in FY18. Commercial veneer volumes and realizations continued to decline during this quarter too.
- **Laminate** division volumes have shown healthy growth on yearly basis. Company expects volumes to grow going forward with incremental volumes from new expansion. Going ahead, we expect 15-20% growth in laminate volumes with commissioning of additional lines.
- **MDF** - During Q4FY19, company sold 35395 CBM (up 30% YoY) at an average realization of Rs 21469 per CBM (down 10% YoY). MDF realizations are continuously under pressure due to commissioning of capacities from various players. Management believes that MDF pricing has now stabilized at current levels and their focus going forward would be on improving capacity utilization. Going ahead, we expect the capacity utilization to move up while company has maintained the margin guidance of 14-15%.

We tweak our estimates and expect overall revenues to grow at a CAGR of 12% between FY19-21.

Operating margins impacted by pricing pressure and forex losses

Operating margins declined to 10.9% for Q4FY19 as compared to 15.3% in Q4FY18. This was due to margin pressure across most of the segments except particle board. Margin decline in plywood division is led by higher focus towards mid-end plywood sales and lower commercial veneer realization as commercial veneer supplies are coming from Solomon island which have lower realizations. Margins in plywood division were also impacted by higher other expenditure which was not charged evenly during the year. Company is now setting up a timber peeling capacity in Gabon at an investment of Rs 300 mn. Cost of timber is also low from Gabon and yield is also much higher, thus it will help in reducing the costs going forward. Company expects plywood margins to remain around 13-14%.

Laminate division margins declined on yearly basis due to higher raw material cost such as adhesives, melamine, phenol, paper which is not fully passed on despite 7% YoY improvement in laminate realization. Going forward, laminate margins should improve by 200 bps as per the management.

MDF margins declined YoY due to lower realization and stood at 15.3% during the quarter (vs 15.6% during Q4FY18). However, going forward, we believe that margins are likely to improve for MDF on improvement in capacity utilization. Realizations of the company for the quarter stood at Rs 21469 per CBM, down 10% YoY and 2% QoQ. Company expects margins to remain in similar range in the MDF segment led by stable pricing and improvement in capacity utilization.

CFS margins were impacted due to intense competition by other players like Allcargo and CWC contractor that has started their own CFS. Going forward, margins are likely to range around 30-32% for the full year.

Particle board margins witnessed an improvement due to sale of value-added product – Pre laminated particle board. Margins are likely to remain strong in particle board division.

Forex losses on unhedged borrowings also impacted margins during the quarter. Out of the total forex loss of Rs 162.9 mn, Rs 92.2 mn has been treated as borrowing cost while remaining Rs 70.7 mn is taken off from EBITDA. We revise our estimates to factor in FY19 performance and expect margins of 14.1%/14.4% by FY20/21 respectively.

Net profit performance impacted by lower margins

Net profit performance for the quarter was impacted by pressure on margins and forex losses. Tax rate is in line with management's guidance. During full year FY19, company has reduced its exposure to Rs 1.09 bn in various currencies including ECB, buyers credit, working capital and due to rupee depreciation during the quarter, forex loss stood at Rs 162.9 mn. Out of this, Rs 92.2 mn has been treated as borrowing cost while remaining Rs 70.7 mn is taken off from EBITDA. Company is continuously trying to reduce the exposure to reduce forex losses.

Company had also taken a board approval earlier for setting up a capacity in particle board and MDF in UP. Currently, company would focus on setting up particle board unit only for a capacity of 500 CBM per day at an investment of Rs 1-1.25 bn and would plan for MDF later. The particle board plant expansion is being planned in UP as it is good market for furniture and imports are also less competitive in UP with ports being quite far off. Also, UP market doesn't have much capacity of particle board so it would be an added advantage for the company to set up a plant in UP.

We revise our estimates to factor in lower margins and expect net profits to grow at a CAGR of 18.8% between FY19-21.

Valuation and outlook

At Rs 173, stock is currently trading at 19.6x/17x P/E and 11.4x/10.0x EV/EBITDA on FY20/21 estimates. We tweak our estimates to factor in lower margins and roll over our price target on FY21 estimates. We arrive at a revised price target of Rs 210 based on 21x FY21 estimated earnings (Rs 232 earlier). We maintain BUY on the stock.

