Initiating Coverage

AUGUST 7, 2018

ESSEL PROPACK LTD

PRICE RS. 105 **TARGET RS.140** **BUY**

Essel Propack (ESEL) is a global leader in laminated, extruded plastic tubes and speciality packaging with a global market share of ~36% in oral care category. Diversification to non-oral care (relatively higher realisation) has augured well for the company. It has helped Essel Propack Ltd (ESEL) to increase its EBITDA margin to 19% at the end of FY18 from 16.7% in FY14, largely backed by increasing share of non-oral care business. Given its strong R&D efforts and expertise, ESEL has successfully converted many plastic/aluminum tubes into non-oral care laminated tubes. A pioneer in oral care tube manufacturing, ESEL has successfully captured the market share in India (65%) and globally (36% in oral care) by entering the appropriate geographies at the right time and backed by region-specific strategy.

With a dominant market share in oral care, EPL is focusing on improving revenue from non-oral care segments such as beauty, cosmetics and pharma to maintain growth. We believe that, focus to increase the contribution of non-oral care segment to 50% should help the company to sustain its EBITDA margin at 19-19.5% in the coming years. Besides this, business development in Europe could be the key driver for future earnings. We model revenue and earnings CAGR of 10% and 25%, respectively during FY18-FY20E period, led by AMESA and EUROPE region. At CMP, the stock is trading at 15.8x/12.9x FY19E/FY20E. We initiate coverage with BUY rating, and a target price of Rs140, valuing it at 17x FY20E earnings.

Key investment argument

- **Leader with 36% market share:** ESEL is the global leader in laminated tubes globally, with a market share of 36%. The company manufactures laminate tubes for oral (59% market share) as well as non-oral care (41%) segments. In the domestic market ESEL has a share of 65% and was the first company to spot the gap for a need in plastic/laminated tubes in India. Having established global leadership with laminated tubes for the oral care category, the company began to pursue a considerably bigger market opportunity in the non-oral care category. ESEL has a footprint across the globe, with presence in 11 countries and having 19 manufacturing facilities. It has divided its operations into four regions AMESA, America, Europe and EAP.

- **Non-oral care to support growth:** Oral care segment consists more of staple products and is driven by the sales force, while the non-oral (dominated by toiletries, skin care and shampoo) segment is product development driven and requires R&D and innovations. The non-oral care segment is more than 3x in value terms compared to the oral care segment. Pharma and healthcare segment is 2.5x and beauty segment is 3.5-4x of oral segment. The total market size for non-oral care is estimated to be ~20-22bn tubes as compared to 14bn tubes oral market size. Hence, the company is aiming to increase the revenue contribution from non-oral category to 50% in the next three years from 41% in FY18. ESEL would be focusing on Emerging markets and Europe (biggest non-oral care market) to drive revenue from the non-oral care segment. We expect, the higher contribution from non-oral care should help the company to sustain its EBITDA margin at 19-19.5% in the coming years.

Stock Details

Market cap (Rs mn)	:	32977
52-wk Hi/Lo (Rs)	:	159 / 102
Face Value (Rs)	:	2
3M Avg. daily vol	:	108,756
Shares o/s (m)	:	314

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	24,464	26,339	29,431
Growth (%)	6.3	7.7	11.7
EBITDA	4,648	5,004	5,739
EBITDA margin (%)	19.0	19.0	19.5
PAT	1,716	2,105	2,576
EPS	5.5	6.7	8.2
EPS Growth (%)	(9.8)	22.7	22.4
BV (Rs/share)	40	45	52
Dividend/share (Rs)	1.2	1.2	1.5
ROE (%)	13.2	14.9	15.8
ROCE (%)	12.2	12.8	14.3
P/E (x)	19.4	15.8	12.9
EV/EBITDA (x)	7.4	6.3	5.5
P/BV (x)	2.7	2.4	2.0

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	57.2	57.2	57.2
FII	15.2	15.4	15.5
DII	5.0	5.0	5.1
Others	22.6	22.4	22.3

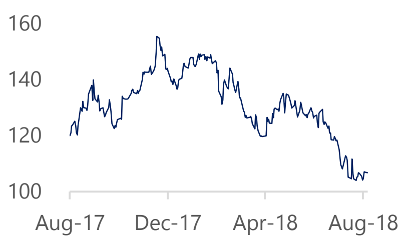
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Essel Propack Ltd	(3.0)	(19.7)	(20.9)
Nifty	5.7	6.3	8.7

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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- **Stabilisation in Europe business to boost earnings:** Europe operations was a setback since 2008, when ESEL shifted its manufacturing operations from UK to Poland to bring down costs. In FY18, the European region contributed ~22% of the revenue, but EBIT remained under pressure due to the implementation of different cost effective programmes, stabilisation of the Poland unit and lower offtake from new clients in various geographies. EBIT margin turned positive in Q4FY18 to 3.7% as compared to -1.1% in 3QFY18. 1QFY19 margin stood at 1.5%. Stabilisation of the unit and new long term contracts are expected to translate to higher operating leverage and reducing fixed cost. We expect the momentum to continue in the coming years as well, due to decent pipeline, inquiries and ESEL's efforts to bring EDG at the level of overall Europe's profitability.

