Morning Insight

JULY 30, 2018

	27-Jul	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,337	1.0	6.0	6.8
NIFTY Index	11,278	1.0	5.7	5.5
NSEBANK Index	27,634	0.8	4.6	8.8
NIFTY 500 Index	9,579	1.0	4.9	1.4
CNXMcap Index	18,781	0.9	3.3	(6.7)
BSESMCAP Index	16,450	0.9	3.0	(9.8)
World Indices				
Dow Jones	25,451	(0.3)	4.9	5.3
Nasdaq	7,737	(1.5)	3.0	9.5
FTSE	7,701	0.5	0.8	2.6
NIKKEI	22,713	0.6	1.3	0.5
Hangseng	22,713	0.6	1.3	0.5
Shanghai	28,804	0.1	(1.0)	(6.9)

Value traded (Rs cr)	27-Jul	% Chg Day
Cash BSE	3,085	(10.2)
Cash NSE	33,485	(23.9)
Derivatives	415,201	(76.7)

Net inflows (Rs cr)	26-Jul	MTD	YTD
FII	2,776	110	(4,730)
Mutual Fund	(199)	5,512	74,115

Nifty Gainers & Losers 27-Jul	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
ITC Ltd	303	5.3	75.9
Indian Oil Corp	165	4.2	7.8
Tata Motors	268	3.8	15.3
Losers			
Dr Reddy's	2,083	(2.3)	0.9
Bajaj Finserv	6,927	(1.5)	0.2
Adani Ports	395	(1.2)	3.0

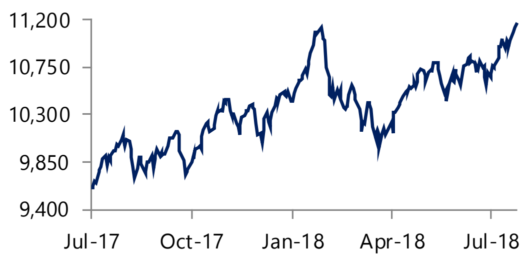
Advances / Declines (BSE)

27-Jul	A	B	T	Total	% total
Advances	282	732	59	1,073	100
Declines	104	368	46	518	48
Unchanged	2	22	11	35	3

Commodity	27-Jul	% Chg 1 Day	1 Mth	3 Mths
Crude (US$/BBL)	74.3	(0.1)	(6.5)	(1.2)
Gold (US$/OZ)	1,223	0.1	(2.6)	(7.3)
Silver (US$/OZ)	15.5	0.7	(4.3)	(5.6)

Debt / forex market	27-Jul	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.8	7.9	7.8
Re/US$	68.7	68.7	68.6	66.7

Nifty



News Highlights

- The NITI Aayog has proposed a common nodal energy ministry on the lines of the model followed in various other countries to streamline governance among different ministries and departments pertaining to the crucial sector and speed up decision-making. (ET)
- The rainfall deficiency over east and northeast India has come down in the last one week but the country-wide monsoon deficiency remains at five per cent, according to IMD data. (ET)
- TVS Logistics, India's largest logistic services provider, is in talks with smaller rival **Gati** to buy a controlling stake for about Rs 15 Bn, signalling bigger investments, in an industry benefiting from a surge in ecommerce activity and the uniform producer levy. (ET)
- Lenders have decided to call fresh bids for bankrupt Bhushan Power & Steel after one of the bidders **JSW Steel** revised its offer up by 60% this week to Rs 180 Bn. (ET)
- **Reliance Industries** is set to tap the foreign debt market to raise USD 2.7 billion to refinance its existing high cost debt. (FE)
- **Security and Intelligence Services (SIS),** is close to acquiring a majority stake in another security management company for anywhere around Rs 3 Bn. (ET)
- **Infosys Ltd** said that it would build a software development centre in Noida in Uttar Pradesh, with an initial investment of about Rs. 7.5 Bn. (ET)

  Exactly a decade after it started production, the MA oil and gas field in the Krishna Godavari basin block KG-D6 will seize to produce from September, said **Reliance Industries.** (FE)
- **Suzlon Energy Ltd** is planning to re-enter the international markets. Suzlon has undergone debt restructuring-bringing down debt significantly by divesting part of its international operations. (Mint)
- **NMDC Limited** has emerged the highest bidder for a gold mine in Chittoor district in Andhra Pradesh through e-auction, pushing behind big players including Adani and Vedanta. (BL)
- **NBCC** may take up stranded projects of Jaypee infratech, Amrapali NBCC (India) is likely to take up the projects to ensure their completion, and hand them over to their bona fide owners. (ET)
- The US arm of **Sun Pharmaceutical Industries** is recalling over 2,500 bottles of Metformin hydrochloride extended release tablets from Arizona on account of presence of foreign substance in one lot. (ET)

What's Inside

- **Result Update:** Petronet LNG Ltd, NIIT Ltd, Container Corporation of Inddia Ltd.
- **Forthcoming events**

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

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

Result Update

Stock Details

Market cap (Rs mn)	:	347550
52-wk Hi/Lo (Rs)	:	276 / 198
Face Value (Rs)	:	10
3M Avg. daily volume	:	4,000,535
Shares o/s (m)	:	1500

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	309,160	378,137	423,651
Growth (%)	23.8	22.3	12.0
EBITDA	36,296	41,496	46,485
EBITDA margin (%)	11.7	11.0	11.0
PAT	21,103	24,210	27,833
EPS	14.1	16.1	18.6
EPS Growth (%)	24.0	15.0	15.0
BV (Rs/share)	65	75	85
Dividend/share (Rs)	4.5	5.5	7.0
ROE (%)	22.1	22.0	22.0
ROCE (%)	18.5	20.7	22.2
P/E (x)	16.4	14.3	12.4
EV/EBITDA (x)	9.9	8.1	6.8
P/BV (x)	3.5	3.1	2.7