About the company

Century plyboards is a leading player in plywood and laminate segment. In order to cater to varied customer preferences, companies have widened their product portfolio with multiple products at various price points. Century ply has expanded its laminate capacity and has entered into MDF and particle board recently. Company is also engaged in the container freight station (CFS) at Kolkata Port and also ventured into the readymade furniture market in 2013.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	19,672	22,638	26,150	28,309
% change YoY	10.4	15.1	15.5	8.3
EBITDA	3,061	3,004	3,687	4,077
% change YoY	4.8	(1.9)	22.7	10.6
Other Income	67	61	25	25
Depreciation	810	500	605	655
EBIT	2,317	2,565	3,107	3,447
% change YoY	(11.7)	10.7	21.2	10.9
Net interest	327	446	528	466
Profit before tax	1,990	2,119	2,580	2,981
% change YoY	(14.8)	6.5	21.8	15.6
Tax	424	531	645	745
as % of PBT	21.3	25.1	25.0	25.0
Profit after tax	1,567	1,588	1,935	2,236
Other adj	(6)	(8)	(6)	(6)
Net income	1,561	1,580	1,929	2,230
% change YoY	(15.0)	1.2	22.1	15.6
Shares outstanding (m)	222.5	222.5	222.5	222.5
EPS (reported) (Rs)	7.0	7.1	8.7	10.0
CEPS (Rs)	10.7	9.3	11.4	13.0
DPS (Rs)	1.00	1.00	1.00	1.00

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	2,311	2,557	3,102	3,441
Depreciation	810	500	605	655
Change in working capital	129	(293)	(824)	(518)
Chg in other net current assets	(80)	111	68	-
Operating cash flow	3,170	2,874	2,950	3,578
Interest	(327)	(446)	(528)	(466)
Tax	(424)	(531)	(645)	(745)
Cash flow from operations	2,420	1,898	1,778	2,367
Capex	(2,092)	(1,357)	(1,000)	(1,000)
(Inc)/dec in investments	(0)	(17)	(17)	(17)
Cash flow from investments	(2,092)	(1,374)	(1,017)	(1,017)
Proceeds from issue of equity	-	-	-	-
Inc/(dec) in debt	(434)	(194)	(600)	(700)
Proceeds from share premium	-	-	-	-
Dividends	(267.2)	(267.9)	(267.9)	(267.9)
Cash flow from financing	(701)	(462)	(868)	(968)
Opening cash	538	165	226	119
Closing cash	165	227	119	501

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	165	226	119	501
Accounts receivable	3,145	2,936	3,367	3,645
Inventories	3,382	4,010	4,269	4,622
Loans and Adv & Others	2,166	1,965	2,403	2,455
Current assets	8,858	9,136	10,159	11,223
Other non current assets	157	71	157	157
LT investments	960	978	995	1,013
Net fixed assets	6,618	7,474	7,870	8,215
Total assets	16,593	17,659	19,180	20,607
Payables	1,764	1,688	1,994	2,159
Others	285	312	312	312
Current liabilities	2,049	2,000	2,306	2,471
Provisions	15	115	268	268
LT debt	6,048	5,853	5,253	4,553
Min. int and def tax liabilities	101	-	-	-
Equity	223	223	223	223
Reserves	8,157	9,469	11,130	13,092
Total liabilities	16,593	17,659	19,180	20,607
BVPS (Rs)	37.7	43.6	51.0	59.8

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	15.6	13.3	14.1	14.4
EBIT margin (%)	11.8	11.3	11.9	12.2
Net profit margin (%)	7.9	7.0	7.4	7.9
Receivables (days)	60.3	49.0	47.0	47.0
Inventory (days)	55.9	59.6	59.6	59.6
Sales/assets(x)	3.0	3.0	3.3	3.4
Interest coverage (x)	7.1	5.8	5.9	7.4
Debt/equity ratio(x)	0.8	0.7	0.5	0.4
ROE (%)	20.2	17.5	18.3	18.1
ROCE (%)	16.5	17.1	19.3	20.0
EV/ Sales (x)	2.2	1.9	1.6	1.4
EV/EBITDA (x)	14.0	14.1	11.4	10.0
Price to earnings (x)	24.2	23.9	19.6	17.0
Price to book value (x)	4.5	3.9	3.3	2.8
Price to Cash Earnings (x)	16.0	18.2	14.9	13.1

Source: Company, Kotak Securities – Private Client Research

Result Update

JINDAL STAINLESS HISAR LTD (JSHL)

Stock Details

Market cap (Rs mn)	:	20078
52-wk Hi/Lo (Rs)	:	186 / 74
Face Value (Rs)	:	2
3M Avg. daily volume	:	524,149
Shares o/s (mn)	:	236

