Morning Insight

MAY 31, 2019

	30-May	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	39,832	0.8	2.1	11.1
NIFTY Index	11,946	0.7	1.7	10.7
NSEBANK Index	31,537	0.8	6.0	17.7
NIFTY 500 Index	9,815	0.6	1.6	9.6
CNXMcap Index	17,997	0.8	2.5	7.6
BSESMCAP Index	14,964	0.2	2.3	9.3
World Indices				
Dow Jones	25,170	0.2	(5.4)	(2.9)
Nasdaq	7,568	0.3	(6.5)	0.5
FTSE	7,218	0.5	(2.7)	2.0
NIKKEI	20,943	(0.3)	(6.6)	(2.8)
Hangseng	27,115	(0.4)	(8.9)	(5.5)
Shanghai	2,906	(0.3)	(5.6)	(1.1)

Value traded (Rs cr)	30-May	% Chg Day
Cash BSE	2,204	(0.3)
Cash NSE	37,269	18.0
Derivatives	2,370,654	108.6

Net inflows (Rs cr)	29-May	MTD	YTD
FII	(101)	6,759	74,981
Mutual Fund	37	6,479	3,818

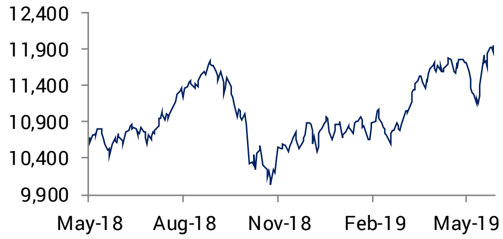
Nifty Gainers & Losers 30-May	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
NTPC	135	3.2	30.3
Bharti Airtel	347	2.3	13.9
Yes Bank	155	2.2	55.5
Losers			
Sun Pharma	413	(2.6)	9.1
Eicher Motor	19,892	(2.6)	0.1
Zee Entertainment	365	(2.0)	9.1

Advances / Declines (BSE) 30-May	A	B	T	Total	% total
Advances	248	419	58	725	100
Declines	208	539	65	812	112
Unchanged	4	20	9	33	5

Commodity	30-May	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (US$/BBL)	66.3	(0.9)	(9.0)	0.4
Gold (US$/OZ)	1,288.7	0.7	0.6	(1.7)
Silver (US$/OZ)	14.5	0.7	(3.0)	(7.1)

Debt / Forex Market	30-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.1	7.1	7.4	7.4
Re/US$	69.9	69.8	69.6	70.7

Nifty



Source: Bloomberg

News Highlights

- **Dewan Housing Finance Limited (DHFL)** has informed the stock exchanges that it will not be able to furnish the audited standalone and consolidated financial statements for FY19 within the time stipulated by SEBI norm. (Moneycontrol)
- **Jet Airways (India) Ltd** said that the airline is not in position to consider and approve the audited financial result for the financial year that ended on 31 March. (Livemint)
- After being granted a lifeline from the country's largest insurer, the erstwhile state-run lender, **IDBI Bank** is now planning to turn to the Reserve Bank of India (RBI) for some forbearance to bring its house in order. (Moneycontrol)
- Railways, roads and highways sector are to get the largest chunk of investment over the next five years as the government is expected to spend Rs 30 trillion in the transport sector in India, market research firm ICRA said. (ET)
- Debt-hit Jaypee Infratech's Committee of Creditors (CoC), in a meeting held on Thursday, have decided to put the revised bid of state-run **NBCC** to acquire the realty developer on vote from Friday. (ET)
- State-owned **Hindustan Copper Ltd** is eyeing acquisition of lithium reserves overseas. The acquisition will be made through its joint venture arm, Khanij Bidesh India Ltd (KABIL). (Hindu)
- The National Company Law Tribunal (NCLT) on Thursday approved **Tata Steel's** Rs 8.0 bn bid for Bhushan Energy, a unit that belonged to the Delhi-based Singal family. Bhushan Energy would be Tata Steel's second acquisition of an insolvent firm from the Singal family. In May last year, Tata Steel had acquired Bhushan Steel for Rs 352 bn through the Insolvency and Bankruptcy Code (IBC) route. (FE)
- **Tata Teleservices (Maharashtra)** will be seeking shareholders' approval to raise additional funds of up to Rs 350 bn through a mix of redeemable preference shares to the promoters and/or non-convertible debentures (NCDs). (FE)
- Companies across sectors such as durables, automobiles and real estate have been lobbying hard for a goods and services tax (GST) cut as the Narendra Modi-led National Democratic Alliance prepares for a second term in office. Durable firms said the issue of rationalising the tax rate of products such as air conditioners and larger television sets, which sit in the 28 per cent tax bracket, has been on the government's table for long. (BS)

What's Inside

- **Result Update**: Aegis Logistics Ltd, Himatsingka Seide Ltd, Mold-Tek Packaging Limited, Asian Granito and Talbros Automotive 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

AEGIS LOGISTICS LTD

Result Update

PRICE RS.225 TARGET RS.270 BUY

Healthy topline growth at Rs 18.53 bn (+48% YoY), highest ever absolute EBIDTA of Rs 1.031 bn, announcement of new facility at Kandla and expansion of current facilities were the highlights of the results for the current quarter. We continue to have a BUY rating on Aegis with an increased TP of Rs 270 (from Rs 250) at 24x FY21E earnings

Key Highlights

- Aegis has reported total sales at Rs 18.53 (+48% YoY) led by strong performance of the gas division, which reported revenue of Rs 18.07 bn (+42%). Even performance of the liquid division was robust with revenue of Rs 484 mn (+5.2% YoY).
- Company reported its highest ever absolute EBIDTA of Rs 1.031 bn. Operating margin was stable at 5.6%.
- Effective tax rate was higher at 18% during the quarter as the company took lower benefit of MAT credit available.
- Consequently company PAT of Rs 702 mn ahead of our estimate of Rs 675 mn
- Company has announced a final dividend for Rs.0.9 per share. Total dividend for the year is Rs.1.4 per share.
- We interpret the numbers as strong
- Strong infrastructure, locational advantage and strong customer relationship should enable the company to deliver healthy volume and revenue growth. The ruling NDA resuming power at the center should help the company with continuation of schemes like Ujwala.

Stock Details

Market cap (Rs mn)	:	75067
52-wk Hi/Lo (Rs)	:	279 / 170
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	171,012
Shares o/s (mn)	:	334

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	56,158	65,244	75,296
Growth (%)	17.2	16.2	15.4
EBITDA	3,709	4,678	5,407
EBITDA margin (%)	6.6	7.2	7.2
PAT	2,522	3,158	3,698
EPS	7.6	9.5	11.1
EPS Growth (%)	17.7	25.2	17.1
BV (Rs/share)	38.8	46.7	56.0
Dividend/share (Rs)	1.4	1.5	1.8
ROE (%)	19.5	20.2	19.8
ROCE (%)	18.3	20.6	20.8
P/E (x)	30.1	24.0	20.5
EV/EBITDA (x)	20.4	16.1	14.0
P/BV (x)	5.9	4.9	4.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	60.6	60.6	60.6
FII	11.9	11.9	11.7
DII	2.7	2.7	2.7
Others	24.8	24.8	25.0

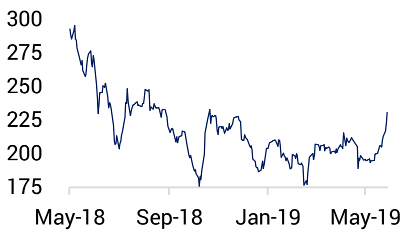
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Ageis Logistics Ltd	15.2	13.0	6.8
Nifty	1.7	10.7	9.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Quarterly Snapshot (Consolidated)

Rs mn	Q4FY18	Q1FY19	Q4FY19	QoQ (%)	YoY (%)
Sales	**12,519**	**10,169**	**18,526**	**40.3**	**48.0**
Raw material cost	11312	8906	16905	43.7	49.4
Employee cost	157	98	149	19.2	-5.1
Other expenses	352	300	441	13.4	25.3
Total Expd	11821	9304	17495	42.5	48.0
EBIDTA	**698**	**865**	**1031**	**11.3**	**47.7**
EBIDTA %	5.6	8.5	5.6	-20.6	-0.2
Depreciation	133	121	131	1.6	-1.5
Interest cost	36	65	72	41.2	100.0
Other income	40	12	37	208.3	-7.5
PBT	**569**	**691**	**865**	**14.1**	**52.0**
Taxes	24	98	163		
ETR (%)	4.2	14.2	18.8		
PAT	**545**	**593**	**702**	**7.7**	**28.8**
Equity	334	334	334	0.0	
EPS	**1.6**	**1.8**	**2.1**	**7.7**	**28.8**

Source: Company

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Expansion of liquid capacity at Kandla

Company has approved a further expansion at Kandla of 40000 kiloliters of liquid facility. This will require a capex Rs. 250 mn with completion expected by Q3FY20. Management is estimating an incremental revenue of around Rs.80 mn per year of revenues on an annualized basis with an EBITDA margin of 90%. Aegis is bullish about liquid market prospects in Kandla.