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	50.0	50.0	50.0
FII	25.1	25.2	25.6
DII	9.8	9.7	9.7
Others	15.1	15.1	14.7

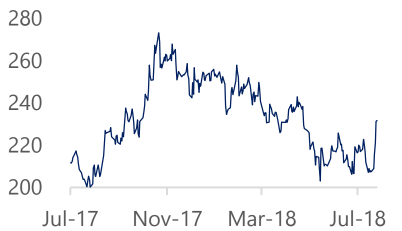
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Petronet LNG	12.1	1.8	(5.0)
Nifty	5.7	5.5	1.9

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PETRONET LNG LTD (PLNG)

PRICE RS.231 TARGET RS.267 BUY

All is well: Strong operating performance is backed by higher RLNG off-take from both Dahej and Kochi terminals, contractual escalation in tariffs and better operational efficiency. The company has bid for seven city gas licenses and expects city gas foray to boost Kochi LNG plant capacity usage. We expect robust near-term growth as Kochi ramps up and Dahej expands nameplate capacity by 8%.

Key Highlights

- PLNG's Q1FY19 result is better than our expectation. PAT for Q1FY19 was at Rs.5.87 bn up 12% qoq on account of higher volumes and better efficiency in operations. The Company reported quarterly EPS of Rs.3.91.
- In Q1FY19, PLNG's Dahej terminal operated higher at 111% of its name plate capacity and processed LNG quantities of 214 TBTUs, 3% qoq and 16% yoy. Similarly, Kochi terminal supplied 6 TBTUs of LNG, marginally better qoq basis, with utilization increasing to 10% in Q1FY19 from 9% in Q4FY18. We expect short-term volumes to increase in the near term led by higher off-take from BPCL's Kochi refinery (from ~2 mmscmd to 2.7 mmscmd).
- **Expansion Plans:** The company has submitted a plan to build 7.5 mmtpa terminal in Bangladesh with an investment of ~US$ 1 bn.
- Dahej capacity expansion from 15.0 mmtpa to 17.5 mtpa is expected to be completed by June 2019.
- The Company has reiterated that Kochi pipeline would be commissioned by Dec'18. However, for the Bangalore

Valuation & outlook

We expect PLNG to report an EPS of Rs.16.1/18.6 for FY19E/FY20E, respectively. At CMP, we believe that the stock is attractively valued at 12.4x FY20E earnings. We recommend BUY (earlier ACCUMULATE) rating on the stock with a revised price target of Rs.267/- including equity value of 26% stake in Dahej Port. We expect FY19E to be better driven by acceleration in volume growth, supported by expansion.

Quarterly performance table

Particulars (Rs Mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Income from ops	**91,692**	**86,362**	**64,351**	**42**	**6**
Total Expenditure	82,347	78,142	56,909	45	5
EBIDTA	**9,344**	**8,221**	**7,442**	**26**	**14**
Depreciation	1022	1,013	1027	(0)	1
EBIT	**8,322**	**7,208**	**6,415**	**30**	**15**
Other income	990	1,034	707	40	(4)
Interest-net	300	335	465	(35)	(10)
PBT	**9,012**	**7908**	**6,658**	**35**	**14**
Tax	3,142	2,681	2,282	38	17
PAT	**5,870**	**5,227**	**4,376**	**34**	**12**
Basic EPS	3.91	3.48	2.92	34.1	12.3

Source: Company.

Quarterly result analysis

- **Revenue and realization** – PLNG's revenue for Q1FY19 was at Rs.91.7 bn up 42%/6% yoy/qoq, respectively supported by both higher volumes and better realizations.
- In Q1FY19, PLNG has booked higher total volume throughput of 220 TBTUs, 3.3% qoq and 14.6% yoy. Dahej RLNG terminal operated at 111% capacity utilization (expanded capacity of 15 mmtpa) in Q1FY19. Kochi terminal operated lower at 10% capacity utilization in Q1FY19 due to lack of pipeline connectivity vs 12% capacity utilization in Q1FY18.
- **Raw material cost**: Raw material cost (RLNG) for Q1FY19 was at Rs.80.8 bn higher 46% yoy and 6% qoq. Raw material as a percentage of sales has decreased 40 bps qoq to 88.2%.
- **Net-back (Net revenue less raw material cost):** Net-back for Q1FY19 was at Rs.10.85 bn up 9% qoq and 22% yoy due to better realizations and higher RLNG off-take.
- **Staff cost:** Employee cost decreased meaningfully by 12% qoq (base effect) to Rs.224 mn (-16% yoy).
- **Other expenditure:** Other expenditure has decreased significantly 11% qoq to Rs.1.3 bn (+9% yoy). Other expenditure as a percentage of sales decreased 30 bps qoq to 1.4%.

Operational matrix

	Q1FY19	Q4FY18	Q1FY18	YoY (ppt)	QoQ (ppt)
Margin Ratio (%)					
EBITDA Margin	10.2	9.5	11.6	(1.4)	0.7
EBIT Margin	9.1	8.3	10.0	(0.9)	0.7
Adj PAT Margin	6.4	6.1	6.8	(0.4)	0.3
Other Income/PBT	11.0	13.1	10.6	3.5	(2.1)
Tax/PBT	34.9	33.9	34.3	0.0	1.0
Expenses (Rs. Mn)	**Q1FY19**	**Q4FY18**	**Q1FY18**	**YoY (%)**	**QoQ (%)**
Raw Material consumption	80,844	76,449	55,467	46	6
Staff costs	224	254	268	(16)	(12)
Other Expenditure	1280	1,439	1175	9	(11)
Total	82,347	78,142	56,909	45	5
Expenses Ratio (%)	**Q1FY19**	**Q4FY18**	**Q1FY18**	**YoY (%)**	**QoQ (%)**
RM to Sales	88.2	88.5	86.2	2.0	(0.4)
Staff to Sales	0.24	0.29	0.42	(0.2)	(0.0)
Other expenses to Sales	1.40	1.67	1.83	(0.4)	(0.3)