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	102,889	109,629	111,479
Growth (%)	-2.6	6.6	1.7
EBITDA	10,387	11,453	11,643
EBITDA margin (%)	10.1	10.4	10.4
PAT	3,814	4,009	4,185
EPS	16.2	17.0	17.7
EPS Growth (%)	2.7	3.6	3.7
BV (Rs/share)	79	96	113
ROE (%)	20.6	17.8	15.7
ROCE (%)	23.7	26.9	26.4
P/E (x)	5.3	5.0	4.8
EV/EBITDA (x)	2.6	1.9	1.5
P/BV (x)	1.1	0.9	0.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	57.7	57.7	57.7
FII	21.1	21.1	21.2
DII	3.1	3.1	2.9
Others	17.4	17.4	17.9

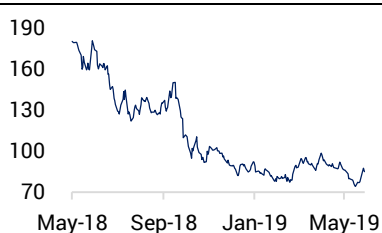
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Jindal Stainless Hisar	(7.7)	(3.3)	(5.5)
Nifty	0.9	9.9	9.2

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PRICE Rs.85

TARGET Rs.115

BUY

JSHL's 4QFY19 numbers were a mixed bag, with revenue higher than estimates, EBITDA margin was lower due to increase in raw material costs. However, the PAT was above estimates. The rise in raw material costs and other expenses, offset the benefit of higher realisation, resulting in 70bps YoY decline in margin to 9.2%, sequentially margin improved by 20 bps due to improvements in operating leverage.

Key Highlights

- Volume during the quarter increased sequentially to 172,000 tonnes, due to improvement in demand across the segments, continuous focus on value added products. Special products division accounts for 7-8% in volume and 12-13% in the value terms. Realisation during the quarter stood at Rs137,243/tonne.
- Though, management expects, industry to grow at 9% in the coming years, but foresee decline in the market share due to increasing imports from FTA countries. Imports continues to remain in the range of 30-35kt/monthly.
- EBITDA/t during the quarter declined to Rs12,616/tonne from Rs13,734/tonne in 3QFY19, due to increase in input costs.
- Both the subsidiary continues to report strong performance, with JSL Lifestyle reporting PAT of Rs490 mn and Rs200 mn at JSSL in FY19.
- Management indicated that, given the strong demand, revenue is likely to grow in the range of 5-10% and expect EBITDA/t in the range of Rs11,000-14,000 in FY20E. The growth in revenue and operating performance will be supported by gradual increase in share of the special product division. We expect, JSHL to report EBITDA/t of Rs12,750.
- The company is focusing on strengthening its downstream production (precisions strips) which is expected to come onstream in FY20.

Quarterly performance table

Particulars (Rs Mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Net Sales	23,606	22,537	4.7	22,333	5.7
Raw Materials	15,635	14,329	9.1	14,693	6.4
Power & fuel	2,151	2,162	(0.5)	2,283	(5.8)
Employee	407	421	(3.2)	408	(0.1)
Other Expenses	3,243	2,763	17.3	2,938	10.4
Total Expenses	21,436	19,675	8.9	20,321	5.5
EBITDA	2,170	2,862	(24.2)	2,012	7.8
EBITDA Margin (%)	9.2	12.7		9.0	
Depreciation	714	670	6.5	693	3.1
EBIT	1,456	2,192		1,319	
Interest	861	933	(7.7)	900	(4.3)
Other Income	244	285	(14.3)	229	6.7
Extraordinary	160	25	547.4	218	(26.6)
EBT	999	1,519		866	
Tax	343	558	(38.6)	315	8.8
PAT	656	961	(31.8)	551	19.1

Source: Company, Kotak Securities – Private Client Research

Valuation & outlook

We believe, an increasing share of value added products (special product division) in the overall product mix coupled with strong performance at JSL Lifestyle (backed by railway order), shall support the earnings. Besides these, the recent fall in consumables prices also augurs well for the company. However, increasing import from FTA countries, could partly offset the benefit of the same. We have revised our estimates for FY20E to Rs17 (earlier Rs14.7) and introducing FY21 with an estimate of Rs17.7.