LPG facility at Kandla announced in Q4FY19

Aegis has also approved Rs 3.5 bn LPG facility with a static capacity of 45000 MT and a through put capacity of 4 mn MT in Kandla. Completion is expected by H2FY21. Aegis is bullish about LPG prospects in Kandla. The facility at Kandla would be connected to Kandla- Gorakhpur Pipeline and is estimated to serve the East and North parts of the country. The facility is expected to boost the revenues and earnings from FY22E

Kandla-Gorakhpur pipe line construction began in February 2019

IOCL is building the longest LPG pipeline in India of 2,650km from Kandla port to Gorakhpur via Central India with an investment of Rs 90 bn. The main pipeline would also have additional feeder lines of Pipavav-Ahmedabad and Dahej-Koyali. The proposed pipeline could be operational by 2023 with a capacity of around 6mmtpa.The pipeline would pass through IOC's bottling plants at Allahabad, Lucknow, Kanpur, We estimate deficit between indigenous supply and demand of LPG to linked to IOCL's bottling plants is expected to reach a level of about 25 mmtpa by FY30. Considering the aforementioned deficit figures for LPG, it is essential to import LPG at the nearest port (from Gulf) and then transport it to the bottling plants through the most economical modes. We believe the pipeline will benefit LPG terminal operators given its large capacity. Aegis could leverage this with its existing terminal in Pipavav and also by constructing a new terminal at Kandla

Infrastructure is the key for Aegis

Aegis currently has three operational LPG terminals with static capacity of around 63,000mt and throughput capacity of around 5.0 mmtpa. In FY18, Aegis doubled its static capacity to 63,300 MMT (and quadruple its throughput capacity to 5 mn MMT) with an investment of Rs 3.68 bn. The company intends to create further infrastructure on strategic locations, which would have a good water draft capable of handling a Very Large Gas Carrier (VLGC) and would have train and pipeline hinterland connectivity. We estimate the company to double its through-put capacity from here to 10 mmtpa with an investment of Rs 10-12 bn over the next 5/6 years. A capacity of 10 mmtpa would enable the company to capture a market share of around 40% in the LPG import business. Aegis is also a leading liquid terminal operator with six terminals strategically located Pan India with a total capacity of 689,000 KL. Strong infrastructure, locational advantage and strong customer relationship should enable the company to deliver healthy revenue growth.

Valuation and outlook

Aegis would be one of the largest beneficiaries of LPG and POL demand in the country over the next few years. To sustain its historic growth momentum, the company has created massive infrastructure sufficient for 5 years of growth. Going forward we estimate the company to continue with its growth trajectory and record higher profitability and as significant capex is completed. With improvement in volumes and utilization of its new and existing terminals, we estimate the return ratios of the company to improve going forward implying sustainable premium multiples compared to global companies. We maintain estimates and roll-over our target price to FY21. We continue to have a BUY rating on Aegis with an increased TP of Rs 275 (from Rs 250) at 24x FY21 earnings. We forecast EBITDA CAGR of 27% and EPS CAGR of 21% during FY19-21E.

Company background

Aegis Logistics is a leading liquid (oil & chemicals) and gas terminal operator engaged in the handling of oil & LPG products, and the sourcing, retailing and distribution of LPG. This requires specialized infrastructure at key ports such as specialized berths, fire-fighting equipment, pipelines, transit storage and handling facilities. The segment has high entry barriers in the form of government approvals, relationships with customers, available land parcels at key ports and operational complexity. The company has two key segments: liquid and gas. The revenue model is to charge handling, throughput and storage fees for both the gas and liquid segments. Aegis also offers services like gas sourcing, O&M and distribution.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**47,910**	**56,158**	**65,244**	**75,296**
% change YoY	21.9	17.2	16.2	15.4
Opex	43,545	50,380	58,162	67,067
Employee cost	471	516	670	791
Other expenses	1,234	1,553	1,733	2,031
Total Operating expd	45,250	52,449	60,566	69,889
EBITDA	**2,660**	**3,709**	**4,678**	**5,407**
Depreciation	340	506	520	563
EBIT	**2,320**	**3,203**	**4,158**	**4,844**
Other income	84	82	110	120
Interest expense	152	261	220	223
Profit before tax	2,252	3,024	4,049	4,741
Tax	110	502	891	1,043
ETR (%)	4.9	16.6	22.0	22.0
Profit after tax	**2,142**	**2,522**	**3,158**	**3,698**
Minorities& Associates	0	0	0	0
Net income	**2,142**	**2,522**	**3,158**	**3,698**
% change YoY	61.2	17.7	25.2	17.1
Shares outstanding (m)	334	334	334	334
EPS	**6.4**	**7.6**	**9.5**	**11.1**

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash	2,901	4,183	6,622	7,034
Debtors	3,469	4,212	4,893	5,647
Inventory	260	303	356	408
Other current assets	2,020	2,616	2,934	3,285
Total current assets	5,749	7,130	8,183	9,341
LT investments	91	100	100	100
Net fixed assets	11,768	12,856	14,337	15,774
Total assets	**20,509**	**24,269**	**29,242**	**32,250**
Creditors	3,788	5,358	7,545	7,282
Provisions	135	150	150	150
Other current liabilities	545	772	854	959
Total current liabilities	4,468	6,281	8,548	8,391
LT debt	4,399	4,334	4,394	4,461
Minority Interest	697	700	700	700
Equity Capital	334	334	334	334
Reserves	10,611	12,620	15,265	18,364
Networth	10,945	12,954	15,599	18,698
Total liabilities	**20,509**	**24,269**	**29,242**	**32,250**
BVPS (Rs)	32.8	38.8	46.7	56.0

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PAT	2,142	2,522	3,158	3,698
Non Cash	340	556	609	667
Change in working capital	317	432	1,215	(1,316)
Cash flow from operations	**2,799**	**3,510**	**4,982**	**3,050**
Capex	(3,803)	(1,594)	(2,000)	(2,000)
Investments	(13)	(9)	-	-
Cash flow from investments	**(3,816)**	**(1,603)**	**(2,000)**	**(2,000)**
Equity issuance	-	-	-	-
Debt raised	786	(65)	60	67
Dividend Paid	(342)	(563)	(603)	(704)
Miscellanous items	405	3	-	-
Cash flow from financing	**849**	**(625)**	**(543)**	**(637)**
Net cash flow	(168)	1,282	2,439	413
Opening cash	3,069	2,901	4,183	6,622
Closing cash	**2,901**	**4,183**	**6,622**	**7,034**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	5.6	6.6	7.2	7.2
EBIT margin (%)	4.8	5.7	6.4	6.4
Net profit margin (%)	4.5	4.5	4.8	4.9
ROE (%)	19.6	19.5	20.2	19.8
ROCE (%)	15.0	18.3	20.6	20.8
DPS	0.9	1.4	1.5	1.8
Dividend payout (%)	16.0	22.3	19.1	19.0
Working capital turnover (days)	11.0	6.9	1.4	1.4
Debt Equity (x)	0.4	0.3	0.3	0.2
PER (x)	35.4	30.1	24.0	20.5
P/C (x)	30.4	24.6	20.1	17.4
Dividend yield (%)	0.4	0.6	0.7	0.8
P/B (x)	6.9	5.9	4.9	4.1
EV/Sales (x)	1.6	1.4	1.2	1.0
EV/ EBITDA (x)	28.2	20.4	16.1	14.0

Source: Company, Kotak Securities – Private Client Research

Result Update

HIMATSINGKA SEIDE LTD (HSL)

PRICE RS.200 **TARGET RS.290** **BUY**

HSL Q4FY19 consolidated revenue and PAT were ahead of estimates while EBITDA margin was below our estimates.