Source: company

- **Operating profit (Rs. Mn):** For Q1FY19, the operational profit increased 14% qoq to Rs.9.34 bn (+26% yoy). The company recorded higher EBIDTA margin of 10.2% increased 70 bps qoq.
- **Finance cost:** In Q1FY19, finance cost reduced 10% qoq to Rs.300 mn (-35% yoy) mainly due to debt repayment. Earlier, PLNG has replaced its rupee loan of ~Rs 10.32 bn (average cost 11% annually) with lower cost unsecured bonds of Rs 10 bn (~9% annually) placed in the Indian market. We expect interest cost to come down further due to debt reduction.
- **Depreciation charge:** In Q1FY19, PLNG's depreciation cost has increased marginally by 1% qoq to Rs.1.02 bn (flat on yoy).

- **Other income:** In Q1FY19, PLNG reported lower other income of Rs.990 mn down 4% qoq (base effect) but up 40% yoy. Other income mainly consist of dividend and interest income. In Q4FY18, company received higher dividend income.
- **Profit before tax (PBT):** PBT for Q1FY19 was at Rs.9 bn up 14% on sequential basis and 35% yoy. Sequential increase is on account of higher operating income and lower finance charges.
- **Income tax:** The Company paid tax of Rs.3.14 bn (at an average rate of 34.9% in Q1FY19 v/s 33.9% in Q4FY18 and 34.3% in Q1FY18). This includes deferred tax liability of Rs.1.2 bn.
- **PAT:** PAT for Q1FY19 was at Rs.5.87 bn up 12% qoq on account of higher volumes and better efficiency in operations. The Company reported quarterly EPS of Rs.3.91 and CEPS of Rs.4.59.

Key developments:

- The company has indicated that BPCL's Kochi plant can ramp-up RLNG consumption from ~2 mmscmd to 2.7 mmscmd, 35% increase.
- PLNG expects city gas foray to boost Kochi LNG plant capacity usage. The company has bid for 7 city gas licenses in ongoing auction.
- **RLNG terminal in Srilanka/Bangladesh:** The company has submitted it proposal to set-up RLNG terminal in Srilanka (Sri Lanka can accommodate 2 LNG terminals) and Bangladesh which will boost its earnings in the long-term.
- The company has submitted new plan to build 7.5 mtpa terminal in Bangladesh with an investment of ~US$ 1 bn.
- The company is also looking for upstream, liquefaction stakes in Mideast, Africa, USA.
- **Global expansion**: PLNG is considering for acquiring ~10% stake in a gas field in Qatar though this is at a nascent stage.
- The management highlighted that all its capacity is already tie-up on take-or-pay basis and tariffs are very competitive. Hence, doesn't see major threat from new terminals coming.

Maintain BUY

We expect PLNG to report an EPS of Rs.16.1/18.6 for FY19E/FY20E, respectively. At CMP, we believe that the stock is fairly valued at 12.4x FY20E earnings. We recommend BUY (earlier ACCUMULATE) rating on the stock with a revised price target of Rs.267/- including equity value of 26% stake in Dahej Port. We expect FY19E to be better driven by acceleration in volume growth, supported by expansion.

Key Risk and Concerns:

We believe the key risk to our valuation are as follows:

1. **Geo-political risk:** Any gas supply disruption from Qatar can have meaningful impact on the earnings. Though current situation is under control.
2. Availability of LNG at reasonable prices on a long term basis has remained a key worry.
3. **Regulatory risk:** Any capping of margins by PNGRB will negatively impact its earnings and growth. However, management has indicated that imported LNG does not fall under the preview of PNGRB.
4. Project execution risk.

Company background

Petronet LNG is India's largest importer of liquefied natural gas (LNG) at its Dahej plant. It has expanded the Dahej capacity to 15 mmtpa.

PLNG has a firm supply contract with Qatar's RasGas for 8.5 mmtpa for which it has a back-to-back sales contract. It also imports LNG on a spot basis depending on its ability to market the same in domestic market.

Similarly, it also imports cargos on behalf of other importers for a fee. The company charges regasification on processing of LNG, which are set to go up 5% every year in January.

Petronet LNG terminals

Dahej terminal expansion

LNG terminal at Kochi

Source: Company

Notes:

LNG is natural gas in its highly compact liquid form. When natural gas is cooled to minus 260 degrees Fahrenheit (or minus 162 degrees Celcius), it is reduced to one six-hundredth of its original volume and becomes a clear, non-toxic liquid. LNG offers a safe and economical means for transporting natural gas over long distances to locations beyond the reach of pipelines. LNG is loaded on specialized ships and delivered to a regasification terminal where it is reheated, turned into gas and distributed to customers through a pipeline network.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**249,627**	**309,160**	**378,137**	**423,651**
% change YoY	(8.0)	23.8	22.3	12.0
EBITDA	**29,389**	**36,296**	**41,496**	**46,485**
% change YoY	83.1	23.5	14.3	12.0
Other Income	0	0	0	0
Depreciation	3,691	4,117	4,253	4,456
EBIT	**25,698**	**32,506**	**37,243**	**42,028**
% change YoY	78.6	26.5	14.6	12.8
Net interest	2,097	1,630	1,000	300
Profit before tax	**23,602**	**30,876**	**36,243**	**41,728**
% change YoY	96.6	30.8	17.4	15.1
Tax	6,545	9,773	12,033	13,896
as % of PBT	27.7	31.7	33.2	33.3
Profit after tax	**17,057**	**21,103**	**24,210**	**27,833**
Minority interest	0	0	0	0
Share of profit of associates	0	0	0	0
Net income	**17,057**	**21,103**	**24,210**	**27,833**
% change YoY	86.6	23.7	14.7	15.0
Shares outstanding (m)	750	1,500	1,500	1,500
EPS (reported) (Rs)	**11.4**	**14.1**	**16.1**	**18.6**
CEPS (Rs)	13.8	16.8	19.0	21.5
DPS (Rs)	2.5	4.5	5.5	7.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	3,273	8,625	10,217	30,760
Accounts receivable	12,108	16,505	18,648	19,732
Inventories	5,405	4,911	6,153	6,321
Loans and Adv & Others	3,438	2,775	3,019	3,180
Current assets	24,224	32,816	38,037	59,992
Misc exp.	0	0	0	0
LT investments	30,196	42,130	42,130	42,130
Net fixed assets	84,716	82,499	82,509	83,509
Total assets	**139,136**	**157,445**	**162,677**	**185,632**
Payables	9,446	15,699	16,541	19,966
Others	12,181	12,903	23,142	27,436
Current liabilities	21,627	28,602	39,683	47,402
Provisions	66	78	96	107
LT debt	28,358	20,170	0	0
Min. int and def tax liabilities	7,302	10,482	10,482	10,482
Equity	7,500	15,000	15,000	15,000
Reserves	74,284	83,113	97,416	112,641
Total liabilities	**139,136**	**157,445**	**162,677**	**185,632**
BVPS (Rs)	55	65	75	85

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	25,698	32,506	37,243	42,028
Add: Depreciation	3,691	4,117	4,253	4,456
Change in working capital	3,213	6,928	7,469	6,318
Chgs in other net current assets	-	-	-	-
Operating cash flow	32,602	43,550	48,965	52,803
Less: Interest	(2,097)	(1,630)	(1,000)	(300)
Less: Tax	(6,545)	(9,773)	(12,033)	(13,896)
Cash flow from operations	**23,960**	**32,147**	**35,932**	**38,607**
Less: Capex	(4,796)	(1,899)	(4,263)	(5,456)
(Inc)/dec in investments	(29,296)	(11,934)	-	-
Cash flow from investments	**(34,092)**	**(13,834)**	**(4,263)**	**(5,456)**
Others	5,463	3,329	-	0
Increase/(decrease) in debt	(9,381)	(8,188)	(20,170)	-
Proceeds from share premium	-	-	-	-
Dividends	(4,505)	(8,103)	(9,907)	(12,608)
Cash flow from financing	**(8,423)**	**(12,962)**	**(30,077)**	**(12,608)**
Opening cash	21,829	3,273	8,625	10,217
Closing cash	3,273	8,625	10,217	30,760

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	11.8	11.7	11.0	11.0
EBIT margin (%)	10.3	10.5	9.8	9.9
Net profit margin (%)	6.8	6.8	6.4	6.6
Receivables (days)	17.7	19.5	18.0	17.0
Inventory (days)	9.1	6.6	6.7	6.2
Sales/gross assets(x)	2.3	2.6	3.1	3.4
Interest coverage (x)	14.0	22.3	41.5	
Debt/equity ratio(x)	0.3	0.2	-	-
ROE (%)	22.7	22.1	22.0	22.0
ROCE (%)	17.1	18.5	20.7	22.2
EV/ Sales	1.5	1.2	0.9	0.7
EV/EBITDA	12.6	9.9	8.1	6.8
Price to earnings (P/E)	20.3	16.4	14.3	12.4
Price to book value (P/B)	4.2	3.5	3.1	2.7

Source: Company, Kotak Securities – Private Client Research

Result Update

NIIT LTD

PRICE RS.95 TARGET RS.125 BUY

NIIT Ltd 1QFY19 revenue were below our estimates at Rs.2142mn v/s our estimate of Rs.2339mn. Margins at 8.9% were about 50bps lower than our estimates. The miss was largely due to SNC and school business which continue to remain impacted.

Key Highlights

- NIIT Ltd 1QFY19 performance was below our estimates on all fronts. Revenue declined by 3.8% QoQ. EBIDTA margin at 8.9% were too below our estimates by about 50bps due to lower than expected margins in SNC (-1.6%) and school business (-23%). Corporate Learning Group (CLG). CLG (65% of revenue) has been leading the performance and is expected to continue the momentum going forward with integration of Eagle Productivity business (Rs.196mn contribution in 1Q).
- SNC and school business reported a de growth of 21% (like to like basis) and 62% YoY respectively. SNC was impacted due to freeze in hiring in banking and IT companies, it is expected to remain so for few more quarters. School business was impacted due to exit from government school business which should stabilize post 2Q. Going forward the focus would be on IP led and private school business.
- Revenue visibility and fresh order intake remains strong for CLG business at USD 25.7mn and USD 217mn respectively. Within SNC business share of beyond IT and enrollment was down to 36% and 33081 from 38% and 40309 in previous quarter. We believe the decline in enrollments could be due to seasonality factors but decline in share of beyond IT could be a cause of concern.