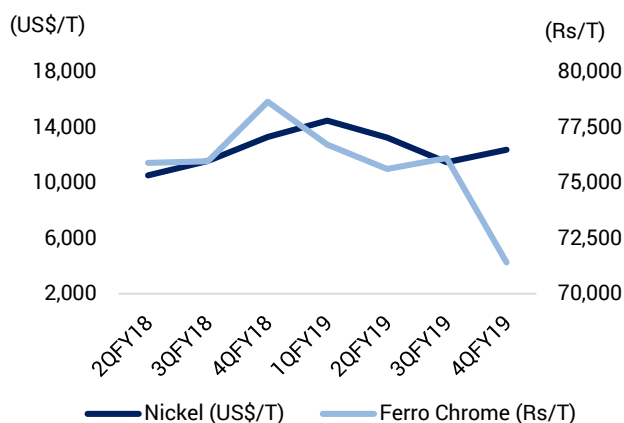
Upside risks: Upticks in a nickel prices can act as a major tailwind. We believe at current valuation of 1.8x/1.5x FY20E/FY21E EV/EBITDA, the stock factors in all the potential negatives. Though we continue to maintain our positive stance on the stock, the major re-rating would happen, post the government decision on antidumping duty, if any or strong upmove in the nickel prices. We continue to maintain BUY rating with a revised target price of Rs115 (Earlier Rs110), as we roll forward out valuation multiple of 3.5x to FY21E.

Higher other expenses offset the benefit of value added products and higher volumes

The price of key raw materials were mixed with nickel trending up to US\$12,369/tonne, while ferro chrome prices continue to decline to Rs71,400/tonne (lowest in the last 7 quarters). The raw material cost declined QoQ to Rs85,651/tonne due to decline in graphite electrodes prices from Rs889/kg to Rs678/kg and lower power and fuel costs. The cost which saw a major jump during the quarter was other expenses, up 17.3% and 10.4% YoY and QoQ, respectively, and largely attributed to increase in repairs and maintenance charges (which is one-off).

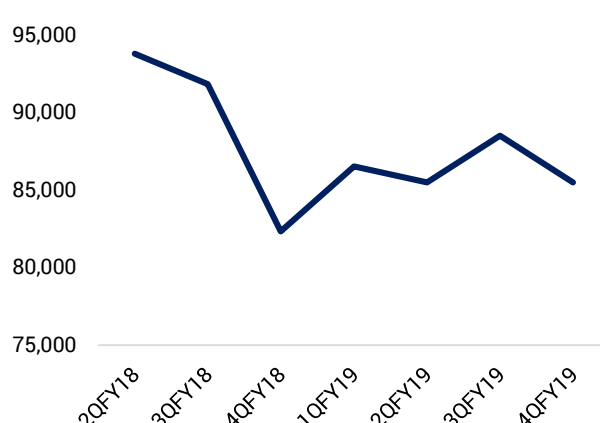
Higher cost, offset the benefit of increasing share of value added products (special product division) and higher sales volume. Volume during the quarter stood at 172kt, supported by the strong demand from railway, metro, and value added segments like blade steel, precision strips, and coin blanks, which helped the company to report 4.7%/5.7% YoY/QoQ increase in revenue. Share of special product division in terms of volume is ~7% and in value terms is in the range of 12-13%, the management expects the contribution to increase by 150-200 bps in both in volume as well as value.

Nickel and Ferro Chrome price trend



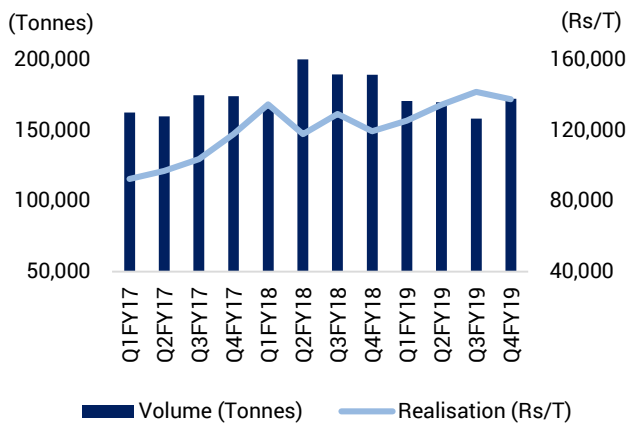
Source: Company, Kotak Securities – Private Client Research

Raw Material cost/tonne (Rs)



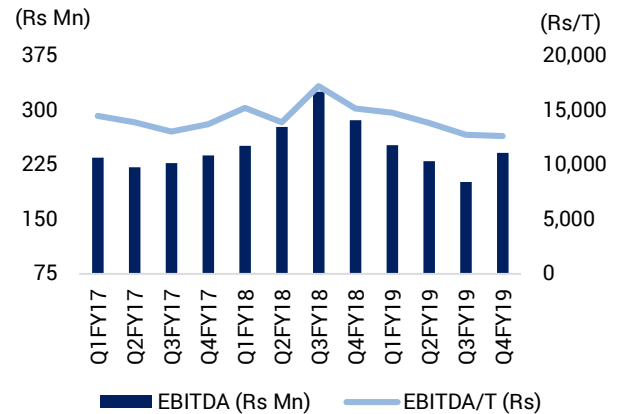
Source: Company, Kotak Securities – Private Client Research