Key Highlights

- Strong growth of 22.6% yoy in Q4FY19 consolidated net revenues was driven by robust growth in brand sales led by contribution from acquisition of new brands. In FY19, the company reported 40% yoy growth in revenue from brands which stood at Rs 22.5 bn.
- EBITDA margins (including OI) for the quarter declined by 270 bps yoy to 20.3% (from 23%) due to change in product mix, higher employee and other expenses. Higher other expenses was on account of non-linearity in the marketing expenses in certain brands on quarterly basis. As per the company, there was headwinds in luxury brands in Europe which took off some margins.
- As per management, FY20E will again be year of consolidation as its terry towel facility which is under trial run will begin commercial production from H1FY20 end. Apart from organic growth of mid-single digit, acquisition of new licenses and contribution from towel facility will drive revenue growth in the next two years.
- The company believes that EBITDA will be range bound in FY20E. Higher raw material prices may take away some benefits from increased duty incentives in FY20E.

Valuation & outlook

We believe that higher raw material prices and lower realization will partially offset benefits from increased incentives in the EBITDA margin for FY20E. We have cut our margin estimates for FY20E and FY21E by 100-120 bps resulting in 8-9% reduction in our EPS estimates for FY20E-21E. Based on FY20E/21E revised EPS of Rs 22.3/27.5, the stock is trading at PE of 9x/7.3x, respectively. We maintain Buy on the stock with unchanged target price of Rs 290, valuing the stock at 10.5x FY21E EPS (as we roll forward to FY21E).

Quarterly performance table (Consolidated)

Year to March (INR Mn.)	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg
Net Revenues	**6,909**	**5,634**	**22.6**	**6,782**	**1.9**
Raw Materials Cost	3,531	2,964	19.1	3,077	14.8
Gross Profit	3,378	2,671	26.5	3,706	(8.8)
Employee Expenses	676	474	42.7	632	7.1
Other Expenses	1,316	957	37.5	1,394	(5.6)
Operating Expenses	5,523	4,395	25.7	5,102	8.3
EBITDA	**1,386**	**1,240**	**11.8**	**1,681**	**(17.6)**
EBITDA margin	20.1%	22.0%		24.8%	
EBITDA (including OI)	1,404	1,312	7.1	1,511	(7.0)
EBITDA margin (Incl OI)	20.3%	23.0%		22.8%	
Depreciation	288	205	40.7	274	5.2
Other income	19	72	(73.9)	(170)	(111.1)
Net finance expense	449	319	40.9	410	9.4
Profit before tax	**667**	**788**	**(15.4)**	**827**	**(19.3)**
Provision for taxes	184	285	(35.6)	184	-
Reported net profit	**484**	**503**	**(3.9)**	**643**	**(24.8)**
NPM%	7.0	8.9		9.5	
Tax rate (% of PBT)	27.5	36.1		22.2	

Source: Company

Stock Details

Market cap (Rs mn)	:	19554
52-wk Hi/Lo (Rs)	:	361 / 161
Face Value (Rs)	:	5
3M Avg. daily vol (nos)	:	160,744
Shares o/s (mn)	:	98

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	26,177	28,647	31,294
Growth (%)	16.4	9.4	9.2
EBITDA	5,433	6,266	7,059
EBITDA margin (%)	20.8	21.9	22.6
PAT	1,968	2,199	2,709
EPS	20.0	22.3	27.5
EPS Growth (%)	(2.4)	11.7	23.2
Book value (Rs/share)	144.3	162.6	185.0
Dividend per share (Rs)	5.0	4.1	5.0
ROE (%)	14.9	14.6	15.8
ROCE (%)	11.3	11.0	12.3
P/E (x)	10.0	9.0	7.3
P/BV (x)	1.4	1.2	1.1
EV/EBITDA (x)	8.3	7.1	5.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	47.6	47.6	47.6
FII	7.1	9.2	11.4
DII	13.6	13.6	12.1
Others	31.8	29.7	28.9

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Himat Singka	(7.2)	18.7	(7.6)
Nifty	1.7	10.7	9.8

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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Revenue better than estimates

The consolidated net revenue for the quarter grew by 22.6% yoy to Rs 6.9 bn (Vs estimates of 6.78 bn). The revenue growth was driven by strong growth in brand business, driven by contribution from acquisition of the new brands. Besides this, sweating of new capacities also resulted in growth. However, lower realization due to change in product mix partly offset the volume growth. The integration of acquired licenses for Tommy Hilfiger Home brand was completed in FY19. The revenue from the brand was inline on pro-rata basis, as the acquisition was made in Q1FY19. License for Tommy Hilfiger Home brand (for North America), The Copper Fit Brand and other brands reported consolidated annual revenue of approx USD 60-65 mn in FY18, prior to acquisition.

In FY19, the company reported 40% yoy growth in revenue from brands which stood at Rs 22.5 bn. In Q4FY19, the company strengthened its brand portfolio by entering into an exclusive licensing agreement with the Iconix Brand Group, Inc. for the Royal Velvet brand. The licensing rights is for of North America. As per the company, there is strong growth potential in the brand. We expect high single digit growth in revenue for the next two years based on volume growth in bed linen business, contribution from new terry capacity and new brand licenses acquired in the last one year. In terms of geography, HSL is looking to strengthen its business from new geographies. As per management, the contribution from European market and other geographies is expected to increase in FY20E with US market expected to maintain its performance.

EBITDA below our estimates

EBITDA (including other income) grew by 7.1% yoy to Rs 1.4 bn mn with EBITDA margins (including OI) for the quarter declined by 270 bps yoy to 20.3%. The EBITDA margins declined due to change in product mix, higher employee and other expenses. Higher other expenses was on account of non-linearity in the marketing expenses in certain brands on quarterly basis. As per the company, there was headwinds in luxury brands in Europe which took off some of its margins. PAT for the quarter declined by 3.9% yoy to Rs 484 mn (Vs estimates of Rs 462 mn). On the raw material front, cotton prices have increased and further trend will depend upon global prices and final rain fall in the season. Further, the company intends to reduce its debt in the longer run as its major capex plan is on verge of completion and working capital would also stabilize in FY20E.

FY20E will be year of consolidation

As per the management, FY20E will again be year of consolidation as its terry towel facility which is under trial run will begin commercial production from H1FY20 end. Apart from organic growth of mid-single digit, acquisition of new licenses and contribution from new towel facility will drive revenue growth for the next two years. As per the management, EBITDA margins are expected to remain range bound. The company also expects that the benefit from increased government incentives for FY20E, would partially be offset by increased input price.

Other highlights

- The company has commenced trial production at new Terry Towel plant, in Hassan, Karnataka, from February 20, 2019. As per management, the plant is expected to commence commercial production in H1FY20.
- HSL has launched a new brand, Himeya, for bedding and bath products to focus on addressing the Indian market.
- The company had net debt/equity at 1.7x (Vs 1.63x) with net debt excluding capital work in progress was at 1.46 (Vs 1.59x) Q4FY19 end. It has net debt of Rs 24.2 bn at the end of the year.
- The company incurred Rs 6bn capex in FY19 and has balance capex of Rs 1 bn related to ongoing expansion, apart from regular maintenance capex for FY20E.
- Working capital has peaked out in terms of inventory built-up in H1FY19 and has reduced marginally in H2FY19.
- Capacity utilization was stable in H2FY19 and expected to improve in FY20E. But realization has come down due to change in product mix.

Outlook and valuation

Going forward, top priority of the company is to consolidate its home textiles portfolio as well as sweating its new capacities in terry towel and bed linen. In addition, based on improved cash flows, the company will target to reduce its debt and will also continue with exploring strategic opportunities in terms of licensing of brands.

We expect company's sales, EBITDA and PAT to grow at a CAGR of 9.3%, 14% and 17.3%, respectively with 180bps improvement in EBITDA margins in FY19-21E. This is based on 1) increased contribution from integration of new brands and licenses added by the company, 2) contribution from increased sheeting capacity, 3) revenue from towel facility, 4) contribution from all geographies and 5) benefits from recent incentives by the government for made-ups exports.

We believe that higher raw material prices and lower realization will partially be offset by benefits from increased incentives in the EBITDA margin for FY20E. We have cut our margin estimates for FY20E and FY21E by 100-120 bps resulting in 8-9% reduction in our EPS estimates for FY20E-21E. Based on FY20E/21E revised EPS of Rs 22.3/27.5, the stock is trading at PE of 9x/7.3x, respectively. We maintain Buy on the stock with unchanged target price of Rs 290, valuing the stock at 10.5x FY21E EPS (as we roll forward to FY21E).