Quarterly performance table

(Rs.mn)	1QFY19	4QFY18	QoQ (%)	1QFY18	YoY (%)
Income	**2,142**	**2,228**	**(3.8)**	**2,099**	**2.1**
Expenditure	1,952	2,007		1,936	
EBIDTA	**190**	**221**	**(13.9)**	**163**	**16.8**
Depreciation	93	92		102	
EBIT	**97**	**129**	**(24.6)**	**61**	**59.7**
Other Income	(59)	(63)		-44	
PBT	**38**	**66**	**(42.0)**	**17**	**126.4**
Tax	60	28		33	
PAT	**(22)**	**38**		**-16**	
Share of profit	201	159		120	
Adjusted PAT	**179**	**197**	**(9.0)**	**104**	**72.6**
E O items	0	0		0	
Shares (mns)	165.8	165.8		165.8	
EPS (Rs)	**1.1**	**1.2**		**0.6**	
EBIDTA (%)	8.9	9.9		7.8	
EBIT (%)	4.5	5.8		2.9	
Net Profit (%)	(1.0)	1.7		-0.8	

Source: Comapny

Stock Details

Market cap (Rs mn)	:	15836
52-wk Hi/Lo (Rs)	:	125 / 83
Face Value (Rs)	:	2
3M Avg. daily volume	:	1,150,724
Shares o/s (m)	:	167

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	8,505	8,952	10,166
Growth (%)	0.6	5.3	13.6
EBITDA	746	903	1,144
EBITDA margin (%)	8.8	10.1	11.3
PAT	17	122	371
EPS	3.8	6.3	8.6
EPS Growth (%)	52.63	68.00	35.95
BV (Rs/share)	43	49	55
Dividend/share (Rs)	2.0	2.0	2.0
RONW (%)	1.6	7.5	14.4
ROCE (%)	7.3	9.9	14.0
P/E (x)	27.6	16.4	12.1
EV/EBITDA (x)	22.7	18.7	14.1
P/BV (x)	2.4	2.1	1.9

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	31.7	32.0	32.0
FII	16.9	19.0	17.0
DII	11.8	11.0	11.0
Others	39.4	38.0	40.0

Source: Company

Price Performance (%)

(%)	1M	3M	6M
NIIT Ltd	(0.3)	(16.0)	(12.4)
Nifty	5.7	5.5	1.9

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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Valuation & outlook

SNC and school business have been a constant drag on overall financial performance of the company, and we believe it would take few more quarters to stabilize. CLG continues to report 20%+ growth and management remains confident of continuing the momentum going forward. We have lowered our revenue estimates and expect revenue growth of 9% CAGR over FY18-20E and EBITDA margin to improve by 250bps (v/s 300bps earlier) over FY18-20E. We maintain BUY with a revised target price of Rs.125 (Rs.130 earlier).

Corporate Learning Group continues to deliver consistent performance

The CLG business continues to register stable revenue growth of 28% YoY. CLG now contributes ~70% of revenue up from 52% two years back, though the margins have remained flattish. Revenue included Rs.196mn Eagle International, Ex Eagle growth was ~11% YoY. We believe the growth will moderate to about 22% and 16% for FY19E and FY20E respectively. Margins improved sequentially to 14.5% during the quarter and management expects it to remain at similar levels going forward. Currently company has 39 customers and strong revenue visibility of USD 224mn which was up 3%/17% QoQ/YoY. Company won a 5 years contract from Pitney Bowe which is basically an outsourcing contract involving all aspect of training. The transition is done and the deal has gone live. Currently company has 39 of 250 fortune 1000 companies which leaves enough headroom for scaling up by acquiring new clients. Eagle has been successfully integrated into NIITs CLG business and management is quite positive of good traction building up in the consolidated offerings portfolio. Eagle's core competency is in new application roll outs within life science vertical. We expect 19% CAGR revenue growth with marginal improvement in margins over FY18-20E.

SNC weakness continues

SNC contributes about 25.5% of total revenue for the company. SNC revenues declined 21% YoY on like to like to basis. The decline is due to volatile hiring trends in IT and Banking. The slowdown in IT hiring is largely due to uncertainty around 'what training is or will be relevant' in coming future. Management believes this issue can be well addressed with 'just in time' hiring solutions to client helping them to improve utilization and attrition rates. Company has taken various new initiatives like launched new products, Deep IT skilling (Stack Route) and online learning platform integration. Management indicated that it has taken certain cost optimization measures and would expand to other adjacent areas of Banking like Insurance and Wealth Management. We expect 6% CAGR revenue growth over FY18-20.

SLG continues to decline on planned ramp down

SLG segment contributed about 4% of the total revenue down from 11% a year back. Revenues declined by 62% YoY as Government business continues to ramp down and completion of government contracts. In addition to it uncertainty around regulatory changes with respect to curriculum impacted the private school business. However company added 123 new schools during the quarter. Contribution from focused focused IP led business was 76% during the quarter. We expect revenue from school business to de grow for few more quarters before stabilizing.

Concall Takeaways

- Net debt increases to Rs.1052mn from Rs.400mn in previous quarter due to early collection in previous quarter and lower collection in 1QFY19. Also delay in expected GST refund led to increase in net debt position. Net debt is expected to stabilize at around Rs.650-740mn as per management.
- Taxes were higher during the quarter due to good profit made by overseas subsidiaries . In contrast Indian subsidiaries are yet to make profit.
- Operating cash flow was negative during the quarter. Company is on track for improvement and expects to become positive in 2Q.
- Pitney Bowes contract is a five year contract with can be further renewed for two more years. The deal has gone live.
- Company does not face any talent related issues in mature markets. It has strong partnership with universities. With respect to India there is no formal program as such but it has entered into a partnership with university founded by NIIT founders.