Sales volume and realisation trend



Source: Company, Kotak Securities – Private Client Research

EBITDA and EBITDA/t



Source: Company, Kotak Securities – Private Client Research

JSSL and JSSL registered strong performance:

Artd’inox, the flagship brand, launched several new designs in stainless steel tableware & home décor products range. JSSL reported PAT of Rs490mn in FY19 vs Rs220 mn in FY18, the growth was supported by the strong revenue growth of 27% YoY to Rs4530 mn and strong operating performance. On the other hand, JSSL (Service centre arm) registered revenue growth of 9% YoY and PAT of Rs 200 mn. Given the strong order book and increasing demand from railway, both the subsidiaries likely to report strong performance in the coming years as well.

Company Background

JSHL was formerly a part of JSL. Pursuant to the approval of the composite Scheme of Arrangement by the Hon’ble High Court of Punjab & Haryana at Chandigarh, the plant was transferred from JSL to JSHL. Jindal Stainless (Hisar) Limited has integrated its operations on a strategy of both, backward and forward integration, starting from melting, casting, hot rolling to cold rolling and other value additions. Hisar plant is an integrated Stainless Steel plant with a capacity of 8,00,000 tpa. JSHL is the world’s largest SS producer strips for razor blades and India’s largest producer of coin blanks, catering to Indian and International mint needs. JSHL was first in popularizing the 200 series throughout the world. JSHL caters to a diversified market and no single customer accounts for over 5% of total sales. Specialty product division caters to the high end precision and specialty stainless steel requirements of reputed Indian and International customers.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Net Sales	105,633	102,889	109,629	111,479
% Growth	35.9	-2.6	6.6	1.7
Raw Materials	69,846	68,600	73,937	75,076
% of Net Sales	66.1	66.7	67.4	67.3
Employee Cost	2,087	2,099	2,305	2,380
% of Net Sales	2.0	2.0	2.1	2.1
Power & Fuel	8,044	8,884	9,064	9,226
% of Net Sales	7.6	8.6	8.3	8.3
Other Expenses	13,349	12,919	12,870	13,154
% of Net Sales	12.6	12.6	11.7	11.8
EBITDA	12,306	10,387	11,453	11,643
EBITDA Margin (%)	11.7	10.1	10.4	10.4
Depreciation	2,843	2,893	3,093	3,181
EBIT	9,464	7,495	8,360	8,462
Interest Exps.	4,082	3,671	3,486	3,277
EBT	5,382	3,823	4,873	5,185
Exceptional Items	-196	-337	0	0
Other Income	1,161	1,021	970	922
PBT	6,347	4,507	5,843	6,106
Tax-Total	2,335	1,736	1,934	2,021
Profit after tax	4,012	2,771	3,909	4,085
PAT after M.I./Asso. Share	5,780	3,814	4,009	4,185
PAT Margin (%)	3.8	2.7	3.6	3.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Net profit before tax	5,186	3,486	4,873	5,185
Depreciation	2,843	2,893	3,093	3,181
Interest	4,082	3,671	3,486	3,277
Others	(96)	(143)	-	-
Opt Profit before WC Changes	12,015	9,907	11,453	11,643
WC Changes	5,807	1,978	(2,056)	(2,960)
Cash Gene from Op.	17,822	11,886	9,398	8,683
Direct Taxes Paid	(2,335)	(1,736)	(1,934)	(2,021)
Cash from Ope act	15,487	10,150	7,464	6,662
Purchases of F.A	(1,681)	(2,024)	(466)	(979)
Investment	(3,996)	(28)	0	0
Others	1,161	1,021	1070	1022
Cash from Inv Act	(4,517)	(1,032)	604	43
Proc from Issue of Eq Shares	0	0	(0)	0
Net loans	(7,391)	(5,980)	(4,627)	(3,450)
Interest paid	(4,082)	(3,671)	(3,486)	(3,277)
Dividend paid & Others	517	643	-	-
Cash from Fin Act	(10,956)	(9,009)	(8,113)	(6,727)
Net Increase in Cash	15	110	(46)	(21)
Cash at Beginning	137	152	261	215
Cash at End	152	261	215	194

