Morning Insight

JULY 31, 2018

	30-Jul	1 Day	1 Mth	3 Mths
		% Chg		
Indian Indices				
SENSEX Index	37,494	0.4	5.8	6.6
NIFTY Index	11,320	0.4	5.6	5.4
NSEBANK Index	27,843	0.8	5.6	9.1
NIFTY 500 Index	9,619	0.4	5.0	1.3
CNXMcap Index	18,802	0.1	3.4	(7.3)
BSESMCAP Index	16,540	0.5	3.2	(10.1)
World Indices				
Dow Jones	25,307	(0.6)	4.3	4.7
Nasdaq	7,630	(1.4)	1.6	8.0
FTSE	7,701	(0.0)	0.8	2.6
NIKKEI	22,545	(0.7)	0.7	(0.0)
Hangseng	22,545	(0.7)	0.7	(0.0)
Shanghai	28,733	(0.2)	(1.4)	(7.4)

Value traded (Rs cr)	30-Jul	% Chg Day
Cash BSE	3,271	6.0
Cash NSE	33,654	0.5
Derivatives	515,736	24.2

Net inflows (Rs cr)	27-Jul	MTD	YTD
FII	560	670	(4,169)
Mutual Fund	(199)	5,512	74,115

Nifty Gainers & Losers 30-Jul	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Bharti Airtel	383	5.1	6.7
ICICI Bank	307	4.8	56.1
SBI	297	3.7	41.0
Losers			
HCL Tech	947	(1.7)	3.2
Infosys Ltd	1,351	(1.6)	3.2
HDFC Bank	2,170	(1.5)	1.8

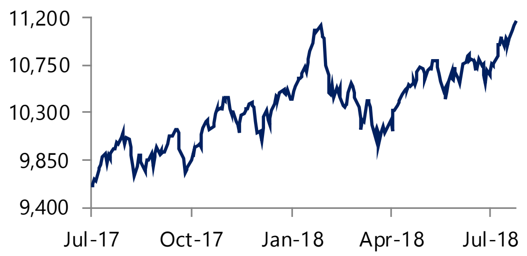
Advances / Declines (BSE)

30-Jul	A	B	T	Total	% total
Advances	235	705	54	994	100
Declines	149	394	46	589	59
Unchanged	3	24	17	44	4

Commodity	30-Jul	1 Day	1 Mth	3 Mths
		% Chg		
Crude (US$/BBL)	74.9	(0.1)	(5.8)	(0.4)
Gold (US$/OZ)	1,221	(0.2)	(2.6)	(7.2)
Silver (US$/OZ)	15.5	(0.0)	(4.1)	(5.4)

Debt / forex market	30-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	68.8	66.7

Nifty



News Highlights

- The defence ministry has approved 'implementation guidelines for the strategic partnership model' of defence procurement, which was promulgated in outline in May 2017, provides a policy framework for Indian firms to manufacture specified defence platforms in India based on technology transferred by a selected foreign vendor. (BS)
- India imposed safeguard duty on solar cells imports from China and Malaysia for two years to protect domestic players from steep rise in the inbound shipments of the product. (BS)
- Real estate may get a tax boost from the government, with the NITI Aayog, in consultation with the urban development ministry, making a case for a clutch of incentives for the sector, which is in the midst of a slowdown. (BS)
- **State Bank of India,** moved to hike its long-term deposit rates, albeit marginally. SBI also slashed its shorter term bulk deposit rates (Rs 10 mn to Rs 100 mn) by 25-45 bps, while increasing the longer term bulk deposit rates by 5 bps to 60 bps. (BS)
- The government is looking to pool land owned by loss-making PSU and hand it over to state-run developers such as **NBCC (India) Ltd** to develop it and realise value or sell it through a bidding process. (ET)
- **Mahindra & Mahindra** said it plans to increase prices of its passenger vehicles by up to Rs30,000 and will be effective from August in order to offset impact of rising commodity prices. (ET)
- **Suzlon Energy's** shareholders have rejected two separate proposals to raise a total Rs29 bn through issuance of equity shares and debentures. (ET)
- The **Mukand Group** is investing about Rs7.5 bn in raising steel-making capacity in southern India, augmenting output to meet increasing demand from car makers and engg companies. (ET)
- **Lanco Infratech,** the holding co. of several power and infrastructure firms with a consolidated debt of over Rs450 bn, is heading for liquidation with the CoC refusing the revised resolution plan submitted by Thriveni Earthmovers. (ET)
- **HDFC Bank Ltd** said it would raise up to Rs 155 bn through both domestic shares and American Depository Receipts (ADR). (BS)
- Indivior PLC announced that the U.S. Court of Appeals for the Federal Circuit has granted-in-part a motion to expedite **Dr. Reddy Laboratories'** appeal of the July 13, 2018 PI. Under the expedited schedule, oral argument will be held during the first week of October 2018. (Co Press Release)

What's Inside

- **Result Update:** Shree Cements Ltd, Escorts Ltd, Chennai Petroleum Corporation Ltd, Persistent Systems 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 = Moneycontrol

Result Update

Stock Details

Market cap (Rs mn)	:	598328
52-wk Hi/Lo (Rs)	:	19849 / 14980
Face Value (Rs)	:	10
3M Avg. daily vol	:	21,219
Shares o/s (m)	:	35

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	98,331	121,600	131,890
Growth (%)	16.7	23.7	8.5
EBITDA	24,728	29,650	32,150
EBITDA margin (%)	25.1	24.4	24.4
PAT	13,832	12,888	15,100
EPS (Rs)	397.0	369.9	433.4
Growth (%)	3.3	(6.8)	17.2
CEPS (Rs)	655.2	796.7	851.1
BV(Rs/share)	2,553.6	2,873.5	3,256.9
Dividend per share (Rs)	50.0	50.0	50.0
ROE (%)	16.7	13.6	14.1
ROCE (%)	17.1	14.4	15.3
P/CEPS (x)	26.2	21.6	20.2
EV/EBITDA (x)	23.6	19.2	17.4
P/CEPS(x)	26.2	21.6	20.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	64.8	64.8	64.8
FII	12.8	23.2	23.6
DII	17.0	6.4	5.7
Others	5.5	5.7	5.9

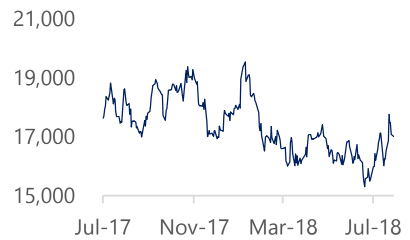
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Shree Cement	10.4	1.4	(0.9)
Nifty	5.6	5.4	2.4

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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SHREE CEMENTS LTD

PRICE RS.17175 TARGET RS.18487 ACCUMULATE

Key Highlights

- Shree Cement results were lower than our estimates owing to margin pressure as well as higher interest and depreciation charges on commissioning of new plant in Gulbarga. Operating margins have dipped to 18.7% for the quarter which are at a historical low level due to cost pressures.
- For Q1FY19, blended realizations were down marginally by 0.9% YoY while volumes were up by 18.7% YoY on commissioning of new units for Q1FY18. Total costs per tonne had moved up significantly led by increase in power and fuel cost and freight cost per tonne. Overall cost per tonne are expected to come down a bit from current levels due to operating leverage as well as lower other expenditure going forward. Improvement in blended realizations going forward is also likely to aid margins. Net profit performance was impacted by higher depreciation and interest expense owing to commissioning of new plant in Gulbarga.

Valuation & outlook

At current price of Rs 17175, stock is trading at 21.6x/20.2x P/CEPS and 19.2x/17.4x EV/EBITDA on FY19/FY20 estimates. We maintain our estimates and price target of Rs 18487 based on average of 17x EV/EBITDA and $200 per tonne EV/Tonne for FY20 and adding valuations of power division. We believe that Shree Cement is adequately positioned with its expanded capacities to capture the upswing in demand and prices in northern India. We maintain ACCUMULATE rating on the stock and would advise investors to use declines in the stock price to add further. Key risk to our estimates would come from lower than expected demand revival, steep increase in costs or pressure on cement prices.

Revenue growth boosted by volume but pricing stood flat on yearly basis

Company's revenues for Q1FY19 reported an improvement of 21% YoY, largely in line with our estimates. Growth in revenues was led by 18.7% YoY improvement in cement volumes and flattish cement realizations. Power segment sales too have increased by 58.4% on YoY basis. Volume improvement is led by capacity ramp up in the eastern region as well as commissioning of new units.

For the quarter, company sold 6.987 MT of cement as against 5.887 MT for corresponding quarter same year. During the quarter, average cement realizations stood at Rs 4107 per tonne, down by just 0.9% YoY and 1.2% QoQ. Cement prices have now started witnessing improvement in key markets of the company. Demand in northern and eastern region during Q1FY19 was led by individual housing, infrastructure spend and from PMAY and momentum is likely to be maintained going forward.

Power segment volumes for the quarter stood at 450.5 mn Units for Q1FY19 as against 284.4 mn Units for same period last year. Price per unit of power improved to Rs 4.4 per unit as compared to Rs 3.4 per unit in Q4FY17.

We maintain our estimates and expect company's volumes and revenues to grow at a CAGR of 13.5%/15.8% between FY18-20.