Outlook

The EDG acquisition and increase customer offtake, coupled with demand recovery in India (post GST implementation), is expected to support the recovery in the EU and AMESA region. Further, with company's focus on increasing contribution from non-oral care segment across geographies, we expect EBITDA margin to sustain at 19-19.5%. We model revenue and earnings CAGR of 10% and 25%, respectively, during the FY18-FY20E period, led by AMESA and EUROPE region. Large non-oral care market and better utilisation of assets at Europe, make ESEL a good investment opportunity. At CMP, the stock is trading at 15.8x/12.9x FY19E/FY20E. We initiate coverage with BUY rating, and a target price of Rs140, valuing it at 17x FY20E earnings.

Key Risks

a) raw material risks (linked to crude prices); b) risk related to overseas operation and c) backward integration by customers.

ABOUT THE COMPANY

Essel Propack (ESEL) is a part of the US$4.2bn Essel group with a turnover of over US$372mn in FY18. It is the largest global specialty packaging company manufacturing laminated, seamless or extruded plastic tubes catering to the FMCG and pharma space. Employing over 2,600 people in 11 countries working through 19 state-of-the-art facilities, Essel is the largest global specialty packaging company in the world, offering preferred solutions to leading brands. The company dominates the oral care market with global market share of 36% and 65% market share in India.

ESEL's operations are spread across regions like AMESA (Africa, Middle East & South Asia - Egypt and India), EAP (China and Philippines), Americas (US, Mexico and Colombia) and Europe (UK, Germany, Poland and Russia). The company incurred significant losses from its European operations when it moved the plant to Poland from the UK in FY07. With operational efficiencies and improvement in orders, ESEL was able to turn around its European operations into profitable units by FY15.

Management Team

Name	Designation	Profile
Mr. Ashok Goel	Chairman and Managing Director	Mr. Ashok holds a Bachelor of Commerce Degree and is an experienced businessman who also oversees the management of the Essel Group's three existing leisure properties, Essel World, Water Kingdom and Fun Kingdom.
Mr. M. R. Ramasamy	Chief Operating Officer	Mr. Ramasamy was managing the international businesses of the company in the capacity of President – International Business. In earlier portfolios he has led several verticals within the firm, holding positions of Manufacturing & Technology (Global), Chief Technology Officer, Director – Corporate Affairs, and Sr. Vice President – Operations and Supply Chain.