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 March)	FY17	FY18	FY19E	FY20E
Net Sales	**8,452**	**8,505**	**8,952**	**10,166**
% Growth		0.6	5.3	13.6
Expenditure	7,779	7,759	8,049	9,022
% of Net Sales	92.0	91.2	89.9	88.7
EBITDA	**673**	**746**	**903**	**1,144**
EBITDA Margin (%)	8.0	8.8	10.1	11.3
Depreciation	456	400	382	417
EBIT	**217**	**346**	**521**	**727**
Interest Exps.	0	0	0	0
EBT	**217**	**346**	**521**	**727**
Exceptional Items	-	-	-	-
Other Income	-203	-169	-244	-180
PBT	**14**	**177**	**277**	**547**
Tax-Total	154	160	155	176
PAT	**(140)**	**17**	**122**	**371**
Income from Associate	549	609	931	1,059
Profit after tax	409	626	1,052	1,431
PAT Margin (%)	(1.7)	0.2	1.4	3.7

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Sources of Funds				
Equity Capital	332	333	333	333
Reserves and Surplus	6,504	6,897	7,745	8,833
Shareholders' Funds	6,836	7,230	8,078	9,166
Minority Interest	97	96	100	100
Total Loan Funds	1,553	928	1,200	1,200
Total Liabilities	**8,486**	**8,253**	**9,378**	**10,466**
Appl. Of Funds				
Net Fixed Assets	2,087	2,471	2,489	2,872
Investment	5,858	6,038	6,038	6,038
Inventories	18	28	90	90
Sundry Debtors	1,703	1,652	1,850	2,050
Cash and Bank Bal	1,270	1,281	1,599	2,327
Other Current Assets	2,273	1,771	1,270	1,398
Total Current Assets	5,264	4,732	4,809	5,865
Current Liabilities	4,723	4,987	3,958	4,309
Net Current Assets	541	-255	851	1,556
Total assets	**8,486**	**8,253**	**9,378**	**10,466**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Net profit before tax	14	177	277	547
Depreciation	456	400	382	417
Interest	0	0	0	0
Other Income	203	169	244	180
Opt Profit before WC Changes	673	746	903	1,144
WC Changes	2,935	770	(906)	23
Cash Gene from Op.	**3,608**	**1,517**	**(3)**	**1,167**
Direct Taxes Paid	(154)	(160)	(155)	(176)
Cash from Ope act	3,454	1,357	(158)	991
Purchases of F.A /CWIP	(1,451)	(784)	(400)	(800)
Investment	(38)	(179)	-	-
Share from Associate	549	609	931	1,059
Cash from Inv Act	**(940)**	**(354)**	**531**	**259**
Issue of Eq Shares/Other res	(1,317)	110	-	-
Net loans	(250)	(626)	272	-
Interest paid	-	-	-	-
Dividend paid & Others	(283)	(283)	(215)	(333)
Other Income	(279)	(193)	(250)	(189)
Cash from Fin Act	**(2,129)**	**(992)**	**(55)**	**(522)**
Net Increase in Cash	384.6	10.7	317.8	729.0
Cash at Beginning	886	1,270	1,281	1,599
Cash at End	1,270	1,281	1,599	2,328

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Per Share (Rs)				
EPS	2.5	3.8	6.3	8.6
Cash EPS	5.2	6.2	8.6	11.1
Book value	41.2	43.5	48.6	55.1
Margin (%)				
EBITDA	8.0	8.8	10.1	11.3
EBIT	2.6	4.1	5.8	7.2
PAT	(1.7)	0.2	1.4	3.7
Balance sheet Ratios				
Receivable (days)	73.5	70.9	75.4	73.6
Inventories (days)	0.8	1.2	3.7	3.2
Payables (days)	47.0	69.3	69.3	62.8
Debt equity ratio (x)	0.2	0.1	0.1	0.1
Return ratios (%)				
RONW	(8.7)	1.6	7.5	14.4
RoCE	0.4	7.3	9.9	14.0
Valuation (x)				
P/E	42.2	27.6	16.4	12.1
Price/Book value	2.5	2.4	2.1	1.9
EV/EBITDA	26.0	22.7	18.7	14.1
EV/Sales	2.2	2.1	2.1	1.8

Source: Company, Kotak Securities – Private Client Research

Result Update

CONTAINER CORPORATION OF INDIA LTD

PRICE RS.652 **TARGET RS.775** **BUY**

Container Corporation has reported strong YoY increase in volume in Exim at 794,402 TEUs (+11.4% YoY) and similar growth in domestic at 142,559 TEUs (+9.7% YoY). But volumes failed to pick-up sequentially. Even realizations continue to remain under pressure. We believe the current market price factors the bad things that can happen to the company.

Key Highlights

- Concor Q1FY19 result highlights include 1) healthy improvement in volumes in the Exim segment with market share gains on YoY basis; 2) recovery of volumes in the domestic segment post implementation of GST; 3) falling lead distance which impacted revenue per TEU; 4) reduction in empty running cost and benefit of double stacking accruing to the company which supported the margins.
- Sales growth to Rs 15.6 bn (+7.7% YoY), improvement in gross margins, higher other income ,higher depreciation and higher effective tax rate led to recurring PAT of Rs 2.53 bn in line with our estimate.
- Management has guided an overall volume growth of 10% in FY19.Increased double stacking, higher number of operational logistics park and improvement in business prospect bodes well for Concor. Recommend BUY with an unchanged TP Rs 775 at 28x FY20E.

Valuation and Outlook

The quarterly performance highlights issues faced by Concor to maintain high market share and strong earnings growth simultaneously. The current margins have already factored in the falling lead distance and high empty running. Further benefits of double-stacking, lower empty running, higher number of operational logistics park, improvement in business prospect with Dedicated Freight corridor (DFC) in FY20E and improvement in global and domestic trade is estimated to improve the business prospects, revenues and operational performance for Concor. We expect the next few years to be game changer for Concor, especially FY20, when we expect the Dedicated Freight Corridor (DFC) to be partially operational.