Financial highlights

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	**30,699**	**25,363**	**21**	**28,111**	**9**
Expenditure	24,947	18,563		21,817	
Inc/Dec in trade	(85)	137		225	
RM	2,493	2,122		2,070	
As a % of net sales	8.1	8.4		7.4	
Staff cost	1,707	1,472		1,489	
As a % of net sales	5.6	5.8		5.3	
Power and fuel	7,083	4,573		6,051	
As a % of net sales	23.1	18.0		21.5	
Transportation & Handling	8,519	6,288		7,677	
As a % of net sales	27.8	24.8		27.3	
Other expenditure	5,229	3,971		4,306	
As a % of net sales	17.0	15.7		15.3	
Operating Profit	**5,752**	**6,800**	**-15**	**6,294**	**-9**
Operating Profit Margin (%)	**18.7**	**26.8**		**22.4**	
Depreciation	3,055	2,312		2,330	
EBIT	**2,697**	**4,488**	**-40**	**3,964**	**-32**
Interest	562	329		437	
EBT (exc other income)	2,135	4,159		3,528	
Other Income	936	1,307		1,049	
EBT	**3,071**	**5,466**	**-44**	**4,576**	**-33**
Tax	276	1,065		584	
Tax Rate (%)	9.0	19.5		12.8	
PAT	**2,795**	**4,401**	**-36**	**3,992**	
Extraordinary Items	125	-46		14	
Net Profit	**2,920**	**4,355**	**-33**	**4,007**	**-27**
NPM (%)	9.5	17.2		14.3	
Equity Capital	348.4	348.4		348.4	
EPS (Rs / share)	**83.8**	**125.0**		**115.0**	
Cash EPS (Rs / share)	172	191		182	

Source: Company

Operating margins impacted by higher costs and flattish realizations

Operating margins have dipped to 18.7% for the quarter which are at a historical low level due to cost pressures. Margins were impacted by sharp jump in power and fuel cost and freight cost on YoY basis as well as higher other expenditure. Cement EBITDA per tonne stood strong at Rs .... per tonne as compared to Rs 1157 for Q1FY18.

Operating costs per tonne witnessed an increase on yearly basis due to higher pet coke prices and higher diesel prices. Domestic pet coke prices have also moved up further during the quarter to almost $114 per tonne and with increase in import duty on pet coke, pet coke prices are likely to remain at higher levels. Freight costs had moved up due to higher diesel prices and lead distance and change in commercial terms to FOR from ex-factory sales. Overall cost per tonne for the company is expected to come down a bit from current levels due to operating leverage as well as lower other expenditure going forward.

For the quarter, cement EBITDA per tonne stood at Rs.762 while power EBITDA per unit stood at 0.95 paisa per unit.

Sales and cost per tonne (Rs)

	Q1FY19	Q1FY18
Dispatches (mn tonne)	6.987	5.887
Blended Cem Realisation/tonne (Rs)	4107	4146
Per tonne analysis (Rs)		
Inc/Dec in trade	-12	23
Raw material	357	360
Staff cost	244	250
Power and fuel	1014	777
Transportation & Handling	1219	1068
Other expenditure	748	675
Total costs per tonne	**3570**	**3153**
EBITDA per tonne (Rs)	**536**	**992**
Cement EBITDA per tonne	762	1157

Source: Company, Kotak Securities – Private Client Research

We maintain our estimates and expect margins to improve in the coming quarters in line with recent price hikes. We expect margins of 24.3%/24.4% for FY19/20 respectively.

Shree Cement has also completed the acquisition of Union Cement Company (UCC), UAE, with a 4mtpa (3.3mtpa clinker) plant at an enterprise valuation of US$303mn translating into $75.7 per tonne. This was funded by a mix of low cost debt as well as internal accruals and hence we have witnessed an increase in interest cost during the quarter. Company also booked MTM loss on its unhedged borrowings. During the quarter, it also completed the commissioning of 3MT unit in Gulbarga and acquisition of 100% holding in Raipur Handling and Infrastructure private Ltd, a company engaged in operating railway siding in Chittorgarh.

Net profit performance was impacted by higher depreciation and interest expense owing to commissioning of new plant in Gulbarga.

Valuation and recommendation

At current price of Rs 17175, stock is trading at 21.6x/20.2x P/CEPS and 19.2x/17.4x EV/EBITDA on FY19/FY20 estimates. We maintain our estimates and price target of Rs 18487 based on average of 17x EV/EBITDA and $200 per tonne EV/Tonne for FY20 and adding valuations of power division. We believe that Shree Cement is adequately positioned with its expanded capacities to capture the upswing in demand and prices in northern India. We maintain ACCUMULATE rating on the stock and would advise investors to use declines in the stock price to add further. Key risk to our estimates would come from lower than expected demand revival, steep increase in costs or pressure on cement prices.

About the company

Shree Cement, an Indian cement manufacturer, was founded in Beawar in the Ajmer district of Rajasthan in the year 1979. Shree is a rapidly growing and one of the most efficient and environment friendly companies in India. Currently, its manufacturing operations are spread over North and East India across six states. Company has increased its cement production capacity at 18% CAGR in last ten years at much lower cost as compared to industry. It is likely to reach 42MT by Q4FY19.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**84,292**	**98,331**	**121,600**	**131,890**
% change YoY	52.9	16.7	23.7	8.5
EBITDA	**23,672**	**24,728**	**29,650**	**32,150**
% change YoY	68.3	4.5	19.9	8.4
Other Income	5,077	3,891	5,000	5,000
Depreciation	12,147	8,994	14,870	14,553
EBIT	**16,602**	**19,624**	**19,780**	**22,597**
% change YoY	32.6	18.2	0.8	14.2
Net interest	1,294	1,353	2,596	2,464
Pre-operative expenses				
Profit before tax	**15,308**	**18,272**	**17,184**	**20,133**
% change YoY	30.3	19.4	(6.0)	17.2
Tax	1,917	4,430	4,296	5,033
as % of PBT	12.5	24.2	25.0	25.0
Net income	**13,391**	**13,832**	**12,888**	**15,100**
% change YoY	17.3	3.3	(6.8)	17.2
Shares outstanding (m)	34.8	34.8	34.8	34.8
EPS (reported) (Rs)	**384.4**	**397.0**	**369.9**	**433.4**
CEPS (Rs)	733.0	655.2	796.7	851.1
DPS (Rs)	140.00	50.00	50.00	50.00

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,110	1,209	12,593	21,003
Accounts receivable	10,553	15,440	13,326	14,454
Inventories	13,145	15,690	14,992	16,260
Others	1,061	1,110	1,211	1,267
Current assets	25,869	33,449	42,122	52,984
LT investments	43,273	57,273	57,273	57,273
Net fixed assets	33,096	50,163	51,293	52,740
Total assets	**102,237**	**140,886**	**150,688**	**162,997**
Payables	3,517	7,273	3,665	3,975
Others	1,493	-	1,666	1,807
Current liabilities	5,010	7,273	5,330	5,781
LT debt	20,442	43,312	41,812	40,312
Other liabilities	(196)	1,333	3,432	3,432
Equity	348	348	348	348
Reserves	76,633	88,620	99,766	113,123
Total liabilities	**102,237**	**140,886**	**150,688**	**162,997**
BVPS (Rs)	2,210	2,554	2,874	3,257

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT(Less pre-operative exp)	16,602	19,624	19,780	22,597
Depreciation	12,147	8,994	14,870	14,553
Change in working capital	(8,074)	(5,169)	870	(1,945)
Chgs in other net curnt assets	4,019	1,366	1,999	(56)
Operating cash flow	24,695	24,815	37,519	35,148
Interest	(1,294)	(1,353)	(2,596)	(2,464)
Tax	(1,917)	(4,430)	(4,296)	(5,033)
CF from operations	**21,484**	**19,033**	**30,626**	**27,651**
Capex	(12,096)	(26,062)	(16,000)	(16,000)
(Inc)/dec in investments	(9,615)	(14,001)	-	-
Dividends	(4,878)	(1,742)	(1,742)	(1,742)
CF from investments	**(26,589)**	**(41,804)**	**(17,742)**	**(17,742)**
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	5,385	22,870	(1,500)	(1,500)
Proceeds from share premium	-	-	-	-
CF from financing	**5,385**	**22,870**	**(1,500)**	**(1,500)**
Opening cash	830	1,110	1,209	12,593
Closing cash	1,110	1,209	12,593	21,003

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	28.1	25.1	24.4	24.4
EBIT margin (%)	19.7	20.0	16.3	17.1
Net profit margin (%)	15.9	14.1	10.6	11.4
Receivables (days)	30.9	40.0	40.0	40.0
Inventory (days)	39.8	45.0	45.0	45.0
Sales/assets (x)	2.5	2.0	2.4	2.5
Interest coverage (x)	12.8	14.5	7.6	9.2
Debt/equity ratio (x)	0.2	0.4	0.5	0.4
ROE (%)	18.4	16.7	13.6	14.1
ROCE (%)	18.4	17.1	14.4	15.3
EV/Ton ($)	315.2	239.1	219.4	195.4
EV/ Sales (x)	6.8	5.9	4.7	4.2
EV/EBITDA (x)	24.3	23.6	19.2	17.4
Price to earnings (x)	44.7	43.3	46.4	39.6
Price to book value (x)	7.8	6.7	6.0	5.3
Price to Cash Earnings (x)	23.4	26.2	21.6	20.2

Source: Company, Kotak Securities – Private Client Research

Result Update

Escorts Ltd

Price Rs.908 **Target Rs.958** **ACCUMULATE**

Escorts reported strong 1QFY19 results with outperformance in the construction equipment and railway equipment segments. Tractor segment reported strong YoY growth and the performance in the quarter was broadly on expected lines.