Revision in estimates

Particulars (Rs mn)	Previous est			Actual	Revised est		% Change		New
	FY19E	FY20E	FY21E	FY19A	FY20E	FY21E	FY19A	FY20E	FY21E
Revenue	26036	28515	31163	26177	28647	31294	0.5	0.5	0.4
EBITDA margin (%)	21.8	23.0	23.5	20.8	21.9	22.6	(100) bps	(110) bps	(100) bps
PAT	1947	2387	2964	1968	2199	2709	1.1	(7.9)	(8.6)
EPS (Rs)	19.8	24.2	30.1	20.0	22.3	27.5	1.1	(7.9)	(8.6)

Source: Kotak Securities Private Client Research

Company Background

Himatsingka Seide, founded in 1985, is a vertically integrated home textile player. It manufactures, retails and distributes bedding, bath, drapery, upholstery and lifestyle accessory products. In terms of operations, the company's business is divided into manufacturing and retail & distribution. The company has manufacturing facilities in India and has retail and distribution businesses in North America, Europe and Asia. Earlier, the company was earlier present only in manufacturing of silk and silk blended fabrics for drapery and upholstery segment. In 2003, it launched luxury home furnishing brand 'Atmosphere' in India. Further in 2005, it commenced construction of the vertically integrated greenfield bed linen manufacturing facility at Hassan, Karnataka. In 2007, HSL moved one step further, by entering into distribution of brands in overseas market through acquisition. Based on acquisitions made by the company over the years, it presently holds licenses for leading brands such as Calvin Klein Home, Tommy Hilfiger Home, Barbara Barry, Royal Velvet, etc. With over 12 brands, the company has amongst the largest portfolio of home textiles brands with an annual revenue of over Rs 22 bn.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**22,491**	**26,177**	**28,647**	**31,294**
% change yoy	5.2	16.4	9.4	9.2
EBITDA	**4,486**	**5,433**	**6,266**	**7,059**
% change yoy	18.8	21.1	15.3	12.7
Depreciation	719	1,088	1,561	1,782
EBIT	**3,766**	**4,346**	**4,705**	**5,277**
Other Income	176	366	366	366
Interest	1,038	1,631	1,788	1,659
Profit Before Tax	**2,905**	**3,080**	**3,282**	**3,984**
% change yoy	21.4	6.0	6.6	21.4
Tax	888	1,112	1,083	1,275
as % of EBT	30.6	36.1	33.0	32.0
PAT	**2,016**	**1,968**	**2,199**	**2,709**
% change yoy	10.7	(2.4)	11.7	23.2
Shares outstanding (mn)	98	98	98	98
EPS (Rs)	**20**	**20.0**	**22.3**	**27.5**
DPS (Rs)	2.5	5.0	4.1	5.0
CEPS (Rs)	27.8	31.0	38.2	45.6
BVPS (Rs)	124.7	144.3	162.6	185.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	492	492	492	492
Reserves	11,783	13,718	15,514	17,727
Net worth	12,275	14,211	16,007	18,219
Borrowings	22,552	27,911	27,411	23,911
Other net liabilities/ Net def. tax	675	1,532	1,531	1,531
Total Liabilities	**35,503**	**43,653**	**44,948**	**43,661**
Net block	16,210	17,672	23,450	23,168
Capital work in progress	322	6,340	1,000	500
Total fixed assets	16,532	24,012	24,450	23,668
Goodwill	6,144	6,144	6,144	6,144
Investments	1,256	1,234	1,234	1,234
Inventories	9,903	11,760	12,557	12,861
Sundry debtors	991	1,663	1,805	1,800
Cash and Bank balance	1,347	2,512	2,759	2,302
Loans and advances & Others	4,194	3,030	3,333	3,667
Total current assets	16,435	18,965	20,455	20,630
Sundry creditors and others	4,527	6,481	7,093	7,748
Provisions	338	221	243	268
Total CL & provisions	4,865	6,702	7,336	8,016
Net current assets	11,570	12,263	13,120	12,614
Total Assets	**35,503**	**43,653**	**44,948**	**43,661**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	2,905	3,080	3,282	3,984
Depreciation	719	1,088	1,561	1,782
Change in WC	(3,289)	472	(609)	48
Other operating activities	1,917	(257)	(1,083)	(1,275)
Operating Cash Flow	**2,252**	**4,383**	**3,151**	**4,539**
Capex	(9,552)	(8,567)	(2,000)	(1,000)
Free Cash Flow	(7,300)	(4,184)	1,151	3,539
Change in Investments	(1,255)	22	-	-
Investment cash flow	**(10,806)**	**(8,545)**	**(2,000)**	**(1,000)**
Equity Raised	-	-	-	-
Debt Raised	8,479	5,359	(500)	(3,500)
Dividend & others	(414)	(33)	(403)	(497)
CF from Financing	**8,065**	**5,326**	**(903)**	**(3,997)**
Change in Cash	(489)	1,165	248	(457)
Opening Cash	1,836	1,347	2,512	2,759
Closing Cash	1,347	2,512	2,759	2,302

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability Ratios				
EBITDA margin (%)	19.9	20.8	21.9	22.6
EBIT margin (%)	16.7	16.6	16.4	16.9
Net profit margin (%)	9.0	7.5	7.7	8.7
Adjusted EPS growth (%)	10.7	(2.4)	11.7	23.2
Balance Sheet Ratios:				
Receivables (days)	16	23	23	21
Inventory (days)	161	164	160	150
Loans & Advances	68	42	42	43
Payable (days)	73	90	90	90
Cash Conversion Cycle	171	139	135	123
Asset Turnover	0.7	0.6	0.7	0.7
Net Debt/ Equity	1.6	1.7	1.5	1.1
Return Ratios:				
RoCE (%)	12.8	11.3	11.0	12.3
RoE (%)	17.6	14.9	14.6	15.8
Valuation Ratios:				
P/E (x)	9.8	10.0	9.0	7.3
P/BV (x)	1.6	1.4	1.2	1.1
EV/EBITDA (x)	9.1	8.3	7.1	5.9
EV/Sales (x)	1.8	1.7	1.5	1.3

Source: Company, Kotak Securities – Private Client Research

Result Update

MOLD-TEK PACKAGING LTD (MTPL)

PRICE RS.250 **TARGET RS.299** **BUY**

The MTPL Q4FY19 revenue and EBITDA was in line with estimates, but PAT was above due to tax write back. The company reported 70 bps sequential expansion in EBITDA margin, driven by an increased contribution from Food & FMCG (F&F) segment.

Stock Details

Market cap (Rs mn)	:	6934
52-wk Hi/Lo (Rs)	:	373 / 202
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	22,254
Shares o/s (mn)	:	27.7

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	4,057	4,789	5,153
Growth (%)	13.4	18.0	7.6
EBITDA	703	814	940
EBITDA margin (%)	17.3	17.0	18.2
PAT	319	388	460
EPS	11.5	14.0	16.6
EPS Growth (%)	14.7	21.4	18.6
BV (Rs/share)	69	78	90
Dividend/share (Rs)	4.0	4.0	4.0
ROE (%)	16.7	17.8	18.4
ROCE (%)	16.7	16.5	17.1
P/E (x)	21.7	17.9	15.1
EV/EBITDA (x)	11.4	9.9	7.4
P/BV (x)	3.6	3.2	2.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	35.6	35.6	35.6
FII	12.1	12.1	8.3
DII	11.0	11.0	12.6
Others	41.4	41.4	43.6

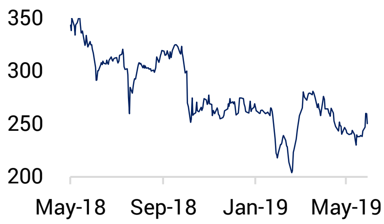
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Mold-Tek Packaging	1.5	(0.6)	(7.2)
Nifty	1.7	10.7	9.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Key Highlights

- IML/Non-IML volume contribution stood at ~60%/40% in Q4FY19. The higher contribution of IML was supported by strong demand in in edible oil (square IML pail) and dairy packs (ice-cream and ghee).
- During the quarter, the company shut RAK operations, which led to Rs115 mn write-off (Rs100 mn equity value and Rs15 mn receivables). In FY19, RAK operations generated sales of Rs130 mn and EBITDA of Rs175 mn and reported loss of Rs393 mn. A write-off of Rs 15mn is expected in FY20.
- Management is guiding 27,700 tonnes of production in FY20E (3,000 tonnes from new plants). Besides this, incremental sales volume contribution from FMCG segment support our investment argument. We expect volume to grow at 17% and 15% in FY20E and FY21E, respectively.
- Management indicate, a breakthrough in HUL and Hatsun for ice-cream packs will add Rs250 mn - 300 mn to the revenue in FY20E.