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Equity Capital	472	472	472	472
Reserves and Surplus	14,274	18,056	22,065	26,250
Shareholders' Funds	14,746	18,528	22,537	26,722
Minority Interes	315	315	315	315
Total Loan Funds	28,511	22,578	17,144	13,694
Total Liabilities	43,572	41,421	39,996	40,731
Gross Block	34,167	35,930	36,243	37,243
Accumulated Depn.	12,134	15,027	18,144	21,347
Net Fixed Assets	22,033	20,903	18,099	15,896
Capital WIP	662	923	1,100	1,100
Goodwill	863	863	863	863
Investment	14,999	15,544	15,544	15,544
Inventories	16,737	14,773	16,311	18,695
Sundry Debtors	8,466	8,740	8,942	10,179
Cash and Bank Bal	152	261	215	193
Loans and Advances	3,650	2,764	2,764	2,764
Total Current Assets	29,004	26,538	28,233	31,831
Current Liabilities	23,988	23,350	23,843	24,503
Net Current Assets	5,016	3,188	4,390	7,328
Total assets	43,572	41,421	39,995	40,731

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
O/s Shares (mn)	236	236	236	236
Per Share (Rs)				
EPS	24.5	16.2	17.0	17.7
Cash EPS	36.5	28.4	30.1	31.2
Book value	62.5	78.5	95.5	113.3
Valuation (x)				
P/E	3.5	5.3	5.0	4.8
Price/Book value	1.4	1.1	0.9	0.8
EV/EBITDA	2.7	2.6	1.9	1.5
EV/Sales	0.3	0.3	0.2	0.2
Profit ratios (%)				
RoE	39.2	20.6	17.8	15.7
RoCE	27.8	23.7	26.9	26.4
Margin (%)				
EBITDA	11.7	10.1	10.4	10.4
EBIT	9.0	7.3	7.6	7.6
PAT	3.8	2.7	3.6	3.7
Turnover Days				
Inventory	58	52	54	61
Debtors	29	31	30	33
Debt/Equity	1.9	1.2	0.8	0.5

Source: Company, Kotak Securities – Private Client Research

Result Update

INSECTICIDES INDIA LTD (IIL)

Stock Details

Market cap (Rs mn)	:	14618
52-wk Hi/Lo (Rs)	:	801 / 361
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	17,119
Shares o/s (mn)	:	21

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	11,919	12,974	13,575
Growth (%)	11.1	8.8	4.6
EBITDA	1,856	2,146	2,341
EBITDA margin (%)	15.6	16.5	17.2
PAT	1,224	1,205	1,312
EPS	59.2	58.3	63.5
EPS Growth (%)	45.8	(1.5)	8.9
Book value (Rs/share)	320	376	437
Dividend per share (Rs)	2	2	2
ROE (%)	20.3	16.8	15.6
ROCE (%)	20.7	19.2	19.2
P/E (x)	11.9	12.1	11.1
EV/EBITDA (x)	9.4	8.0	7.1
P/BV (x)	2.2	1.9	1.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	68.8	68.8	68.8
FII	3.3	3.3	2.9
DII	13.0	13.0	11.7
Others	14.8	14.8	16.3

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Insecticides (India)	10.9	16.3	28.8
Nifty	0.9	9.9	9.2

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Pankaj Kumar

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

PRICE RS.705

TARGET RS.762

ADD

IIL's Q4FY19 results was better than our estimates in terms of revenue and margins on account of better product mix due to contribution from new and innovative products. The company targets to achieve 10% growth in topline with 100-150 bps improvement in margin in FY20E with expectation of favorable weather condition.

Key Highlights

- IIL reported strong revenue growth of 17.8% yoy in Q4FY19 driven by strong performance in new products and growth in exports. In FY19, B2C business registered growth of 9%, while B2B witnessed 15% growth and exports grew by 76%.
- Q4FY19 EBITDA margin remained strong at 14.5% and was ahead of our estimates with growth of 350 bps yoy led by improved product mix and reduced exposure to low margin old generic products.
- IIL management has maintained outlook for sustainable long term growth with improved margins. The company has launched 8 new products in FY19 and plans to launch 8-10 new products in FY20E, with three inlicensed products from Japanese partners.

Valuation & outlook

We believe that IIL is well placed to grow in agro chemical sector in the longer run based on strong business model and robust pipeline of new products. We have upgraded our revenue and earnings estimates for FY20E factoring in strong FY19 and improved performance of new products. We have introduced estimates for FY21E, as well. The stock is presently trading at 12.1x/11.1x on FY20E and 21E EPS of Rs 58.3 (Vs Rs 53.3) and Rs 63.5, respectively. We recommend ADD (Vs Buy) on the stock with revised target price of Rs 762 (Vs Rs 692 earlier), valuing the stock at 12x FY21E earnings, as we roll forward our valuations on FY21E.