Stock Details

Market cap (Rs mn)	:	111288
52-wk Hi/Lo (Rs)	:	1019 / 544
Face Value (Rs)	:	10
3M Avg. daily volume	:	1,210,761
Shares o/s (mn)	:	123

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenues	50,588	57,112	59,724
Growth (%)	22.0	12.9	4.6
EBITDA	5,529	6,849	6,946
EBITDA margin (%)	11	12	12
Adjusted Net profit	3,515	4,647	4,729
Adjusted EPS (Rs)	39.6	52.3	53.2
Growth (%)	100.0	32.2	1.8
Book value (Rs/share)	249.2	298.9	349.5
Dividend per share (Rs)	2.0	2.0	2.0
ROE (%)	18.3	19.1	16.4
ROCE (%)	26.3	28.1	24.1
P/E (x)	23.0	17.4	17.1
EV/EBITDA (x)	13	10	10
P/BV (x)	3.6	3.0	2.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	40.1	40.1	40.0
FII	24.1	24.4	21.2
DII	5.7	5.4	6.1
Others	30.1	30.2	32.7

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Escorts	4.2	(9.6)	9.0
Nifty	5.6	5.4	2.4

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Key Highlights

Escorts 1QFY19 revenue came in at Rs15,113mn, 32% growth over corresponding quarter last year. EBITDA in the quarter increased by 90% YoY to Rs1,856mn. EBITDA margin expanded by 374bps YoY on the back of strong performance across segments. Railway equipment and construction equipment segments reported better than expected EBIT margins in the quarter. On the back of robust revenue growth and strong operational performance, the company reported PAT of Rs1,207mn, 93% growth YoY.

Valuation and Outlook

In view of strong 1QFY19 volume performance, the management has increased FY19 industry growth guidance to 12-15%. After the witnessing strong tractor industry volume growth over the past two years and in 1QFY19, we expect the growth rate to moderate from 2QFY19 as base becomes significantly higher. Escorts EBITDA margin witnessed sharp improvement in FY17/FY18 and the management has guided for another 100bps improvement in FY19. While the construction equipment and railway equipment divisions are expected to witness margin improvement; tractor segment margins going forward might witness pressure in absence of volume growth. We marginally increase our FY19 estimates but lower our FY20 estimates. We rate the stock as ACCUMULATE with revised price target of Rs958 (earlier Rs1,074).

Quarterly Data

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenues	**15,113**	**11,423**	**32.3**	**14,361**	**5.2**
Total expenditure	13,257	10,448	26.9	12,624	5.0
RM consumed	10,219	7,802	31.0	9,676	5.6
Employee cost	1,211	1,012	19.6	1,093	10.8
Other expenses	1,828	1,633	11.9	1,855	(1.5)
EBITDA	**1,856**	**975**	**90.3**	**1,738**	**6.8**
EBITDA margin	12.3	8.5	-	12.1	-
Depreciation	206	178	15.6	188	9.2
Interest cost	29	80	(63.9)	63	(54.4)
Other Income	170	205	(17.2)	226	(24.7)
EO income/(loss)	11	-	-	-	-
PBT	**1,803**	**923**	**95.3**	**1,712**	**5.3**
PBT margins	11.9	8.1		11.9	
Tax	595	297	100.7	587	1.5
Tax rate	33.0	32.1	-	34.3	-
Reported PAT	**1,207**	**626**	**92.7**	**1,125**	**7.3**
PAT margins	8.0	5.5	-	7.8	-

Source: Company

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Segmental Revenues

(Rs mn)	1QFY19	1QFY18	YoY(%)	4QFY18	QoQ (%)
Revenues					
Agri Machinery	11,772	9,421	25.0	10,941	7.6
Auto Ancillary	-	-	-	-	-
Railway Equipment	881	652	35.0	760	15.9
Construction Equipment	2,460	1,646	49.5	2,660	(7.5)
Volumes (in units)					
Tractor	24,494	17,561	39.5	23,568	3.9
Construction Equipment	1,345	886	51.8	1,541	(12.7)
Average Selling Price (Rs / unit)					
Tractor	480,610	536,470	(10.4)	464,216	3.5
Construction Equipment	1,828,976	1,857,342	(1.5)	1,726,272	5.9

Source: Company

Standalone Result Highlights

Escorts 1QFY19 revenue came in at Rs15,113mn, 32% growth over corresponding quarter last year. Revenue in the quarter came in 8% ahead of estimates on account of strong outperformance in the construction equipment and railway equipment segments.

Agri-machinery revenue stood at Rs11,772mn, 25% growth YoY, driven by 40% increase in tractor volumes. Escorts sold 24,494 tractors in 1QFY19. On a YoY basis, tractor average selling price (ASP) was lower due to 7% reduction in dealer billing post GST implementation and product mix impact.

In the construction equipment segment, Escorts sold 1,345 units, 52% higher YoY. Led by high volume growth, revenue in this segment grew by 50% and came ahead of expectation.

In the railway equipment segment, revenue grew by 35% YoY and 16% QoQ, supported by higher spare sales and export to China.

EBITDA in the quarter increased by 90% YoY to Rs1,856mn. EBITDA margin expanded by 374bps YoY on the back of strong performance across segments.

Segmental margins

(Rs mn)	1QFY19	1QFY18	4QFY18
Agri Machinery	14.2	10.8	15.1
Auto Ancillary	-	-	-
Railway Equipment	25.3	9.9	15.9
Construction Equipment	2.4	(2.1)	5.1

Source: Company

Agri-machinery business EBIT margin increased YoY, supported by operating leverage from strong volume growth and change in tractor billing post GST implementation led to EBIT margin increasing from 10.8% in 1QFY18 to 14.2% in 1QFY19. On a QoQ basis, decline in EBIT margin can be attributed to commodity price inflation and Rs100mn one-off in employee cost (related to pension liability). In 2QFY19, annual increment (~8%) to the staff will start getting reflected. For workers, the wage revision is due in FY20 (CY2019).

Construction equipment segment EBIT margins improved 450bps YoY to 2.4% on the back of operating leverage from high volume and cost reduction initiatives. Railway equipment EBIT margin of 25.3% was an aberration, positively impacted by favorable product mix (higher margins spare sales, export, increased margin in conventional product and lower revenue contribution from lower margin new products).

Exceptional income of Rs11mn related to excise refund on the auto ancillary business. Company reported PAT of Rs1,207mn, 93% growth YoY.

Conference Call Highlights

Management has increased the domestic tractor industry growth guidance for FY19 to 12-15% (earlier 9-11%). In 2QFY19, company expects the tractor industry to grow by 0-2% on account of shift in festive season to 3QFY19 and delayed sowing. Further, the management do not expect the tractor industry to witness decline atleast till April/May 2019.

In 1QFY19, Escorts increased its overall market share by 94bps YoY to 10.7%, but the same declined by 284bps QoQ. In the Atom series and rice segment, the company is currently selling ~70 units per months and expect to increase sales to ~300 units per month in the coming months. Company expects to grow its tractor export volumes by 40-50% in FY19.

Management expects the railway equipment segment to witness 18-20% CAGR growth and EBIT margins of ~17-18% in FY19. As of end 1QFY19, this division has an order book of Rs3bn to be executed over the next one year.

Company expects the construction equipment segment to grow by 16-18%, with 4QFY19 sales getting impacted on account of elections scheduled next year. Management is targeting EBIT margin of 4-5% in the segment in FY19.

In the tractor segment, the company took price hike in April 2018 and July 2018. With the recent price hike in July 2018, the company has passed almost entire commodity inflation cost to the customers.

In October 2020, new emission norms is expected to kick in for tractors above 50HP. For tractors under 50HP, the government is still not announced any timeline.

Escorts is investing Rs1bn to increase its tractor capacity from 100,000 units to 150,000 units per annum.

Outlook

In view of strong 1QFY19 volume performance, the management has increased FY19 industry growth guidance to 12-15%. After the witnessing strong tractor industry volume growth over the past two years and in 1QFY19, we expect the growth rate to moderate from 2QFY19 as base becomes significantly higher. For Escorts, we factor in 15% tractor volume growth in FY19 and flat growth in FY20. In the construction equipment and railway equipment division, we expect the company revenue growth to remain strong over the next two years.

Escorts EBITDA margin witnessed sharp improvement in FY17/FY18 and the management has guided for another 100bps improvement in FY19. While the construction equipment and railway equipment divisions are expected to witness margin improvement; tractor segment margins going forward might witness pressure in absence of volume growth. We factor in 110bps margin improvement in FY19 and 40bps contraction in FY20.

We marginally increase our FY19 estimates but lower our FY20 estimates. We rate the stock as ACCUMULATE with revised price target of Rs958 (earlier Rs1,074). We value the stock at PE of 18x (earlier 19x) on FY20E earnings. In view of expected slowdown in tractor industry growth, we lower our valuation multiple.

Change in estimates

(Rs mn)	FY19 Old	FY19 New	FY19 % chg	FY20 Old	FY20 New	FY20 % chg
Revenues	56,851	57,112	0.5	61,055	59,724	(2.2)
EBITDA margin (%)	11.9	12.0	-	12.1	11.6	-
Adjusted PAT	4,590	4,647	1.2	5,026	4,729	(5.9)

Source: Kotak Securities – Private Client Research

Key risk

Lower than expected tractor sales growth can have substantial impact on our earnings estimates and target price.