Valuation & outlook

Given the backward integrated operations, leadership in IML packaging, increasing share of F&F (high margin) segment and contribution from the new facilities, MTEP is capable to capitalize the opportunities offered by different segments. During Q4FY19, contribution from F&F stands at 24% (supported by execution of Mondelez order, edible oil pack, etc) and is expected to grow further, given the strong order book. We have revised our estimates for FY20E to Rs14 (earlier Rs13.1) and introducing FY21E with an estimates of Rs16.6. We reiterate BUY rating, with a revised target price of Rs299 (earlier Rs260), as we roll forwards our valuation multiple (18x) to FY21E earnings. At CMP, the stock is trading at 17.9x/15.1x FY20E/FY21E earnings.

Quarterly performance table

Particulars (Rs Mn)	4QFY19	4QFY18	% YoY	3QFY19	% QoQ
Net sales	**1,042**	**946**	**10.2**	**987**	**5.6**
Materials	617	564	9.3	598	3.2
Employee Expenses	112	97	15.7	107	4.7
Total Expenditure	857	781	9.7	819	4.7
EBITDA	**185**	**165**	**12.4**	**169**	**10.0**
EBITDA Margin (%)	17.8	17.4		17.1	
Depreciation	45	35	28.8	40	12.2
Interest	21	15	44.2	20	8.5
EBT	**119**	**115**	**3.4**	**109**	**9.4**
Other income	2	2	(0.9)	3	(26.7)
PBT	**121**	**118**	**3.3**	**112**	**8.3**
Provision for tax	33	49	(32.4)	36	(7.0)
PAT (reported)	**88**	**68**	**28.8**	**76**	**15.4**
NPM (%)	8.5	7.2		7.7	

Source: Company, Kotak Securities – Private Client Research

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Higher contribution from F&F, led to improvement in operating performance

Standalone volume during the quarter strong stood at 5,761kg, up 11.2% YoY and 9.9% QoQ. The growth in volume was contributed by strong growth in a square pail IML tube and F&F category. Paints/Lubricant/FMCG reported sales volume of 2,823MT/1,699MT/1,239MT respectively. F&F segment continues to deliver strong performance with revenue and volume up by ~48/68% YoY to Rs269 mn/1,205 kg, driven by strong growth momentum in edible oil (square IML pail) and dairy packs (ice-cream and ghee). This led to increase in the F&F revenue share to 24%. Ice cream contribution is expected to increase to over Rs250 mn - 300 mn in FY20E.

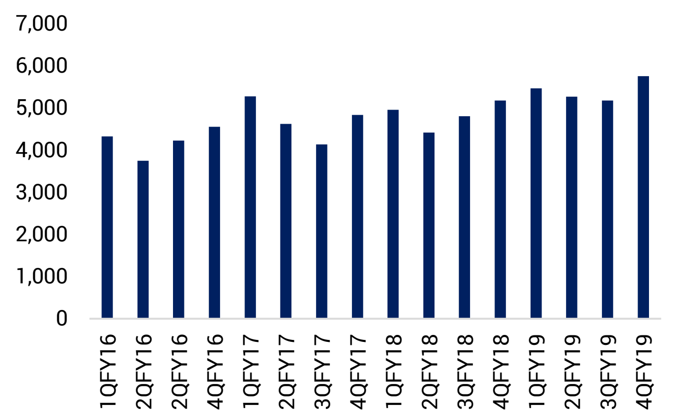
F&F contribution to inch up further

Management indicated that, they will maintain the growth and increased the share of F&F in overall mix in FY20, backed by strong growth in existing edible oil, pick up in ghee packs and a breakthrough in HUL and Hatsun for ice-cream packs

EBITDA/kg at Rs32.2

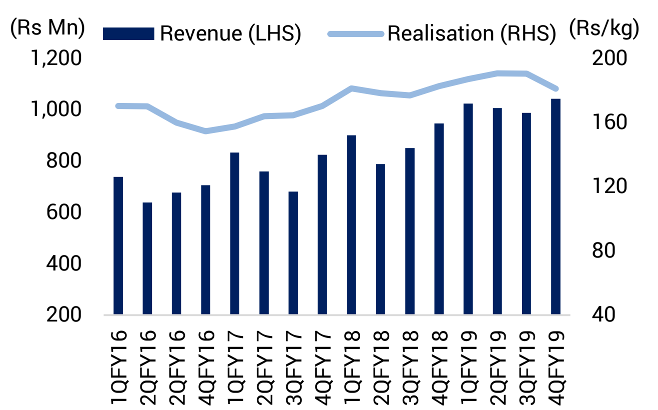
EBITDA during the quarter grew 12.4%/10% YoY/QoQ to Rs185 mn, with an EBITDA margin of 17.8%. EBITDA/T during the quarter came in at Rs32.2/kg. Though in FY20, share of IML will come down with the start of new facilities (execution of Asian Paints order – Non-IML), we expect EBITDA/kg to remain in the range of Rs32-33/kg, as higher contribution from Food and FMCG segment would minimize the net impact.

Volume trend (kg)



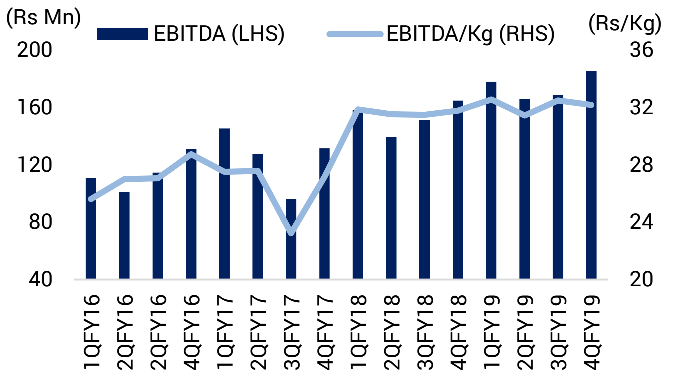
Source: Company

Revenue and realisation trend



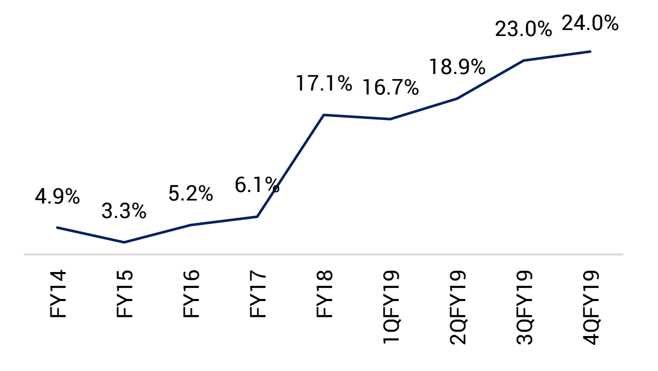
Source: Company

Increasing IML contribution supporting EBITDA/kg



Source: Company

Revenue contribution of F&F



Source: Company

RAK operations closed down

In line with the earlier commentary, the company shut the RAK plant in 4QFY19, which led to write of Rs115 mn (Rs110 mn of equity and Rs15 mn receivables). Out of 7 machines at RAK, 4 have been already shifted and are operational currently. We believe this would aid to increase in overall capacity utilization (RAK capacity was underutilized due to weak order book) and improve net profitability, as operations was loss making. In FY19, RAK operations generated sales of Rs130 mn and EBITDA of Rs175 mn and reported loss of Rs393 mn. A write-off of another Rs15 mn is expected in FY20.