Quarterly Performance

(Rs Mn)	Q1FY18	Q4FY18	Q1FY19	YoY (%)	QoQ (%)
Revenues	**14,568**	**15,587**	**15,683**	**7.7**	**0.6**
Staff cost	448	808	701	56.5	(13.2)
Rail freight expenses	8,683	9,149	8,723	0.5	(4.7)
Others	2169	2,164	2,356	8.6	8.9
Operating expenditure	11,300	12,121	11,780	4.2	(2.8)
EBIDTA	**3,268**	**3,466**	**3,903**	**19.4**	**12.6**
EBIDTA (%)	22.4	22.2	24.9	10.9	11.9
Other Income	936	409	621	(33.7)	51.8
Interest	0	0	0		
Depreciation	953	1,010	1,022	7.2	1.2
Taxation	807	461	976	20.9	111.7
Adjusted PAT	**2,444**	**2,404**	**2,526**	**3.4**	**5.1**
Extraordinary		533	0		
Reported PAT	**2,444**	**2,937**	**2,526**	**3.4**	**(14.0)**
Equity	2,437	2,438	2,437	0.0	0.0
Reported EPS	**5.0**	**6.0**	**5.2**	**3.4**	**-14.0**

Source: Company

Stock Details

Market cap (Rs mn)	:	317052
52-wk Hi/Lo (Rs)	:	750 / 540
Face Value (Rs)	:	5
3M Avg. daily vol	:	882,412
Shares o/s (m)	:	487

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	58,994	64,894	72,032
Growth (%)	9.4	10.0	11.0
EBITDA	12,154	13,596	15,397
EBITDA margin (%)	20.6	21.0	21.4
PAT	10,676	11,716	13,498
EPS	21.9	24.1	27.7
EPS Growth (%)	(0.6)	9.7	15.2
BV (Rs/share)	219	240	265
Dividend/share (Rs)	7.5	8.0	8.5
ROE (%)	12.9	13.5	13.9
ROCE (%)	10.5	10.5	11.0
P/E (x)	29.7	27.1	23.5
EV/EBITDA (x)	16.8	15.2	13.6
P/BV (x)	3.0	2.7	2.5

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	54.8	54.8	54.8
FII	25.6	25.2	25.2
DII	14.8	15.8	13.7
Others	4.8	4.2	6.3

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Container Corp	7.3	(0.7)	(9.7)
Nifty	5.7	5.5	1.9

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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Volumes exhibiting strong trend

Factors like improved global and domestic container trade, increase in Exim business from India, improved volumes at major ports and steps taken by Concor has led to improvement in volumes for the company.

However, falling lead distance has impacted the realisations per TEU, compensated partially by double stacking

Trends in quarterly volumes and realisations for Concor

Volume and realization	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Exim volumes (TEUs)	712,794	752,867	739,472	796,815	794,402
Domestic volumes (TEUs)	129,915	117,963	127,968	154,138	142,559
Total volumes (TEUs)	**842,709**	**870,830**	**867,440**	**950,953**	**936,961**
Exim revenues (Rs Mn)	11,316	11,414	11,332	11,786	12,327
Domestic revenues (Rs mn)	3,252	2,887	3,203	3,806	3,356
Total revenues (Rs mn)	**14,568**	**14,301**	**14,535**	**15,592**	**15,683**
Realisation Exim/ TEU	15,876	15,161	15,324	14,791	15,517
Realisation Domestic/ TEU	25,032	24,474	25,030	24,692	23,541
Avg Realisation/TEU	**17,287**	**16,422**	**16,756**	**16,396**	**16,738**

Source: Company

Other highlights

- Concor's total volume grew at a healthy pace of 11.2% YoY to 936,961 TEUs, led by strong volume growth in EXIM, new strategic initiatives (boosting domestic volume) and pick-up in trade activity.
- EXIM volume grew by 11.4% YoY to 794,402 TEUs (in line with our estimate), led by healthy growth in exports. On the domestic front, the company reported healthy volume growth of 9.7% YoY to 142,559 TEUs led by continuous gain in market share.
- The empty running cost continued to decrease, falling by Rs100mn to Rs580mn in EXIM, mainly owing to rise in double stacking. The company increased its double stacking by 52.7% YoY to 829 trains.
- The lead distance continuous to reduce in the EXIM segment, declining by 30kms to
- 713kms and by 120kms to 1310km in the domestic segment. The average lead distance reduced to 824km in Q1FY19 from 870km in Q1FY18.
- Going forward, the commissioning of new MMLPs and various new initiatives are expected to help Concor to sustain growth momentum in domestic volume.

Company to achieve its guided volume numbers

Concor has given a guidance of 10 to 12% volume growth per annum over FY18 to FY20 with 1) improvement in the volumes at major gateway ports of the country, 2) improvement in overall trade, 3) various strategies adopted by the company to improve market share and 4) complete leveraging of the mammoth infrastructure of the company

Management is also banking on:

1) Improving relationship further with clients
2) Multimodal logistics Parks(MMLPs)
3) Double stacking (improvement of 50% possible from current levels)
4) Government projects

According to the management, the benefits of the above steps are multifold, including lower operating costs, lower imbalance and thus lower empties repositioning costs and potential to attract more volumes. Tax rate will remain low (23% in FY2018) due to section 80I benefits from commissioning of new Multimodal Logistics Park (MMLPs). Further, the company has also freight rates by up to Rs 1,000/TEU across the board from 15-May-2018.

Volume growth to remain healthy

We estimate the volumes to grow at ~10% CAGR in Exim and 7% in Domestic segment over FY18-FY20E. It is important to note that FY18 was the best year for Concor in both Exim and Domestic volumes.