Company background

Escorts is one of India's leading tractor manufacturers, offering a comprehensive range of tractor variants (12HP-75HP) under Farmtrac and Powertrac brands. Escorts enjoys market share of ~11% in the domestic tractor industry. Over the years the company has diversified into other businesses like construction equipment and railway components. Company offers wide range of construction related equipment manufactured at their plant in Haryana. In the railway equipment segment, Escorts product offering includes brakes, couplers and shock absorbers. Company derives around 80% of revenues from the agri-machinery business, 14% from construction equipment segment and 6% from railway equipment segment. Escorts has six manufacturing plants across segments.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**41,453**	**50,588**	**57,112**	**59,724**
% change YoY	20.8	22.0	12.9	4.6
EBITDA	**3,096**	**5,529**	**6,849**	**6,946**
% change YoY	91.8	78.6	23.9	1.4
Depreciation	634	732	756	813
EBIT	**2,461**	**4,796**	**6,093**	**6,134**
% change YoY	138.4	94.9	27.0	0.7
Net interest	322	295	99	88
Other Income	471	653	882	957
Exceptional income/(loss)	-520	-68	0	0
Profit before tax	**2,091**	**5,087**	**6,877**	**7,003**
% change YoY	149.6	143.3	35.2	1.8
Tax	773	1,625	2,230	2,274
as % of PBT	37.0	31.9	32.4	32.5
Minority Interest	10.6	-3.7	0.0	0.0
Profit after tax	1,307	3,466	4,647	4,729
Adjusted PAT	**1,687**	**3,515**	**4,647**	**4,729**
% change YoY	69.7	108.4	32.2	1.8
Shares outstanding (m)	123	123	123	123
Adjusted EPS (Rs)*	**19.8**	**39.6**	**52.3**	**53.2**
DPS (Rs)	1.5	2.0	2.0	2.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	4,175	8,160	10,441	13,704
Accounts receivable	4,565	5,920	6,473	6,774
Inventories	4,503	5,657	6,150	6,477
Loans and Adv & Others	1,538	2,859	3,153	3,442
Current assets	14,780	22,597	26,217	30,398
LT investments	390	503	503	503
Net fixed assets	16,158	16,535	18,764	19,971
Others	664	98	98	98
Total assets	**31,992**	**39,733**	**45,581**	**50,970**
Payables	9,101	12,345	13,760	14,389
Other liabilities	2,487	3,402	2,992	3,173
Current Liabilities	11,589	15,747	16,751	17,562
Provisions	1,522	1,495	1,694	1,773
Def Tax Liability / Min Int	17	193	193	193
Debt	2,654	147	375	375
Equity	1,226	1,226	1,226	1,226
Reserves	14,984	20,926	25,342	29,841
Total liabilities	**31,992**	**39,733**	**45,581**	**50,970**
BVPS (Rs)	190	249	299	350

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	2,461	4,796	6,093	6,134
Depreciation	634	732	756	813
Change in working capital	602	734	369	2
Chg in other net current asset	568	(434)	(505)	(29)
Operating cash flow	4,265	5,828	6,713	6,919
Interest	(322)	(295)	(99)	(88)
Tax	(773)	(1,428)	(2,230)	(2,274)
Other Income	471	653	882	957
EO income	(520)	(68)	-	-
OCI / Others	251	3,193	-	-
Cash flow from operations	**3,373**	**7,884**	**5,267**	**5,514**
Capex	(579)	(1,109)	(2,984)	(2,020)
(Inc)/dec in investments	(1,726)	(3,367)	-	-
Cash flow from investments	**(2,305)**	**(4,476)**	**(2,984)**	**(2,020)**
Proceeds from issue of equities	-	0	(0)	-
Inc/(dec) in debt	(1,027)	(2,507)	228	-
Proceeds from share premium	0	-	-	-
Dividends	(131)	(169)	(230)	(230)
Cash flow from financing	**(1,157)**	**(2,676)**	**(2)**	**(230)**
Opening cash	2,530	2,441	3,173	5,453
Closing cash	2,441	3,173	5,453	8,717

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	7.5	10.9	12.0	11.6
EBIT margin (%)	5.9	9.5	10.7	10.3
Adj. net profit margin (%)	4.1	6.9	8.1	7.9
Working capital days				
Inventory (days)	40	41	39	40
Receivable (days)	40	43	40	40
Payable (days)	80	89	88	88
Ratios				
Debt/equity ratio (x)	0.2	0.0	0.0	0.0
ROE (%)	10.9	18.3	19.1	16.4
ROCE (%)	15.7	26.3	28.1	24.1
Valuations *				
EV/ Sales	1.8	1.4	1.2	1.1
EV/EBITDA	24.5	13.1	10.3	9.7
Price to earnings (P/E)	45.9	23.0	17.4	17.1
Price to book value (P/B)	4.8	3.6	3.0	2.6

Source: Company, Kotak Securities – Private Client Research;.
** calculated excluding treasury shares*

Result Update

CHENNAI PETROLEUM CORPORATION LTD

PRICE RS.317 | TARGET RS.373 | BUY

Despite ~5% qoq rupee depreciation and significant jump in GRMs, CPCL's revenue decreased marginally due to decline in crude throughput. Operating profit jumped meaningfully due to lower operating cost. Recently commissioned project will improve the earnings in FY19E and weaker currency will be further positive. Major capex plans lined up will boost its long term profitability, we opine.

Stock Details

Market cap (Rs mn)	:	47145
52-wk Hi/Lo (Rs)	:	481 / 262
Face Value (Rs)	:	10
3M Avg. daily volume	:	678,573
Shares o/s (m)	:	149

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	441,892	497,721	525,987
Growth (%)	8.8%	12.6%	5.7%
EBITDA	21,184	21,260	22,180
EBITDA margin (%)	4.8%	4.3%	4.2%
PAT	9,272	9,555	10,086
EPS	62.3	64.2	67.7
EPS Growth (%)	-12%	3%	6%
BV (Rs/share)	268	310	353
Dividend/share (Rs)	18.5	18.7	19.5
ROE (%)	24.9	22.2	20.4
ROCE (%)	15.5	16.8	16.2
P/E (x)	5.1	4.9	4.7
EV/EBITDA (x)	3.1	3.2	2.9
P/BV (x)	1.2	1.0	0.9

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	67.3	67.3	67.3
FII	9.0	10.6	11.8
DII	11.6	10.7	10.1
Others	12.1	11.4	10.8

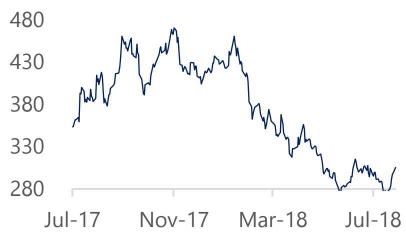
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Chennai Pet	4.1	(1.4)	(24.1)
Nifty	5.6	5.4	2.4

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Key Highlights

- CPCL's Q1FY19 results is broadly in line with our estimates. The company has reported a PAT of Rs.1.56 bn against our expectation of Rs.1.53 bn.
- CPCL reported significantly higher GRMs of US$7.11/bbl as against US$5.8/bbl in Q4FY18 partly due to inventory gain, we opine.
- In FY19, the company will be investing Rs. 10 bn out of the total investment planned of Rs.25.4bn on its ongoing projects which will improve reliability, profitability and meet product quality specification.

Valuation & outlook

We expect CPCL to report an EPS of Rs.64.2/share in FY19E and an EPS of Rs.67.7 in FY20E supported by better distillate yields, weaker INR/USD and higher crude through put. At CMP, we believe that the stock is attractively valued at a PE of 4.7x FY20E earnings. We maintain BUY recommendation on the stock with an unchanged price target of Rs.373/share. We have valued CPCL based on PE multiple of 5.5x FY20 (target PE), which is at a significant discount to its peers.

Quarterly performance table

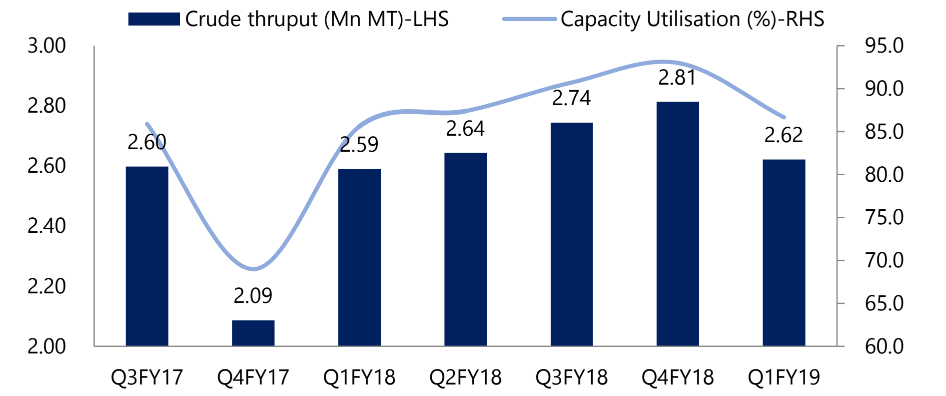
Particulars (Rs Mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Net Sales	**123,558**	**127,101**	**96,494**	**28**	**(3)**
Incr/(Decr) in stock	5,581	(404)	4,155		
Total Expenditure	124,666	123,145	98,696	26	1
EBIDTA	**4,473**	**3,551**	**1,953**	**129**	**26**
Depreciation	1,036	1,107	714	45	(6)
EBIT	**3,437**	**2,444**	**1,239**	**7**	**41**
Other income	81	90	73	10	(10)
Interest-net	984	787	747	32	25
PBT	**2,533**	**1,747**	**566**	**348**	**45**
Extra ordinary Exp/(Inc)	0	3	2		
Tax	972	(37)	229		
PAT	**1,561**	**1,781**	**335**	**366**	**(12)**
Basic EPS	10.48	11.97	2.3		

Source: Company.

Quarterly result analysis – Q1FY19

- **Revenue growth:** Despite ~5% qoq rupee depreciation and significant jump in GRMs, CPCL's net revenue decreased 3% qoq to Rs.124 bn due to 7% qoq decline in crude throughput.
- **Crude throughput:** CPCL reported sequentially lower crude throughput of 2.62 mmt, -7% qoq, resulting in 87% capacity utilization.