Company Background

Mold-Tek Packaging is the market leader in rigid plastic packaging in India with more than 20 years of experience. It is involved in manufacturing injection molded packaging containers, primarily pails (cylindrical containers) for paints, lubricants, food and other products. The company has a world-class integrated facility, from product inception to mold designing, processing and decorating products. It has seven processing plants in India, three stock points and ~70 molding machines.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Net sales	**3,577**	**4,057**	**4,789**	**5,153**
growth (%)	15.8	13.4	18.0	7.6
Operating expenses	2,961	3,354	3,975	4,213
EBITDA	**615**	**703**	**814**	**940**
growth (%)	24.6	14.3	15.8	15.5
Depreciation	132	161	168	180
EBIT	**484**	**542**	**646**	**760**
Other income	10	11	17	18
Interest paid	46	76	81	88
Exceptional Items	0	0	0	0
PBT	**447**	**478**	**582**	**690**
Tax	169	159	194	231
Effective tax rate (%)	38	33	33	33
Net profit	**278**	**319**	**388**	**460**
Minority interest	0	0	0	0
Reported Net profit	278	319	388	460
growth (%)	14.7	14.7	21.4	18.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash & Bank balances	10	9	14	23
Other Current assets	1,473	1,305	1,552	1,654
Investments	103	97	97	97
Net fixed assets	1,477	2,041	2,476	2,906
Other non-current assets	76	101	101	101
Total assets	**3,138**	**3,553**	**4,239**	**4,780**
Current liabilities	339	475	830	1,024
Borrowings	957	1,029	1,105	1,127
Other non-current liab	104	131	134	131
Total liabilities	1,400	1,634	2,069	2,280
Share capital	138	138	138	138
Reserves & surplus	1,599	1,778	2,033	2,360
Shareholders' funds	1,738	1,917	2,171	2,498
Minority interest	0	0	0	0
Total equity & liabilities	**3,138**	**3,551**	**4,239**	**4,780**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-tax profit	447	478	582	690
Depreciation	132	161	168	180
Chg in working capital	(333)	158	(68)	(87)
Other operating activities	(133)	(84)	(114)	(144)
Operating CF	**112**	**713**	**567**	**640**
Capital expenditure	(295)	(564)	(425)	(430)
Chg in investments	9	6	0	0
Other investing activities	0	0	0	0
Investing CF	**(286)**	**(558)**	**(425)**	**(430)**
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	379	73	77	20
Dividend (incl. tax)	130	130	133	133
Other financing activities	17	52	81	88
Financing CF	**175**	**(156)**	**(138)**	**(201)**
Net chg in cash & bank bal.	1	(0)	5	9
Closing cash & bank bal	**10**	**9**	**14**	**23**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability and return ratios (%)				
EBITDAM	17.2	17.3	17.0	18.2
EBITM	13.5	13.4	13.5	14.7
NPM	7.8	7.9	8.1	8.9
RoE	16.0	16.7	17.8	18.4
RoCE	16.3	16.7	16.5	17.1
Per share data (Rs)				
EPS	10.1	11.5	14.0	16.6
CEPS	14.8	17.3	20.0	23.1
DPS	4.0	4.0	4.0	4.0
BV	62.8	69.2	78.4	90.2
Valuation ratios (x)				
PE (x)	24.9	21.7	17.9	15.1
P/BV (x)	4.0	3.6	3.2	2.8
EV/EBITDA (x)	12.8	11.4	9.9	7.4
EV/Sales (x)	2.2	2.0	1.7	1.3
Other key ratios				
D/E (x)	0.6	0.5	0.5	0.5
DSO (days)	75	68	62	62

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	7480
52-wk Hi/Lo (Rs)	:	431 / 130
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	177,564
Shares o/s (mn)	:	30

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	11,867	12,575	13,833
Growth (%)	2.7%	6.0%	10.0%
EBITDA	866	1,132	1,245
EBITDA margin (%)	7.3%	9.0%	9.0%
Net profit	209	342	405
EPS (Rs)	6.9	11.4	13.5
Growth (%)	-60.5%	63.8%	18.6%
BVPS (Rs)	149.9	160.6	173.3
DPS (Rs)	0.6	0.6	0.6
ROE (%)	4.7	7.3	8.1
ROCE (%)	7.2	9.4	10.0
P/E (x)	35.9	21.9	18.5
EV/EBITDA (x)	12.5	9.4	8.7
P/BV (x)	1.7	1.6	1.4

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	32.4	32.4	32.4
FII	2.0	2.0	3.4
DII	8.6	8.6	7.4
Others	56.9	56.9	56.6

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Asian Granito India	30.0	41.7	21.9
Nifty	1.7	10.7	9.8

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

ASIAN GRANITO INDIA LTD

PRICE RS.249 **TARGET RS.202** **SELL**

Company's results came lower than our estimates due to lower than expected margins. Realizations have started recovering YoY as well as sequentially post the NGT ban of use of coal gasifiers. Gas prices have also come down on YoY basis so benefit should start getting reflected from next quarter. Company's focus going forward will be on expanding capacity in premium segments and entry in Sanitaryware and CP fitting. Acceptability of price hikes is likely to be watched out closely going forward along with demand improvement.

Key highlights

Asian Granito revenue for Q4FY19 was in line with our estimates with price hikes seen across most categories. But overall volumes were down by 14.3% YoY for the quarter. Operating margins declined sharply on yearly basis to 6.5% due to higher gas prices and higher other expenditure. Net profit performance stood lower than our expectations and was impacted by fall in margins and higher tax rate.

Valuation and recommendation

Stock is currently trading at valuations of 21.9x and 18.5x on FY20 and FY21 estimates respectively. We tweak our estimates and arrive at a revised price target of Rs 202 based on 15x FY21 estimated earnings (Rs 150 earlier based on 13x FY20 estimates). Though organized players have witnessed a re-rating in valuation multiples after ban on usage of coal gasifiers, we believe that AGL will continue to trade at a sharp discount to leaders in the sector due to lower margins, lower return ratios, higher working capital cycle as well as smaller reach as compared to leaders and current valuations are already factoring in the volume and margin improvement going forward. We thus continue to maintain SELL rating on the stock.

Consolidated financial highlights

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	**3692**	**3916**	**-5.7%**	**2962**	**24.6%**
Total Expenditure	3451	3553	-2.9%	2722	26.8%
EBITDA	**241**	**363**	**-33.7%**	**240**	**0.5%**
EBITDA %	6.5%	9.3%		8.1%	
Depreciation	67	71		75	
EBIT	**174**	**292**	**-40.4%**	**165**	**5.5%**
Interest	106	83		87	
EBT (Exc other income)	68	209	-67.6%	78	-12.7%
Other Income	22	5		10	
EBT	**89**	**215**	**-58.4%**	**88**	**1.9%**
Tax	34	42		38	
Tax %	37.6%	19.7%		43.5%	
PAT	**56**	**172**	**-67.6%**	**50**	**12.5%**
Minority Interest After NP	6	10		13	
Profit/Loss of Associate Company	8	6		10	
Net profit	**58**	**168**	**-65.6%**	**46**	**25.5%**
Equity	300.9	300.9		300.9	
EPS	**1.9**	**5.6**	**-65.6%**	**1.5**	**25.5%**

Source: Company

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Revenue growth in line with our estimates

Asian Granito revenue for Q4FY19 was in line with our estimates and it was largely led by pricing gains across segments. Overall volumes were down by 14.3% YoY for the quarter. Outsourced tile volume was down by 25.4% YoY and own manufactured tile volumes were down by 25.3% YoY while JV volumes were up by 28.5% YoY. Volumes have now started recovering post the NGT ban on usage of coal gasifiers as organized players are now able to increase their market share as they are already on gas. Company expects volume growth momentum to improve going forward.

Average realizations stood at Rs 322 per sq m, up 3% YoY and sequentially realizations have improved by 3.7% led by price hikes taken by the company and also on account of higher contribution from sale of high value products.

With an aim to provide 'Complete Bathroom Solutions' under one roof, company has decided to venture into Sanitaryware. Company is entering the Sanitaryware segment with 160 SKUs in products including Wash Basins, Water Closets (WC), and Urinals and commercial Launch of 'AGL Sanitaryware' is expected by June 2019 across India.

Segmental details on revenue and volumes

	Q4FY18	Q4FY19
Revenues (Rs mn)		
Own manufacturing	1688.9	1260
Outsourcing	1457.6	1210
Associate	706.9	930
Volumes (MSM)		
Own manufacturing	4.39	3.28
Outsourcing	5.39	4.02
Associate	2.53	3.25
	12.31	10.55
Realization (Rs/msm)		
Own manufacturing	385	384
Outsourcing	270	301
Associate	279	286
Average	**313**	**322**

Source: Company, Kotak Securities – Private Client Research

Company has mentioned that demand for quartz has remained quite strong and quartz realization also remained strong in domestic and exports market. Third line of Camrolla Quartz has also commissioned and company expects 85% capacity utilization next year from the quartz division.

We tweak our estimates and expect revenues to grow at a CAGR of 8% between FY19-21.

Lower than expected margins led to net profits coming below our estimates

Operating margins declined sharply on yearly basis to 6.5% due to higher gas prices and higher other expenditure. Net profit performance stood lower than our expectations and was impacted by fall in margins and higher tax rate.

Power cost as a percentage of sales has come down sequentially as gas prices have witnessed correction. Average spot LNG prices for Q4FY19 have come down by 29.5% as compared to average prices during Q4FY18. Though sequentially LNG prices have moved up during Q1FY20 but it is still lower than last year. The impact of lower gas prices is likely to get reflected in margins in the coming quarters.

We broadly retain our operating margin estimates and expect margins of 9% going forward led by addition of value added products, lower gas prices. Post incorporating FY19 financials, we expect net profits to grow at a CAGR of 38% between FY19-21.