Quarterly performance table (standalone)

Year to March (Rs Mn)	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg
Operating Revenues	1,989	1,689	17.8	2,157	(7.8)
Raw Materials Cost	1,441	1,166	23.6	1,371	5.1
Gross Profit	548	524	4.6	786	(30.3)
Employee Expenses	200	116	71.6	149	34.1
Other Expenses	60	221	(72.9)	318	(81.1)
Operating Expenses	1,701	1,503	13.2	1,838	(7.5)
EBITDA	289	187	54.7	320	(9.7)
EBITDA margin	14.5%	11.0%	-	14.8%	-
Depreciation	49	47	3.6	50	(1.9)
Other income	10	4	170.1	9	14.1
Net finance expense	63	28	125.6	36	75.1
Profit before tax	186	115	62.1	242	(23.0)
Provision for taxes	(99)	38	(361.0)	73	(235.9)
Reported net profit	286	77	271.6	169	69.0
NPM (%)	14.4	4.5	-	7.8	-
Tax rate (% of PBT)	(53.3)	33.1	-	30.2	-

Source: Company

Q4FY19 revenue above our estimates

Operating revenue for the quarter grew by 17.8% yoy to Rs 2 bn (Vs estimates of Rs 1.6 bn) and was above our estimates driven by strong growth in sales across technicals, formulated products and exports. The new products launched by the company have performed well and contributed to the quarterly revenue growth. In FY19, the company had launched 8 new products which contributed Rs 700 mn to its full year revenue. In FY19, B2C business registered growth of 9%, while B2B witnessed 15% growth and exports grew by 76%. 65% of its annual revenue was from B2C, 31% from B2B and balance was exports. Its Maharatna product performed well and contributed 53% of the revenue (Vs 48% in FY18) due to acceptance of new products.

EBITDA margin ahead of estimates

Q4FY19 EBITDA margin remained strong at 14.5% and was ahead of our estimates with growth of 350 bps yoy led by improved product mix and reduced exposure to low margin old generic products. Other expenses were lower on account of regrouping of certain expenses due to adoption of new accounting standard IndAS 115. PAT for the quarter grew by 271% yoy to Rs 286 mn (Vs estimates of Rs 60mn) and was above our estimates on account of certain tax write back pertaining to previous years.

Launched 8 new products with robust pipeline for next year

The company has launched 8 new products in FY19 of which one was inlicensed from Nissan. The new products launched by the company contributed Rs 700 mn in FY19. Further, the company aims for higher growth from these in FY20E as well. IIL has been focusing on R&D and plans to launch 8-10 new products in FY20E out of which three will be inlicensed. The company will launch 7 of these products in June and 3 in July and August 2019. It has pipeline of collaboration products from Nissan and OAT which would be launched in this year. This will strengthen its product portfolio for future and would drive profitability.

Targeting sustainable growth with improved margins

IIL management has maintained outlook for sustainable long term growth with improved margins. In FY20E, the company targets 10% growth in revenue assuming good monsoon and strong performance of its new as well as products getting phased out in 2020 end. The company targets over 20% growth from Maharatna category of products. It remains positive on exports and in order to boost exports, it is setting up exports oriented unit in FY20E with investment of Rs 250 mn. In FY21E, the revenue growth may slow down due to phase out of two banned products. The company targets to compensate the revenue loss from discontinued products with increased contribution from new products. The company has guided for 100-150 bps per annum margin improvement in the next two years due to better product mix. Increased contribution from high margin products and reduction in low margin old generic products would result in better product mix.

Other highlights

- In terms of revenue mix in FY19, 55% was from insecticides, 29% from herbicide, 11% from fungicide and 5% from PGR and others. In-house consumption of technical was at 45% in FY19.
- The company is focused on increasing its exports in order to capitalize on the growing international market opportunities. Its exports team has signed over 100 export agreements with an aim to expand presence in more than 25 countries.

- IIL is planning for phase 2 expansion at existing unit in Dahej and Rajasthan with capex of over Rs 1.5 bn based on approval and clearances. This capex would help the company to go further backward and increase capacity for new products. This would be funded through internal accruals.
- Inventory and working capital borrowing have increased in FY19 as the company built up raw material inventory and also inventory for two banned products which will be phased out in 2020 end. The company expects working capital to reduce in FY20 end,

Outlook and valuation

We believe that IIL is well placed to grow in agro chemical sector which has positive growth outlook for long term. Further, IIL is aiming to position itself as niche player by moving up in the value chain and adding new products which will drive growth in long term. We believe that the company would be able to achieve better margins in next two years led by change in product mix.

We have upgraded our revenue and earnings estimates for FY20E factoring in strong FY19 and improved performance of new products. We have introduced estimates for FY21E, as well. The stock is presently trading at 12.2x/11x on FY20E and 21E EPS of Rs 58.3 (Vs Rs 53.3) and Rs 63.5, respectively. We recommend ADD (Vs Buy) rating on the stock with revised target price of Rs 762 (Vs Rs 692 earlier), valuing the stock at 12x FY21E earnings, as we roll forward our valuations on FY21E.