CPCL's crude throughput and capacity utilization



Source: Company

- **Refining margins:** CPCL reported significantly higher GRMs of US$7.11/bbl as against US$5.8/bbl in Q4FY18 partly due to inventory gain, we opine.
- **Raw material cost including purchases of finished goods: Raw** material cost increased 2% qoq to Rs.91.4 bn (38% yoy) mainly due to meaningful increase in crude oil prices. In Q1FY19, Crude oil price increased by 12% qoq to US$ 71.7/bbls.
- **Employee cost:** Staff cost has decreased 34% qoq to Rs.1.3 bn (-12% yoy). Employee cost to sales ratio (%) has decreased 50 bps to 1.0%. We believe staff cost is within acceptable range.
- **Other expenses:** CPCL's other expenditure decreased marginally by 3% qoq to Rs.1.9 bn (+21% yoy). Operating cost per unit has decreased meaningfully to US$2.46/bbl (16% qoq decline). We expect it to come down, going ahead.
- **Operating profit:** CPCL reported higher EBIDTA profit of Rs.4.5 bn in Q1FY19 as against Rs.3.6 bn in Q4FY18 on account of higher refining margins and lower operating cost.
- **Interest cost:** CPCL's interest cost has increased by 25% qoq and 32% yoy to Rs.984 mn (includes preference dividend). As on 31st Mar'18, the gross debt stands lower at Rs.18.9 bn (short term and long term) as against Rs.44.98 bn as on 31st Mar'17.
- Preference Shares are treated as financial liability as per Ind AS 32, as these are redeemable on maturity for a fixed determinable amount and carry fixed rate of dividend. Correspondingly, in line with the requirements of Ind AS 32, proportionate preference dividend including dividend distribution tax thereon, has been provisionally accrued as finance cost for Q1FY19. However, as per the Companies Act 2013, the preference shares are treated as part of share capital and the provisions of the Act relating to declaration of Preference Dividend at the end of the year would be applicable.
- **Depreciation:** In Q1FY19, depreciation cost decreased 6% yoy to Rs. 1.0 bn (+45% qoq).
- **Other income:** In Q1FY19, other income has decreased meaningfully 10% qoq to Rs.81 mn (+10% qoq) party due to higher interest and dividend income earned in Q4FY18.
- **PAT:** Despite 45% qoq jump in PBT, CPCL's PAT declined 12% qoq to Rs.1.56 bn mainly on account of tax paid at a higher rate (38.38% of PBT).

Key Developments

- **Future Projects:** CPCL is currently implementing a number of projects to improve reliability, profitability and to meet product quality specifications. The total cost of these projects which are under implementation is estimated to be Rs.25.4 bn.
- With the completion of the new crude oil pipeline project, the BS-VI Project is likely to be completed in FY20.
- Re-Gasified Liquefied Natural Gas (RLNG) project is scheduled to be completed in phases from Nov 2018 onwards.
- CPCL is also planning to set up a 9 mmtpa refinery at Cauvery Basin, Nagapattinam at an estimated cost of Rs.274.5 bn (plus or minus 30%). In principle approval has been obtained for this project. The proposed new project will play an important role in meeting future energy needs of Tamilnadu State. Preparation of detailed feasibility report is underway and is expected to be completed by March 2019.

Maintain BUY

We expect CPCL to report an EPS of Rs.64.2/share in FY19E and an EPS of Rs.67.7 in FY20E supported by better distillate yields, weaker INR/USD and higher crude throughput. At CMP, we believe that the stock is attractively valued at a PE of 4.7x FY20E earnings. We maintain BUY recommendation on the stock with a unchanged price target of Rs.373/share. We have valued CPCL based on PE multiple of 5.5x FY20 (target PE), which is at a significant discount to its peers.

Valuation

Particulars Unit FY20E	Unit	
EPS (FY20E)	Rs./share	67.7
Target – P/E	Multiple (x)	5.5
Target price (Rs/share)	Rs. Mn	373
CMP	Rs. Mn	317
Potential upside/(downside)	%	18

Source: Kotak Securities - Private Client Research

Key Risk and Concerns

- Wide fluctuations in crude, forex and product prices can impact the margins.
- If global fuel supply exceeds demand then margins can be under pressure and vice-versa.
- Any delay in executing the project can significantly impact the valuations.
- Large outlay for new projects exposes CPCL to significant project implementation risks

Company background

Incorporated in 1965, Chennai Petroleum Corporation Limited (CPCL), formerly known as Madras Refineries Limited (MRL) was formed as a joint venture between the Government of India (74%, GoI), AMOCO (13%) and National Iranian Oil Company (13% equity stake) In 1985, AMOCO sold its equity stake to GOI and the shareholding pattern of GOI and NIOC changed to 84.62% and 15.38% respectively. Later in 1992, GOI disinvested 16.92% of the paid up capital in favor of Unit Trust of India, Mutual Funds, Insurance Companies and Banks, thereby reducing its holding to 67.7 %. CPCL came out with a public issue in 1994 wherein GoI and NIOC divested part of their equity stakes and CPCL's shares were listed on stock exchanges. As a part of the restructuring steps taken up by the Government of India, Indian Oil Corporation Ltd. acquired equity from GoI in FY 2001. In July 2003, NIOC transferred their entire shareholding to Naftiran Inter trade Company Limited, an affiliate, in line with the formation agreement, as part of their organizational restructuring.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**406,074**	**441,892**	**497,721**	**525,987**
% change YoY	16.2	8.8	12.6	5.7
EBITDA	**19,717**	**21,184**	**21,260**	**22,180**
% change YoY	49.1	7.4	0.4	4.3
Other Income	-277	285	370	391
Depreciation	2,786	3,402	4,163	4,315
EBIT	**16,313**	**17,738**	**17,097**	**17,865**
% change YoY	48.7	8.7	-3.6	4.5
Net interest	2,728	3,209	2,916	2,879
Profit before tax	**13,585**	**14,530**	**14,181**	**14,986**
% change YoY	NM	7.0	-2.4	5.7
Tax	3,353	5,453	4,822	5,095
as % of PBT	24.7	37.5	34.0	34.0
Profit after tax	**10,232**	**9,077**	**9,359**	**9,891**
Minority interest	0	0	0	0
Share of profit of associates	276	195	195	195
Net income	10,508	9,272	9,555	10,086
% change YoY	36.4	-11.8	3.0	5.6
Shares outstanding (m)	149	149	149	149
EPS (reported) (Rs)	**70.6**	**62.3**	**64.2**	**67.7**
CEPS (Rs)	89.3	85.1	92.1	96.7
DPS (Rs)	21.0	18.5	18.7	19.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	169	87	55.0	50.0
Accounts receivable	10,397	15,695	16,363	17,293
Inventories	32,071	47,591	53,181	56,201
Loans and Adv & Others	5,738	4,928	4,967	4,989
Current assets	48,375	68,301	74,566	78,533
Misc exp.	0	0	0	0
LT investments	1,400	1,526	1,526	1,526
Net fixed assets	66,454	73,233	78,733	84,233
Total assets	**116,229**	**143,060**	**154,825**	**164,292**
Payables	16,522	44,437	50,311	54,592
Others	6,795	24,438	21,904	23,148
Current liabilities	23,316	68,875	72,215	77,740
Provisions	2,878	3,204	3,462	3,609
LT debt	54,978	28,890	30,833	28,221
Min. int and def tax liabilities	646	2,123	2,123	2,123
Equity	1,489	1,489	1,489	1,489
Reserves	32,921	38,480	44,703	51,110
Total liabilities	**116,229**	**143,060**	**154,825**	**164,292**
BVPS (Rs)	231	268	310	353

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	16,313	17,738	17,097	17,865
Depreciation	2,786	3,402	4,163	4,315
Change in working capital	(11,851)	27,628	(2,486)	1,700
Chgs in other net current assets				
Operating cash flow	7,248	48,768	18,774	23,880
Interest	(2,728)	(3,209)	(2,916)	(2,879)
Tax	(3,353)	(5,453)	(4,822)	(5,095)
CF from operations	**1,167**	**40,106**	**11,036**	**15,906**
Capex	(10,946)	(10,181)	(9,663)	(9,815)
(Inc)/dec in investments	(1,258)	(125)	-	-
CF from investments	**(12,204)**	**(10,307)**	**(9,663)**	**(9,815)**
Proceeds from issue of equity	4,965	-	-	0
Increase/(decrease) in debt	9,372	(26,088)	1,944	(2,612)
Proceeds from share premium	-	-	-	-
Dividends	(3,519)	(3,794)	(3,349)	(3,484)
CF from financing	**10,818**	**(29,882)**	**(1,405)**	**(6,096)**
Opening cash	388	169	87	55
Closing cash	169	87	55	50

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	4.9	4.8	4.3	4.2
EBIT margin (%)	4.0	4.0	3.4	3.4
Net profit margin (%)	2.6	2.1	1.9	1.9
Receivables (days)	8.1	10.8	12.0	12.0
Inventory (days)	28.8	39.3	39.0	39.0
Sales/gross assets(x)	5.0	5.5	6.7	6.5
Interest coverage (x)	6.2	5.5	5.9	6.2
Debt/equity ratio(x)	1.6	0.7	0.7	0.5
ROE (%)	36.6	24.9	22.2	20.4
ROCE (%)	16.4	15.5	16.8	16.2
EV/ Sales	0.2	0.1	0.1	0.1
EV/EBITDA	4.7	3.1	3.2	2.9
Price to earnings (P/E)	4.5	5.1	4.9	4.7
Price to book value (P/B)	1.4	1.2	1.0	0.9

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	66104
52-wk Hi/Lo (Rs)	:	880 / 590
Face Value (Rs)	:	10
3M Avg. daily vol	:	201,367
Shares o/s (m)	:	80

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	30,337	36,028	40,723
Growth (%)	5.4	18.8	13.0
EBITDA	4,687	6,037	7,222
EBITDA margin (%)	15.5	16.8	17.7
PAT	3,230	4,180	5,205
EPS	40.4	52.2	65.1
EPS Growth (%)	7	29	25
BV (Rs/share)	266	302	349
Dividend/share (Rs)	10.0	13.0	15.1
ROE (%)	16.0	18.4	20.0
ROCE (%)	18.4	21.9	23.8
P/E (x)	20.5	15.8	12.7
EV/EBITDA (x)	13.6	10.1	7.9
P/BV (x)	3.1	2.7	2.4

Source: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	30.4	30.5	30.6
FII	26.2	26.5	24.0
DII	15.8	14.1	14.5
Others	24.2	28.9	30.9

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Persistent Systems	1.8	2.3	5.9
Nifty	5.6	5.4	2.4

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

PERSISTENT SYSTEMS LTD (PERSISTENT)

PRICE RS.827 **TARGET RS.1025** **BUY**

Persistent Systems expects its robust pipeline to drive growth, going forward. The Company alluded that it is aggressively investing in sales and marketing which will boost its topline. Wage hike in Q2FY19 will impact its margins (250 bps impact) but company is confident of margin improvement in FY19. With strong balance sheet, it is looking for acquisitions of smaller businesses in healthcare, data and machine learning, and which can support geographical expansion. Persistent's consolidated revenue increased by 6% qoq in US$ terms to US$ 124 mn (+9% yoy) led by 30% qoq (base effect) and 10% yoy jump in high-margin IP revenue (US$ 34mn).