Valuation and recommendation

Stock is currently trading at valuations of 21.9x and 18.5x on FY20 and FY21 estimates respectively. We tweak our estimates and arrive at a revised price target of Rs 202 based on 15x FY21 estimated earnings (Rs 150 earlier based on 13x FY20 estimates). Though organized players have witnessed a re-rating in valuation multiples after usage of coal gasifiers, we believe that AGL will continue to trade at a sharp discount to leaders in the sector due to lower margins, lower return ratios, higher working capital cycle as well as smaller reach as compared to leaders and current valuations are already factoring in the volume and margin improvement going forward. We thus continue to maintain SELL rating on the stock.

About the company

Asian Granito India Limited (AGL) was established in 2000 by Mr. Kamlesh Patel and Mr. Mukesh Patel. AGL is one of the top three Indian Ceramic Companies engaged in the business of manufacturing, and trading of Ceramic Wall, Floor, Vitrified Tiles, Marble & Quartz Headquartered in Gujarat. AGL has 8 manufacturing facilities in Gujarat. AGL has production of 1,02,900 sqm per day including outsourcing. Pan India marketing & distribution network of more than 6000 dealers and sub-dealers and over 231+ showrooms with global footprint with exports to over 55+ countries.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**11,556**	**11,867**	**12,575**	**13,833**
% change YoY	8.6	2.7	6.0	10.0
EBITDA	**1,392**	**866**	**1,132**	**1,245**
% change YoY	9.5	(37.8)	30.8	10.0
Other Income	29	41	25	25
Depreciation	254	273	293	310
EBIT	**1,167**	**633**	**864**	**960**
% change YoY	9.7	(45.8)	36.4	11.1
Net interest	365	347	351	351
Profit before tax	**802**	**286**	**513**	**609**
% change YoY	20.1	(64.4)	79.5	18.8
Tax	256	98	174	207
as % of PBT	32.0	34.4	34.0	34.0
Profit after tax	**546**	**187**	**339**	**402**
Minority interest	43	22	40	40
Share of profit of associates	25	43	43	43
Net income	528	209	342	405
% change YoY	17.4	(60.5)	63.8	18.6
Shares outstanding (m)	30.1	30.1	30.1	30.1
EPS (reported) (Rs)	**17.6**	**6.9**	**11.4**	**13.5**
CEPS (Rs)	26.0	16.0	21.1	23.8
DPS (Rs)	1.30	0.60	0.60	0.60

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	208	332	433	237
Accounts receivable	4,005	4,002	4,134	4,548
Inventories	2,759	3,052	2,997	3,297
Loans and Adv & Others	259	330	343	353
Current assets	7,230	7,716	7,907	8,435
Other non current assets	74	102	102	102
LT investments	227	276	276	276
Net fixed assets	4,338	4,716	4,823	5,014
Total assets	**11,870**	**12,811**	**13,109**	**13,827**
Payables	2,965	3,363	3,342	3,676
Others	335	313	313	313
Current liabilities	3,299	3,676	3,655	3,989
Provisions	113	85	84	84
LT debt	3,574	3,895	3,895	3,895
Min. int and def tax liabilities	566	643	643	643
Equity	301	301	301	301
Reserves	4,016	4,210	4,530	4,914
Total liabilities	**11,870**	**12,811**	**13,109**	**13,826**
BVPS (Rs)	143.5	149.9	160.6	173.3

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	1,150	655	867	963
Depreciation	254	273	293	310
Change in working capital	93	37	(111)	(389)
Chg in other net current assets	(84)	14	15	16
Operating cash flow	1,412	979	1,064	899
Interest	(365)	(347)	(351)	(351)
Tax	(287)	(114)	(190)	(223)
Cash flow from operations	**760**	**517**	**523**	**326**
Capex	(528)	(651)	(400)	(500)
(Inc)/decrease in investments	(62)	(49)	-	-
Cash flow from investments	**(590)**	**(700)**	**(400)**	**(500)**
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	73	321	-	-
Proceeds from share premium	(175)	-	-	-
Dividends	(46.9)	(46.9)	(21.7)	(21.7)
Cash flow from financing	**(149)**	**274**	**(22)**	**(22)**
Opening cash	186	208	332	433
Closing cash	207	299	433	237

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	12.0	7.3	9.0	9.0
EBIT margin (%)	10.1	5.3	6.9	6.9
Net profit margin (%)	4.6	1.8	2.7	2.9
Receivables (days)	112.4	123.1	120.0	120.0
Inventory (days)	86.7	89.4	87.0	87.0
Sales/assets(x)	2.7	2.5	2.6	2.8
Interest coverage (x)	3.2	1.8	2.5	2.7
Debt/equity ratio(x)	0.8	0.8	0.8	0.8
ROE (%)	12.7	4.7	7.3	8.1
ROCE (%)	14.1	7.2	9.4	10.0
EV/ Sales (x)	0.9	0.9	0.8	0.8
EV/EBITDA (x)	7.6	12.5	9.4	8.7
Price to earnings (x)	14.2	35.9	21.9	18.5
Price to book value (x)	1.7	1.7	1.6	1.4
Price to Cash Earnings (x)	9.6	15.5	11.8	10.5

Source: Company, Kotak Securities – Private Client Research

Result Update

TALBROS AUTOMOTIVE LIMITED (TBA)

PRICE RS.191 **TARGET RS.291** **BUY**

TBA's 4QFY19 results were impacted on account of slowdown in automobile demand. On a YoY basis, the company reported decline in revenue, EBITDA and PAT in 4QFY19.

Stock Details

Market cap (Rs mn)	:	2352
52-wk Hi/Lo (Rs)	:	335 / 162
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	11,026
Shares o/s (mn)	:	12

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	4,828	5,421	6,153
Growth (%)	22.9	12.3	13.5
EBITDA	509	572	665
EBITDA margin (%)	10.5	10.6	10.8
Adjusted Net profit	264	281	359
Adjusted EPS (Rs)	21.4	22.8	29.1
Growth (%)	27.2	6.5	27.7
Book value (Rs/share)	161	182	209
Dividend per share (Rs)	1.8	1.8	1.8
ROE (%)	13.9	13.3	14.9
ROCE (%)	12.4	12.6	14.2
P/E (x)	8.9	8.4	6.6
EV/EBITDA (x)	7.2	6.5	5.3
P/BV (x)	1.2	1.1	0.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	-	56.6	56.6
FII	-	0.1	0.1
DII	-	2.0	2.0
Others	-	41.2	41.3

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Talbros Automotive	(1.0)	(8.1)	(17.8)
Nifty	1.7	10.7	9.8

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Key Highlights

TBA's consolidated revenue in 4QFY19 stood at Rs1,062 mn, 4% lower YoY. During the quarter two wheeler industry and passenger vehicle industry production was down by 10% and 4% respectively. EBITDA declined by 19% YoY on account of lower revenue and impact of negative operating leverage. Consolidated PAT in the quarter declined by 19% YoY to Rs61mn. Joint venture companies reported improved profitability YoY in 4QFY19.

Outlook and Valuation

Company's gasket segment revenue is expected to grow from industry volume increase, opportunity from BSVI implementation in India and heat shield opportunities in the export market. TBA's forging segment revenues is expected to grow from execution of new orders won is expected to drive revenue growth in the forging segment in FY20 and FY21. MMT JV revenue growth is expected to be driven by order worth Rs350mn from a large European OEM, new business from Maruti Suzuki and growth from Bajaj Auto's RE60. Over the medium to longer term, we expect EBITDA margin to witness improvement. At the CMP, the stock is trading at a PE of 8.3x / 6.5x its estimated FY20E/FY21E earnings. We retain BUY on the stock with unchanged price target of Rs291. We value the stock at 10x PER on FY21E earnings.

Quarterly performance - Consolidated

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Revenues	**1,062**	**1,102**	**(3.6)**	**1,251**	**(15.1)**
Total expenditure	958	973	(1.5)	1,127	(15.0)
RM consumed	587	622	(5.6)	728	(19.4)
Employee cost	139	131	6.3	156	(10.6)
Other expenses	232	221	5.1	243	(4.6)
EBITDA	**104**	**128**	**(18.9)**	**124**	**(16.2)**
EBITDA margin (%)	9.8	11.6	-	9.9	-
Depreciation	46	41	14.3	48	(3.5)
Interest cost	38	35	8.1	40	(4)
Other Income	26	21	26.7	27	(2.2)
Exceptional gain / (loss)					
PBT	**46**	**73**	**(37.3)**	**63**	**(27.4)**
PBT margins (%)	4.3	6.6		5.0	
Tax	8	14	(45.1)	21	(63.0)
Tax rate (%)	17.1	19.5	-	33.6	-
Share of profit in JV	23	17	38.9	22	3.9
Reported PAT	**61**	**76**	**(19.1)**	**64**	**39.5**
PAT margins (%)	5.8	6.9	-	5.1	-
EPS (Rs)	**4.9**	**6.1**	**(19.1)**	**5.2**	**(4.8)**

Source: Company

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TBA's consolidated revenue in 4QFY19 stood at Rs1,062 mn, 4% lower YoY and 15% decline over 3QFY19. Company's revenue in the quarter suffered on account of slowdown in OEM production. During the quarter two wheeler industry and passenger vehicle industry production was down by 10% and 4% respectively. Consolidated revenue only includes standalone gasket and forging revenue; as for joint venture, under IndAS, the net profit is taken in share of profit from JV/associates. In FY19, the company reported 14% YoY revenue growth in standalone gasket segment and 44% YoY increase in forging business revenue. While 4QFY19 was weak, TBA's revenue growth on a full year basis remained well ahead of industry production growth.