Change in Estimates

Particulars (Rs mn)	Previous estimates		Actual FY19A	Revised	% Change		New FY21E
	FY19E	FY20E		Estimates	FY19A	FY20E	
				FY20E			
Revenue	11559	12102	11919	12974	3.1%	7.2%	13575
EBITDA margin (%)	15	15.6	15.6	16.5	60 bps	100 bps	17.2
PAT	999	1101	1224	1205	22.6%	9.4%	1312
EPS	48.3	53.3	59.2	58.3	22.6%	9.4%	63.5

Source: Kotak Securities - Private Client Research

Company Background

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

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	10,733	11,919	12,974	13,575
% change yoy	8.0	11.1	8.8	4.6
EBITDA	1,478	1,856	2,146	2,341
% change yoy	32.7	25.6	15.6	9.1
Depreciation	170	197	222	263
EBIT	1,308	1,659	1,924	2,078
Other Income	32	23	30	30
Interest	159	152	219	219
Profit Before Tax	1,181	1,530	1,734	1,888
% change yoy	44.1	29.6	13.3	8.9
Tax	341	306	529	576
as % of EBT	28.9	20.0	30.5	30.5
PAT	840	1,224	1,205	1,312
% change yoy	41.4	45.8	(1.5)	8.9
Shares outstanding (mn)	21	21	21	21
Adj EPS (Rs)	40.6	59.2	58.3	63.5
DPS (Rs)	2	2	2	2
CEPS(Rs)	49	69	69	76
BVPS(Rs)	265	320	376	437

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	1,181	1,530	1,734	1,888
Depreciation	170	197	222	263
Change in WC	484	(2969)	(505)	(146)
Other operating activities	(355)	(316)	(529)	(576)
Operating Cash Flow	1,480	(1,558)	923	1,429
Capex	(227)	(305)	(700)	(700)
Free Cash Flow	1253	(1863)	223	729
Change in Investments	(52)	29	0	0
Investment cash flow	(278)	(276)	(700)	(700)
Equity Raised & Others	0	0	0	0
Debt Raised	(1066)	1,814.4	0	0
Dividend & others	(8)	(86)	(48)	(48)
CF from Financing	(1074)	1,728	(48)	(48)
Change in Cash	127	-106	174	680
Opening Cash	68	196	89	264
Closing Cash	196	89	264	944

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	207	207	207	207
Reserves	5,269	6,407	7,564	8,828
Net worth	5,476	6,613	7,770	9,034
Borrowings	1,150	2,965	2,965	2,965
Net Deferred tax	188	179	179	179
Total Liabilities	6,815	9,757	10,914	12,178
Net block	2,357	2,465	2,942	3,379
Capital work in progress	127	127	127	127
Total fixed assets	2,484	2,592	3,070	3,507
Investments	163	134	134	134
Inventories	4,073	7,051	7,675	8,030
Sundry debtors	2,348	2,442	2,659	2,641
Cash and equivalents	196	89	264	944
Loans and advances & Others	837	1,240	1,240	1,240
Total current assets	7,454	10,823	11,837	12,855
Sundry creditors and others	3,277	3,771	4,104	4,295
Provisions	9	21	22	23
Total CL & provisions	3,286	3,792	4,126	4,318
Net current assets	4,168	7,031	7,711	8,537
Total Assets	6,815	9,757	10,914	12,178

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability Ratios				
EBITDA margin (%)	13.8	15.6	16.5	17.2
EBIT margin (%)	12.2	13.9	14.8	15.3
Net profit margin (%)	7.8	10.3	9.3	9.7
Adjusted EPS growth (%)	41.4	45.8	(1.5)	8.9
Balance Sheet Ratios:				
Receivables (days)	80	75	75	71
Inventory (days)	139	216	216	216
Loans & Advances	2	6	5	5
Payable (days)	111	115	115	115
Cash Conversion Cycle	107	175	175	171
Asset Turnover	1.6	1.2	1.2	1.1
Net Debt/ Equity	0.2	0.4	0.3	0.2
Return Ratios:				
RoCE (%)	18.8	20.0	18.6	18.0
Core RoCE (%)	20.2	20.7	19.2	19.2
RoE (%)	16.6	20.3	16.8	15.6
Valuation Ratios:				
P/E (x)	17.4	11.9	12.1	11.1
P/BV (x)	2.7	2.2	1.9	1.6
EV/EBITDA (x)	10.5	9.4	8.0	7.1
EV/Sales (x)	1.4	1.5	1.3	1.2

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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