Key Highlights

- Consolidated revenues increased by 11% qoq and 15% yoy to Rs.8.3 bn supported by 46% qoq (partly base effect) and 26% yoy jump in Alliance (IBM) revenue. Notably, Digital revenue declined marginally on qoq basis to Rs.1.79 bn (-1% qoq) due to some projects completed but there was some delay in commissioning of new projects. However, the company's management highlighted that it is confident of achieving its full year digital revenue target in 9MFY19.
- Recently, it has invested in and entered into a strategic partnership with US based big data as a service firm, Cazena. The partnership combines Cazena's Big data as a service platform with Persistent's ShareInsights analytic solution and machine learning and artificial intelligence data solutions to create a self-service data lake.
- Notably, European region contributed 12% (highest ever) of the total revenue while the North American business went below 80% (first time) reflecting Persistent's focus and investments made in Europe. In Europe, it has already added 15 people and expects to add 3 more people in sales and marketing team.
- The company has realigned its business segments. PLM has moved to alliance segment and NEURO has been sifted to Accelerite business.
- The board has recommended a final dividend of Rs.3/share resulting in a total dividend of Rs.10/share for FY18.

Valuation & outlook

We expect Persistent to report an EPS of Rs.52.2/share in FY19E and an EPS of Rs. 65.1/share in FY20E. Management pointed to a strong pipeline with significant wins particularly in the field of Neuro sciences. Margin improvement and strong revenue visibility makes us positive on its growth prospects.

We maintain BUY rating on Persistent and a multiple based price target of Rs.1,025/share. Additionally, cash rich balance sheet, strong free cash flow and healthy return ratios (ROE 16+% and ROCE 18+%) also provide high comfort. At CMP, the stock is valued at 7.9x EV/EBITDA and 12.7x P/E on FY20 basis. We have valued the stock at 15.6x PE multiple at a discount to its peers.

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Quarterly result update

P&L A/C (Rs. Mn)	Jun-18	Mar-18	Jun-17	YoY (%)	QoQ (%)
Services revenue(US$ Mn)	90	91	82	9.2	(1.2)
IP Led-IBM Alliance (US$ Mn)	34	26	31	9.9	29.6
Cons. Revenue (US$ Mn)	124	117	113	9.4	5.7
Revenue Mix (%)	**Jun-18**	**Mar-18**	**Jun-17**	**YoY (bps)**	**QoQ (bps)**
Services/Linear revenue (%)	73%	78%	73%	(0.1)	(5.0)
IP Led includes IBM Alliance (%)	27%	22%	27%	0.1	5.0
Avg. Exchange Rate Rs./US$	67.50	64.4	64.44	5	5
Cons. Revenues (INR mn)	8,343	7,525	7,280	14.6	10.9
Cost of revenues	5,373	4,918	4,783	12.3	9.2
Cost of revenues to sales (%)	64.40	65.35	65.70	(1.3)	(1.0)
Gross profit	**2,970**	**2,607**	**2,497**	**18.9**	**13.9**
Gross margin (%)	35.6	34.6	34.3	1.30	1.0
SG&A expenses					
SG&A expenses to sales (%)	1,570	1,497	1,453	8.0	4.9
EBITDA	**18.8**	**19.9**	**20.0**	**(1.2)**	**(1.1)**
Operating margin (%)	1,400	1,111	1,044	34.2	26.1
Depreciation	401	421	392	2.3	(4.8)
EBIT	**1,000**	**690**	**652**	**53.4**	**44.9**
Depreciation to Sales (%)	4.8	5.6	5.4	(0.6)	(0.8)
Other income + Forex gain	187	294	368	(49)	(36)
PBT	**1,186**	**983**	**1,019**	**16**	**21**
Extra ordinary Exps/(Income)	-	-	-		
Tax	313	246	269	16.5	27
Effective tax rate (%)	26.37	25.06	26.34	0.03	1.32
PAT	**873**	**737**	**751**	**16.3**	**18**
PAT margin (%)	10.5	9.8	10.3	0.2	0.7
EPS (Rs)	**11**	**9**	**9**	**16.3**	**18**

Source: company

Note: Services revenue is linear revenue. In Q4FY18, Persistent has shut-down rcloud (migration product) as it was not contributing meaningfully and was unviable. Q4FY18, was a challenging due to de-growth in IP led revenue.

Segmental details

Segments: Revenue Mix	Jun-18	Mar-18	Jun-17	YoY (ppt)	QoQ (ppt)
Services	41.5%	45.5%	44.5%	(3.0)	(4.0)
Digital	21.4%	24.0%	18.0%	3.4	(2.6)
Alliance	32.1%	24.3%	29.2%	2.9	7.8
Accelerite (Cloud, Endpoint mgt, IoT and Analytics)	5.0%	6.2%	8.3%	(3.3)	(1.2)
Geography: Revenue Mix	**Jun-18**	**Mar-18**	**Jun-17**	**YoY (ppt)**	**QoQ (ppt)**
North America	79.7%	80.9%	85.5%	(5.8)	(1.2)
Europe	12.00%	8.2%	5.90%	6.1	3.8
India	6.1%	7.9%	5.9%	0.2	(1.8)
ROW	2.20%	3.0%	2.70%	(0.5)	(0.8)
Industry Classification	**Jun-18**	**Mar-18**	**Jun-17**	**YoY (ppt)**	**QoQ (ppt)**
ISV-Service business (Independent Software Vendor/Legacy business)	38.8%	41%	40.8%	(2.0)	(1.8)
Enterprise	33.8%	37%	32.0%	1.8	(3.3)
IP Led (Product business)	27.40%	22%	27.20%	0.2	5.1

Revenue by delivery Centers	Jun-18	Mar-18	Jun-17	YoY (ppt)	QoQ (ppt)
Global Development Centers/Onsite-Dublin, Ohio	31.1%	34.1%	29.9%	1.2	(3.0)
India	41.5%	43.6%	42.9%	(1.4)	(2.1)
IP Led	27.4%	22.3%	27.2%	0.2	5.1

Particulars	Jun-18	Mar-18	Jun-17	YoY (%)	QoQ (%)
Clients billed	619	603	609	2	3
Services	438	426	303	45	3
IP Led	181	177	306	(41)	2

Includes one time clients with overlap across business offerings

Revenue Concentration	Jun-18	Mar-18	Jun-17	YoY (ppt)	QoQ (ppt)
Top 1	23.80%	21.7%	27.90%	(4.1)	2.1
Top 5	43.80%	40.9%	45.70%	(1.9)	2.9
Top 10	53.70%	49.9%	55.20%	(1.5)	3.8

Client Engagement Size	Jun-18	Mar-18	Jun-17
Large > $ 3M	18	18	18
Medium > $ 1M, < $ 3M	58	53	52

DSO	Jun-18	Mar-18	Jun-17	YoY (%)	QoQ (%)
Days nos	68	66	64	6	3
Yield (USD / PPM)	5,497	5,225	4,966	11	5

Yield is computed as a ratio of total revenue to billable person months excluding employees under training.

Linear Rev Per Billed Person Month	Jun-18	Mar-18	Jun-17	YoY (%)	QoQ (%)
Global Delivery centers – Linear	16,360	16,662	16,037	2	(2)
India - Linear	4,333	4,349	4,212	3	(0)
Attrition Rate (TTM basis) %	14.80%	14.70%	15.50%		

Net hiring	Jun-18	Mar-18	Jun-17	YoY (%)	QoQ (%)
People Numbers	8,902	8,976	9,401	(5)	(1)
Technical	8,196	8,329	8,744	(6)	(2)
Sales & Business Development	237	211	210	13	12
Others	469	436	447	5	8

Efforts and Utilization Mix - Linear	Jun-18	Mar-18	Jun-17	YoY (%)	QoQ (%)
Billable Person Months	17,593	17,382	17,636	(0)	1.2
a). Global Delivery Centers	2,757	2,713	2,431	13	1.6
b). India	14,836	14,669	15205	(2)	1.1
Billed Person Months	14,205	14,119	13,611	4	0.6
a). Global Delivery Centers	2,348	2,391	2,104	12	-1.8
b). India	11,857	11,728	11,507	3	1.1
Utilization (%)	Jun-18	Mar-18	Jun-17	YoY (ppt)	QoQ (ppt)
a).Linear (Blended)	80.70%	81.2%	77.20%	3.5	(0.5)
b). Global Delivery Centers	85.20%	88.2%	86.60%	(1.4)	(3.0)
c). India	79.90%	79.9%	75.70%	4.2	0.0