Volume trend for Concor in "000" TEUs

Segment	FY15	FY16	FY17	FY18	FY19E	FY20E
Exim TEUs	2,621	2,476	2,640	3,001	3,301	3,631
YoY %	11.0	(5.5)	6.6	13.7	10.0	10.0
Domestic TEUs	489	448	459	530	562	596
YoY %	(3.5)	(8.5)	2.5	15.5	6.0	6.0
Total	3,111	2,924	3,099	3,531	3,863	4,227
YoY %	8.4	-6.0	6.0	13.9	9.4	9.4

Source: Company

Company background

Concor is public sector undertaking (PSU) with the government holding ~55% in it. Since incorporation in 1988, when it took over the existing network of Indian Railways, Concor has been the undisputed market leader in the Container Rail Segment with the largest network – 65 container terminals and around 275 rakes operating per year. Concor also provides multi-modal logistics support to both the domestic and Exim (international) trade and targets to become a one-stop logistics solution going ahead. Moreover, Concor enjoys strong operational support from Indian Railways.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**53,945**	**58,994**	**64,894**	**72,032**
% change YoY	(6.1)	9.4	10.0	11.0
EBITDA	**10,354**	**12,154**	**13,596**	**15,397**
Depreciation	3,630	3,926	3,875	4,000
EBIT	**6,724**	**8,228**	**9,721**	**11,397**
Other income	7,367	4,901	5,300	5,750
Interest cost	0	0	0	0
Profit before tax	**14,091**	**13,129**	**15,021**	**17,147**
Tax	3,346	2,453	3,305	3,649
ETR (%)	23.7	18.7	22.0	21.3
Profit after tax	**10,745**	**10,676**	**11,716**	**13,498**
Associates & Minority interest	0	0	0	0
Net income	**10,745**	**10,676**	**11,716**	**13,498**
% change YoY	8.4	-0.6	9.7	15.2
Shares outstanding (m)	487	487	487	487
EPS (reported) (Rs)	**22.1**	**21.9**	**24.1**	**27.7**
CEPS (Rs)	36.4	35.0	38.8	43.4
DPS (Rs)	8.5	7.5	8.0	8.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash	30,154	36,323	42,811	51,994
Other current assets	10,789	11,799	12,979	14,406
Inventories	0	0	0	0
LT investments	13,800	14,500	15,000	15,000
Net fixed assets	46,255	47,422	50,599	54,104
Total assets	**100,998**	**110,044**	**121,389**	**135,504**
Current liabilities	3,237	3,540	4,543	6,483
LT debt	0	0	0	0
Minority Interest	0	0	0	0
Equity Capital	2,435	2,435	2,435	2,435
Reserves	95,326	104,069	114,411	126,586
Networth	97,761	106,504	116,846	129,021
Total liabilities	**100,998**	**110,043**	**121,388**	**135,504**
BVPS (Rs)	201	219	240	265

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PAT	10,745	10,676	11,716	13,498
DTL	3,346	2,453	3,305	3,649
Depreciation	3,630	3,926	3,875	4,000
Change in working capital	(87)	(707)	(177)	513
CF from operations	**17,634**	**16,348**	**18,719**	**21,660**
Capex	(9,903)	(5,093)	(7,052)	(7,505)
(Inc)/dec in investments	(200)	(700)	(500)	-
CF from investments	**(10,103)**	**(5,793)**	**(7,552)**	**(7,505)**
Equity raised	-	-	-	-
Debt raised	-	-	-	-
Dividend Paid	(4,971)	(4,387)	(4,679)	(4,971)
Miscellanous	-	-	-	-
CF from financing	**(4,971)**	**(4,387)**	**(4,679)**	**(4,971)**
Net cash	2,559	6,169	6,488	9,183
Opening cash	27,595	30,154	36,323	42,811
Closing cash	30,154	36,323	42,811	51,994

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Sales growth (%)	(6.1)	9.4	10.0	11.0
EBITDA margin (%)	19.2	20.6	21.0	21.4
EBIT margin (%)	12.5	13.9	15.0	15.8
Net profit margin (%)	19.9	18.1	18.1	18.7
ROE (%)	15.1	12.9	13.5	13.9
ROCE (%)	11.5	10.5	10.5	11.0
DPS	8.5	7.5	8.0	8.5
Dividend Payout (%)	46.3	41.1	39.9	36.8
WC days	50.8	48.9	47.0	41.4
Debt/equity ratio(x)	-	-	-	-
PER (x)	29.6	29.7	27.1	23.5
P/C (x)	17.9	18.6	16.8	15.0
Dividend yield (%)	1.3	1.2	1.2	1.3
P/B (x)	3.2	3.0	2.7	2.5
EV/Sales (x)	5.3	4.9	4.4	4.0
EV/ EBITDA (x)	16.2	16.8	15.2	13.6

Source: Company, Kotak Securities – Private Client Research

Forthcoming Events

Forthcoming events

Date	Event
30-Jul	Chennai Pet, Escorts, GSPL, HDFC, Idea Cellular, IDFC, IDFC Bank, Shree Cement, Tech Mahindra earnings expected
31-Jul	BEL, Bludart, Castrol India, Dabur, MGL, Redington, Supreme Ind, Tata Motors, Tech Mahindra, Vedanta earnings expected
1-Aug	Apollo Tyres, Gateway Distriparks earnings expected
2-Aug	Marico, MOIL, Mold-Tek Packaging, Time Technoplast earnings expected
3-Aug	Berger Paint, Carborundum Universal, Gujarat Alkalies, VIP Industries earnings expected

Source: www.bseindia.com

Rating Scale

Definitions of ratings

BUY – We expect the stock to deliver more than 12% returns over the next 12 months

ACCUMULATE – We expect the stock to deliver 5% - 12% returns over the next 12 months

REDUCE – We expect the stock to deliver 0% - 5% returns over the next 12 months

SELL – We expect the stock to deliver negative returns over the next 12 months

NR – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.

SUBSCRIBE - We advise investor to subscribe to the IPO.

RS – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA – **Not Available or Not Applicable.** The information is not available for display or is not applicable

NM – **Not Meaningful.** The information is not meaningful and is therefore excluded.

NOTE – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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