EBITDA declined by 19% YoY on account of lower revenue and impact of negative operating leverage. Employee cost and other expenses (as a % of revenue) increased on account weak topline and that lead to EBITDA margin contracting from 11.6% in 4QFY18 to 9.8% in 4QFY19. Consolidated PAT in the quarter declined by 19% YoY to Rs61mn. Joint venture companies reported improved profitability YoY in 4QFY19. TBA's revenue and EBITDA were marginally below our estimate, but net profit came in ahead of our estimate on account of lower than expected below EBITDA expense line item.

Nippon Leakless Talbros (NLT) revenue (includes other income) in 4QFY19 declined by 5% YoY on account of sharp production cut by Honda Motorcycle and Scooters India (HMSI). Decline in revenue led to 9% YoY fall in net profit in 4QFY19. In FY19, the joint venture reported 4% revenue growth and 6% increase in net profit.

Marelli Talbros Chassis Systems (MMT) JV's 4QFY19 revenue declined by 12% YoY due to slowdown in domestic auto demand and impact of Wagon R business loss (not present in new Wagon R). However, improvement in EBITDA margin led to 29% YoY growth in EBITDA and 60% high YoY net profit in 4QFY19. In FY19, MMT JV's revenue grew by 19% YoY and PAT was up by 83% YoY.

Talbros Marugo Rubber (TMR) JV revenue grew by 10% YoY in 4QFY19. In FY19, this JV reported marginal net profit as against loss in FY18.

Outlook and Valuation

Company's gasket segment revenue is expected to grow from industry volume increase, opportunity from BSVI implementation in India and heat shield opportunities in the export market. TBA is witnessing additional gasket business opportunities with the implementation of BSVI emission norms. For TBA, full impact of this on the revenue is expected to come in FY21.

TBA's forging segment revenues is expected to grow from execution of new orders which is expected to drive revenue growth in the forging segment in FY20 and FY21. In FY19, the company started execution of Rs350mn annual order; however, the full year impact of that order will come in FY20.

MMT JV revenue growth is expected to be driven by order worth Rs350mn from a large European OEM, new business from Maruti Suzuki and growth from Bajaj Auto's RE60. In order to cater to growth from the large European order and RE60, the JV is putting up a new plant in Pune.

In the near term, given weak demand and expected lower growth, EBITDA margins are expected to be under pressure. Over the medium to longer term, we expect EBITDA margin to witness improvement. In FY19, continuous rise in raw material prices negatively impacted margins. With cost pass through to customers happening, we expect the pressure on gross margins to start easing out. Company is working on localization and that gives some scope for margin improvement in FY21. Further foray into high margin products and internal efficiencies is also expected to help the company improve its margins in the coming years.

At the CMP, the stock is trading at a PE of 8.3x / 6.5x its estimated FY20E/FY21E earnings. We retain BUY on the stock with unchanged price target of Rs.291. We value the stock at 10x PER on FY21E earnings.

Key Risk

- Slowdown in domestic automobile demand – TBA generates majority of revenues from supplying products to domestic OEM's. Slowdown in automobile demand can impact our revenue growth estimates.
- Introduction of electric vehicle – Company supplies certain products that can become redundant with the advent of electric vehicles. While the company is looking at participating in electric vehicles, the existing business can get impacted from the same.

Company Background

Talbros Automotive Components Limited, the flagship manufacturing company of the Group, manufactures automotive & industrial Gaskets in collaboration with Coopers Payen of UK. Currently company manufactures gaskets & heat shields, forgings, suspension systems, anti-vibration components and hoses. TBA has three joint ventures – Nippon Leakless Talbros Pvt. Ltd (JV partner - Leakless Corporation – Japan), Magneti Marelli Talbros Chassis Systems Pvt. Ltd. (JV partner - Magneti Marelli - Italy) and Talbros Marugo Rubber Pvt. Ltd. (JV partner - Marugo Rubber - Japan). In terms of revenue (as per Indian Gaap), 60% of revenues comes from gaskets, 26% from forging, 10% from MMT JV and 4% from TMR JV.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	**3,930**	**4,828**	**5,421**	**6,153**
% change YoY	21.0	22.9	12.3	13.5
EBITDA	**408**	**509**	**572**	**665**
% change YoY	29.8	24.7	12.4	16.2
Depreciation	142	179	200	211
EBIT	**266**	**330**	**373**	**454**
% change YoY	39.1	24.0	12.9	21.9
Net interest	139	155	166	157
Other Income	63	71	75	80
Exceptional income/(loss)	22	0	0	0
Profit before tax	**211**	**246**	**282**	**377**
% change YoY	119.4	16.6	14.4	33.7
Tax	52	78	96	128
as % of PBT	24.4	31.5	34.0	34.0
Share of profit/(loss) from asso	69.2	95.0	95.0	110.0
Profit after tax	**229**	**264**	**281**	**359**
Adjusted PAT	207	264	281	359
% change YoY	69.7	27.2	6.5	27.7
Shares outstanding (m)	12	12	12	12
Adjusted EPS (Rs)	**16.8**	**21.4**	**22.8**	**29.1**
DPS (Rs)	1.5	1.8	1.8	1.8

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	78	92	85	76
Accounts receivable	1,242	1,353	1,559	1,770
Inventories	1,092	1,105	1,333	1,510
Loans and Adv & Others	296	313	345	373
Current assets	2,708	2,863	3,323	3,728
LT investments	662	638	638	638
Net fixed assets	1,281	1,475	1,379	1,318
Total assets	**4,650**	**4,976**	**5,340**	**5,685**
Payables	1,372	1,173	1,411	1,602
Other liabilities	153	362	182	198
Current Liabilities	1,526	1,535	1,593	1,800
Provisions	46	51	55	61
Deferred Tax Liability	42	27	27	27
Debt	1,243	1,376	1,422	1,222
Equity	123	123	123	123
Reserves	1,671	1,864	2,119	2,451
Total liabilities	**4,650**	**4,976**	**5,340**	**5,685**
BVPS (Rs)	145	161	182	209

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	266	330	373	454
Depreciation	142	179	200	211
Change in working capital	(8)	(323)	(196)	(197)
Chg in other net current asset	(62)	197	(208)	(6)
Operating cash flow	337	383	168	463
Interest	(139)	(155)	(166)	(157)
Tax / Deferred tax	(37)	(93)	(96)	(128)
Other Income	63	71	75	80
EO income / Others	54	(48)	1	-
Profit from JV	69	95	95	110
Cash flow from operations	**347**	**253**	**77**	**367**
Capex	(249)	(373)	(104)	(150)
(Inc)/decrease in investments	(94)	23	-	-
Cash flow from investments	**(343)**	**(349)**	**(104)**	**(150)**
Proceeds from issue of equities	-	(0)	0	-
Increase/(decrease) in debt	30	133	46	(200)
Proceeds from share premium	-	-	-	-
Dividends	(22)	(22)	(27)	(27)
Cash flow from financing	**8**	**110**	**20**	**(227)**
Opening cash	66	78	92	85
Closing cash	78	92	85	76

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Margins				
EBITDA margin (%)	10.4	10.5	10.6	10.8
EBIT margin (%)	6.8	6.8	6.9	7.4
Adj. net profit margin (%)	5.3	5.5	5.2	5.8
Working capital days				
Inventory (days)	101	84	90	90
Receivable (days)	115	102	105	105
Payable (days)	127	89	95	95
Ratios				
Debt/equity ratio (x)	0.7	0.7	0.6	0.5
ROE (%)	12.4	13.9	13.3	14.9
ROCE (%)	11.2	12.4	12.6	14.2
Valuations				
EV/ Sales	0.9	0.8	0.7	0.6
EV/EBITDA	8.6	7.2	6.5	5.3
Price to earnings (P/E)	11.4	8.9	8.4	6.6
Price to book value (P/B)	1.3	1.2	1.1	0.9

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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