Source: company

Quarterly result analysis

- **Revenue in US dollar terms:** Persistent's Q1FY19 consolidated revenue increased by 6% qoq in US$ terms to US$ 124 mn (+9% yoy) led by 30% qoq (base effect) and 10% yoy jump in high-margin IP revenue (US$ 34mn).
- **Revenue (Rupee terms):** Consolidated revenues increased by 11% qoq and 15% yoy to Rs.8.3 bn supported by 46% qoq (base effect) and 26% yoy jump in Alliance (IBM) revenue. Notably, Digital revenue declined marginally on qoq basis to Rs.1.79 bn (-1% qoq) due to some projects completed but there was some delay in starting the new projects. However, the company's management highlighted that it is confident of achieving its full year digital revenue target.
- **Staff Cost:** Employee cost increased by 2% qoq to Rs.4.8 bn (+6% qoq) in Q1FY19. Staff cost to revenue (percent) decreased 479 bps qoq to 57% (-443 bps yoy).
- **Project related Travel Expenses:** Travel expenses as a percent of revenue went marginally up by 40 bps to 2.4%. In absolute terms, travel expenses have increased by 13% qoq to Rs. 199 mn (2% qoq).
- **Gross Profit:** In Q1FY19, gross profit jumped meaningfully by 14% qoq and 19% yoy to Rs.2.97 bn supported by higher revenues and lower cost of revenue.
- **SG&A expenses:** The Company's SG&A expenses increased 5% qoq to Rs.1.57 bn (+8% yoy). In Q1FY19, SG&A expenses as a percent of revenues decreased by 110 bps qoq to 18.8%.

Expenses (Rs. Mn)

	Jun-18	Mar-18	Jun-17	YoY (%)	QoQ (%)
Staff costs	4,761	4,655	4,477	6	2
Purchase / Royalty	413	86	110	276	377
Project related Travel	199	177	196	2	13
Sales & Marketing	773	695	656	18	11
Admin. & Other	741	770	765	(3)	(4)
Doubtful Debt Provision	37	10	11	235	271
CSR Activities	18	22	21	(14)	(17)
Total	6,942	6,415	6,237	11.3	8.2
Expenses Ratio (%)	**Jun-18**	**Mar-18**	**Jun-17**	**YoY (ppts)**	**QoQ (ppts)**
Staff to Revenue	57	61.9	61	(4.4)	(4.8)
Purchase / Royalty to IP Revenue only	18.1	5.2	5.5	12.5	12.9
Project related Travel Expenses to Revenue	2.4	2.3	3	(0.3)	0.0
Sales & Marketing Exps to Revenue	9	9.2	9	0.3	0.0
Admin. & Other Exps to Revenue	9	10.2	11	(1.6)	(1.3)
Doubtful Debt Provision to Revenue	0	0.1	0	0.3	0.3
CSR Activities to Revenue	0	0.3	0	(0.1)	(0.1)
Total expenses to Revenue	83	85.2	86	(2.5)	(2.0)

Source: company

- **Operating profit (Rs. Mn):** The management attributed increase in operating profit to higher of IP revenue in this quarter. Persistent reported meaningful increase in EBIDTA to Rs.1.4 bn in Q1FY19 (26% qoq and 34% yoy).
- **Operating margin (%):** EBITDA margin increased sharply to 16.8% (+200 bps qoq), due to the higher contribution from high margin IP revenues.

Margin Ratio (%)

	Jun-18	Mar-18	Jun-17	YoY (ppts)	QoQ (ppts)
EBITDA Margin	16.8	14.8	14.3	2	2
EBIT Margin	12.0	9.2	9.0	3	3
Adj PAT Margin	10.5	9.8	10.3	0	1
Other Income/PBT	15.7	29.9	36.1	(20)	(14)
Tax/PBT	26.4	25.1	26.3	0	1

Source: company

- **Depreciation charge:** Depreciation has increased 5% qoq, due to accelerated depreciation provided for old acquisitions in Q4FY18. Depreciation as a percentage of revenue stands at 4.8% in Q1FY19 v/s 5.6% in Q4FY18.
- **Other income:** In Q1FY19, other income decreased 36% qoq (base effect) to Rs.187 mn (-49% yoy) due to lower forex exchange gain of Rs.20.6 mn vs Rs.149.54 mn in Q4FY18. Other income consists of interest, forex gain and dividend income.
- **Profit before tax (PBT):** Persistent's PBT increased 21% qoq and 16% yoy to Rs.1.2 bn in Q1FY19, supported by higher operating income which has off-set the decline in other income.
- **PAT:** Persistent's PAT has increased 18% qoq to Rs.873 mn (16% yoy) due to higher PBT but marginally impacted by higher taxes paid.

Key margin drivers

	Jun-18	Mar-18	Jun-17	YoY (%)	QoQ (%)
Exchange rate (Rs./USD)	67.5	64.4	64.4	4.7	5
Consolidated revenues (Rs. mn)	8,343	7,525	7,280	14.6	11
A. EXECUTION METRICS					
Utilization (Blended)	80.7%	81.2%	77.2%	4%	-1%
Average realization (USD/p-m) - Blended					
Onsite	16,360	16,662	16,037	2.0	(2)
Offshore	4,333	4,349	4,212	2.9	(0)
Billed effort – Services (p-m) - Total					
Onsite	2,348	2,391	2,104	11.6	(2)
Offshore	11,857	11,728	11,507	3.0	1
B. COST DRIVERS					
Wage costs (INR mn)	4,761	4,655	4,477	6.3	2
Employee to Revenue (%)	57.1	61.9	61.5	(4.43)	(4.8)
SG&A (INR mn)	1,570	1,497	1,453	8.0	5
SG&A to revenues (%)	18.8	19.9	20.0	(1.15)	(1.1)
EBITDA (INR mn)	1,400	1,111	1,044	34.2	26
EBITDA margin	17	15	14	2.45	2.0

Source: company

Key manpower and execution metrics

Jun-18	Mar-18	Jun-17	YoY (%)	QoQ (%)	
Total headcount	8,902	8,976	9,401	(5)	(1)
Cons. Revenues (INR mn)	124	117	113		
Technical (no. of employees)	8,196	8,329	8,744	(6)	(2)
Revenue Productivity ($/employee)		14,041			
Sales & Business Development	237	211	210	13	12
Support	469	436	447	5	8
Net additions - Technical	-133	0	-64		
- As % of opening base	-1.5%	0.0%	-0.7%		
Attrition – LTM	14.8%	14.7%	15.5%		

Source: company

Industry classification

	Jun-18	Mar-18	Jun-17	YoY (bps)	QoQ (bps)
Distribution					
ISVs (part of Service)	38.8%	40.6%	40.8%	(2.0)	(1.8)
Enterprise	33.8%	37.1%	32.0%	1.8	(3.3)
IP Led (Product business)	27.4%	22.3%	27.2%	0.2	5.1
Revenue (USD mn and growth)					
ISVs	48.0	47.5	46.1	4.0	1
Enterprise	41.8	43.4	36.2	15.6	(4)
IP Led	33.9	26.1	30.7	10.2	30

Source: company.

Note: ISVs includes product development work for product companies. ISV is not classified as digital and non-digital segment.

Investment Arguments:

- **Persistent to beat Nasscom's growth guidance:** Nasscom has guided for IT services exports growth of 7-9% in c/c (constant currency) for FY19 as against 7 % in FY18. Persistent is optimistic in beating Nasscom's growth forecast backed by growth in new businesses.
- **Strong pipeline:** It has made significant wins in the field of neurosciences which has helped in building strong pipeline. Parx has good growth potential and has built a healthy pipeline.
- **Digital solutions will accelerate top-line growth:** Digital is an important part of Persistent's future growth journey and revenue from digital business is continuously growing. Persistent is seeing strong traction and wining projects, where customers are looking at custom built development on newer technology. Just to highlight, Digital revenue contribution has grown meaningfully from 14% of the
- **New product launches:** Persistent's strategy is to focus on collaborative innovation/co-creation model to build new business models and revenue streams. It has already successfully created a new digital solution in collaboration with its existing clients. We expect co-creation model to start showing meaningful results from H1FY19 and onwards.
- **Revenue growth and margin improvement to drive earnings**: Persistent's management is aggressively focusing on digital business and expects overall double-digit revenue growth for FY19E supported by healthy traction in digital business-Healthcare and BFSI. According to NASCCOM, social, mobility, cloud, analytics and IoT are estimated to comprise ~20% of IT revenue in 2020.
- Persistent has indicated that profit margin improvement will happen due to couple of factors such as 1) Better business mix, 2) Improvement in utilization levels, 3) Higher IP deals and 4) Higher onsite utilization. The company has indicated that new deals are generating better revenues and hence higher margins are long-term sustainable. Further, it is focusing more on IP and digital business which enjoys better margins than traditional business. We expect Persistent to report an EBITDA margin of 16.8%/17.7% in FY19E and FY20E, respectively vs. 15.5% in FY18.
- **Focus on sales and marketing:** The Company believes it has strong portfolio (IBM and IP) to cater and hence is aggressively investing in sales and marketing (v/s reduced re-engineering spends) which will boost its topline. Further, with the inclusion in the IBM reseller list and expansion of its sales

team should help it to reach out to IBM clients in Europe, directly boosting the company's revenue growth prospects.

- **Healthy Financials:** Over FY14-18, Persistent has posted revenue growth of 16% CAGR, generated healthy RoCE/ROE of above 18%/16%, respectively and maintained 23% plus dividend payout. We expect EPS to grow at 26% CAGR over the next two years (FY18-FY20E), driven by higher revenue growth and improvement in EBITDA margins. Lot of headwinds such as volatility in profitability and delay in revenue generation from IBM IoT deal during FY18 seems to be over.

Maintain BUY

We expect Persistent to report an EPS of Rs.52.2/share in FY19E and an EPS of Rs. 65.1/share in FY20E. Management pointed to a strong pipeline with significant wins particularly in the field of Neuro sciences. Margin improvement and strong revenue visibility makes us positive on its growth prospects.

We maintain BUY rating on Persistent and a multiple based price target of Rs.1,025/share. Additionally, cash rich balance sheet, strong free cash flow and healthy return ratios (ROE 16+% and ROCE 18+%) also provide high comfort. At CMP, the stock is valued at 7.9x EV/EBITDA and 12.7x P/E on FY20 basis. We have valued the stock at 15.6x PE multiple at a 30% discount to TCS.

Valuation

Particulars Unit FY20E	Unit	
EPS (FY20E)	Rs./share	65.0
Target – P/E	x	15.7
Target price (Rs/share)	Rs. Mn	1025
CMP	Rs. Mn	827
Potential upside/(downside)	%	24

Source: Kotak Securities - Private Client Research

Key Risk and Concerns:

- Wide currency fluctuation and INR appreciation will impact earnings. 80%-90% of Persistent's foreign currency exposure is in USD.
- High client concentration – Top 1 client contributes >25% of the revenue.
- Continuous declining margins.
- Event-specific risks could impact IT budgets, cut discretionary spend and delay new deals.
- Higher investment in new products will put pressure on margins.
- Volatility in revenues sourced through the partners.

Company Background

Incorporated in 1990, Persistent is founded by Mr. Anand Deshpande. In 2000, it became one of the first companies in Asia to receive an investment from Intel 64 LLC. The Company provides product engineering services, platform based solutions and IP-based software products to its global customers. It designs, develops and maintains software systems and solutions, creates new applications and enhances the functionality of the customer's existing software products.

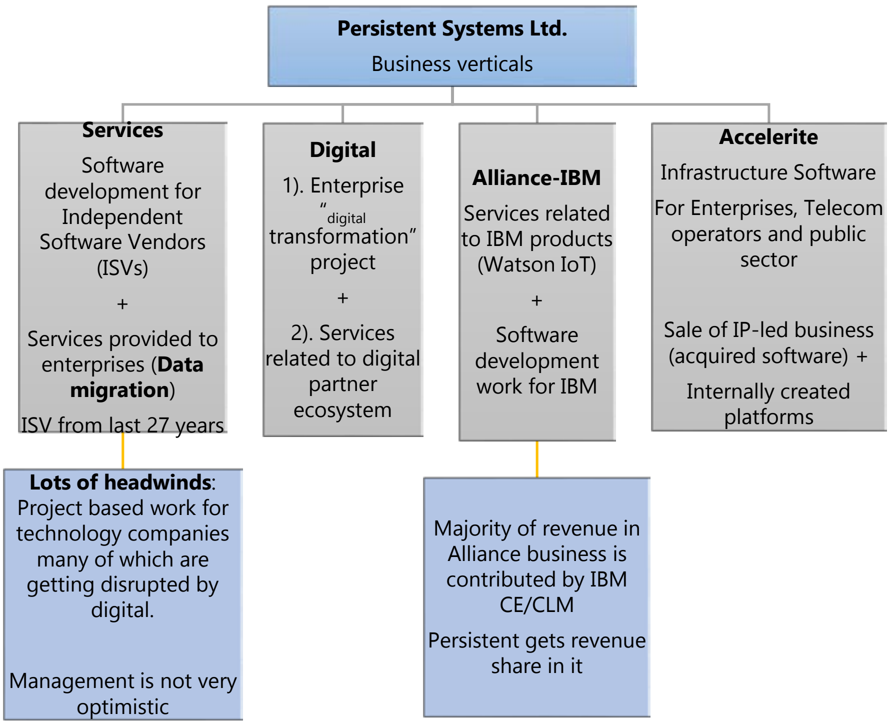
Note: Product engineering service can be defined as an engineering consulting activity, which uses various hardware, embedded, software and IT services solution for the designing and development of products.

It delivers services across all stages of the product life–cycle, which enables it to work with a wide–range of customers and allows it to develop, enhance and deploy its customers' software products. It has been recognized as one of the leading technology companies in the Deloitte Touche Tohmatsu Technology Fast 500 Asia Pacific 2009.

Persistent specializes in software product and technology services and has delivery centers in North America, Europe, and Asia. It has over 9,000 team members worldwide. The company is helping enterprises to transform their business to software-driven business. It has moved from effort-based company (limitations) to value-based company. Further, it has strong foot hold in building software products which offers a distinct advantage and a broader market for growth. It develops best-in-class solutions in key next-generation technology areas including Analytics, Big Data, Cloud Computing, Mobility and Social, for the healthcare and banking & financial services verticals.

Persistent has reorganized its business to four key growth areas which clearly highlights its focus areas. The company has transformed its business from outsourced product development to helping its customers to become software-driven business.

Four key business verticals



Source: Kotak Securities - Private Client Research. Note: CE: Continuous Engineering and CLM: Collaborative lifecycle management

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**28,784**	**30,337**	**36,028**	**40,723**
% change YoY	24.5	5.4	18.8	13.0
EBITDA	**4,653**	**4,687**	**6,037**	**7,222**
% change YoY	11.6	0.7	28.8	19.6
Other Income	843	1,190	1,262	1,477
Depreciation	1,490	1,585	1,755	1,849
EBIT	**4,007**	**4,293**	**5,544**	**6,850**
% change YoY	1.3	7.1	29.2	23.5
Net interest	1	1	1	1
Profit before tax	**4,006**	**4,292**	**5,543**	**6,849**
% change YoY	1.3	7.1	29.2	23.6
Tax	992	1,062	1,364	1,644
as % of PBT	24.8	24.7	24.6	24.0
Profit after tax	**3,014**	**3,230**	**4,180**	**5,205**
Minority interest	0	0	0	0
Share of profit of associates	0	0	0	0
Net income	**3,014**	**3,230**	**4,180**	**5,205**
% change YoY	1.4	7.2	29.4	24.5
Shares outstanding (m)	80	80	80	80
EPS (reported) (Rs)	**37.7**	**40.4**	**52.2**	**65.1**
CEPS (Rs)	54.4	52.9	67.2	80.3
DPS (Rs)	9.0	10.0	13.0	15.1

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,510	2,414	5,316	9,259
Accounts receivable	4,754	4,847	5,922	6,694
Inventories	0	0	0	0
Loans and Adv & Others	4,406	4,714	4,714	4,714
Current assets	10,669	11,975	15,953	20,667
Misc exp.	0	0	0	0
LT investments	6,839	8,797	8,797	8,797
Net fixed assets	5,649	5,174	4,890	4,652
Total assets	**23,157**	**25,947**	**29,640**	**34,116**
Payables	1,209	1,673	1,875	2,120
Others	1,428	1,344	1,597	1,805
Current liabilities	2,637	3,018	3,472	3,925
Provisions	1,701	2,011	2,341	2,613
LT debt	22	17	0	0
Min. int and Others	-196	-372	-372	-372
Equity	800	800	800	800
Reserves	18,194	20,473	23,399	27,150
Total liabilities	**23,157**	**25,947**	**29,640**	**34,116**
BVPS (Rs)	237	266	302	349

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	4,007	4,293	5,544	6,850
Depreciation	1,490	1,585	1,755	1,849
Change in working capital	(865)	113	(290)	(47)
Chgs in other net current assets	-	-	-	-
Operating cash flow	4,632	5,990	7,008	8,652
Interest	(1)	(1)	(1)	(1)
Tax	(992)	(1,062)	(1,364)	(1,644)
Cash flow from operations	**3,639**	**4,928**	**5,644**	**7,007**
Capex	(2,503)	(1,110)	(1,471)	(1,611)
(Inc)/dec in investments	(455)	(1,958)	-	-
Cash flow from investments	**(2,958)**	**(3,068)**	**(1,471)**	**(1,611)**
Others	268	12	-	-
Increase/(decrease) in debt	(11)	(5)	(17)	-
Proceeds from share premium	-	-	-	-
Dividends	(867)	(963)	(1,254)	(1,454)
Cash flow from financing	**(610)**	**(956)**	**(1,271)**	**(1,454)**
Opening cash	1,439	1,510	2,414	5,316
Closing cash	1,510	2,414	5,316	9,259

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	16.2	15.5	16.8	17.7
EBIT margin (%)	13.9	14.1	15.4	16.8
Net profit margin (%)	10.5	10.6	11.6	12.8
Receivables (days)	60.3	58.3	60.0	60.0
Inventory (days)	-	-	-	-
Sales/gross assets(x)	1.6	1.5	1.5	1.5
Interest coverage (x)	-	-	-	-
Debt/equity ratio(x)	0.0	0.0	-	-
ROE (%)	16.9	16.0	18.4	20.0
ROCE (%)	21.6	18.4	21.9	23.8
EV/ Sales	2.2	2.1	1.7	1.4
EV/EBITDA	13.9	13.6	10.1	7.9
Price to earnings (P/E)	22.0	20.5	15.8	12.7
Price to book value (P/B)	3.5	3.1	2.7	2.4

Source: Company, Kotak Securities – Private Client Research

Forthcoming Events

Forthcoming events

Date	Event
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
4-Aug	Divis Lab, Lloyd Steel, Wockhardt earnings expected
6-Aug	Adani Ports, Adani Power, Avanti Feeds, Britannia, Dena Bank, Vesuvius earnings expected
7-Aug	Adani Ent, Balkrishna Ind, M&M, Motherson Sumi, Mphasis, Sobha, SRF, Trident, TVS Motor, Wonderla Holidays earnings expected

Source: www.bseindia.com

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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.
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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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