Source: Company

Product Range and Revenue Contribution

Source: Company

INVESTMENT ARGUMENTS

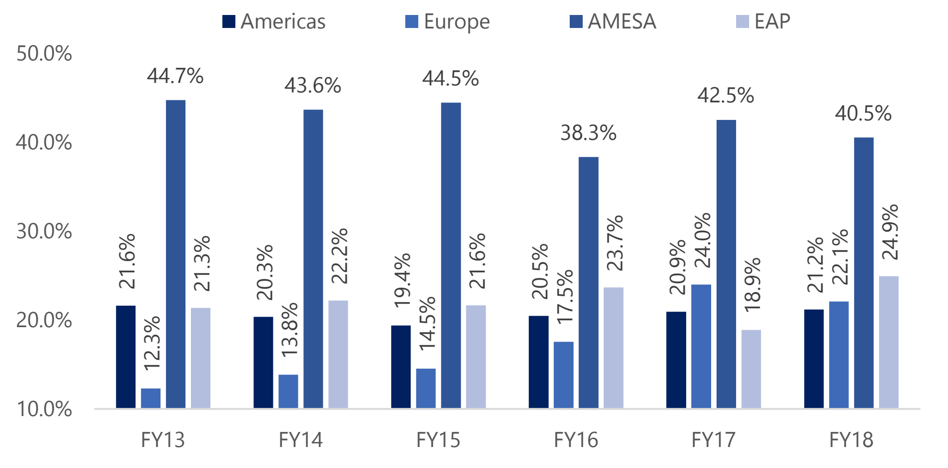
Leader with 36% market share

Oral care accounts for 59% and non-oral care accounts for 41% of the revenue

ESEL is the global leader in laminated tubes, with a market share of 35% in volume terms (of which oral care market share is ~36-37% and non-oral care is 3-4%). ESEL is the world's largest manufacturer with units operating across countries such as USA, Mexico, Colombia, Poland, Germany, Egypt, Russia, China, Philippines and India. These facilities cater to diverse categories that include brands in Beauty & Cosmetics, Pharma & Health, Food, Oral and Home, offering customized solutions through continuously pioneering first-in-class innovations in materials, technology and processes. Globally, the oral care industry is dominated by the two biggest players Colgate and Proctor & Gamble (P&G), which hold more than 50% market share together. EPL's client list includes the world's biggest oral and non-oral care players such as Colgate, Uniliver PLC, P&G, GSK etc.

The company manufactures laminate tubes for oral (59% revenue contribution) as well as non-oral care (41%) segments. In the domestic market ESEL has a share of 65% and was the first company to spot the gap for a need in plastic/laminated tubes in India. Having established global leadership with laminated tubes for the oral care category, the company began to pursue a considerably bigger market opportunity in the non-oral care category. ESEL has a footprint across the globe, with a presence in 11 countries and 19 manufacturing facilities. It has divided the operations into four regions AMESA, America, Europe and EAP

Region wise revenue contribution



Source: Company, Kotak Securities – Private Client Research

Inventor in oral care in domestic market

India's oral care tube market is dominated by ESEL. The company was the pioneer in the domestic market to spot the gap for a need to convert plastic tubes/aluminium to laminated tubes and has witnessed exponential growth since it was started over 30 years ago. Having adopted a specialized approach towards creating packaging solutions for a diversity of industry segments, the company has earned respect and credibility across the globe. The company caters to some of the most respected names in the pharmaceutical, cosmetic and healthcare segments. Laminated tubes have ~15-20 layers of film compared to plastic tubes (four to five layers), which gives strength and ease of flow to the paste. Aluminium tubes are almost out of the oral care market, but have a prominent share in pharmaceutical and health care market.

Oral care segment is expected to grow at 7% CAGR during 2018-2021

India oral care market has shown tremendous growth by value & volume in the last few years in FMCG sector of India. Growing oral care market is driven by changes in lifestyle of consumers, demand of premium products, rise of disposable income etc. India Oral care market is sub-divided into 5 categories includes toothpaste, toothbrushes, toothpowder, mouthwash and others. Toothpaste is dominant in the oral care market. Per capita consumption of oral care products in India is low compared to U.S & China and penetration level in rural area is low, which poses latent opportunities for top players for growth of oral care products in India. As per statista, revenue in the oral Care segment amounted to US$600m in 2018 and the market is expected to grow annually by 7.0% (CAGR 2018-2021). As per IBEF, Colgate is the market leader in oral care segment with a market share of 54.9%, followed by HUL (30%) and Dabur (14%), are customers of ESEL

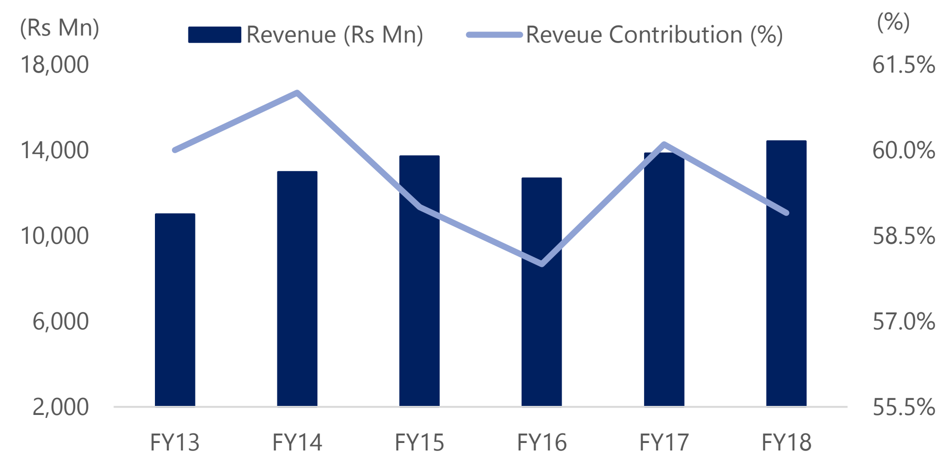
The oral care market is ~14bn tubes and the pace at which conversion is happening in India, we believe, ESEL's presence in the right segment, stands to gain in the coming years. The oral care segment account for 59% of the revenue, which is on declining trend. The decline is on the back of the company's focus on non-oral care segment, which has relatively higher margin and is 3x the market size in value terms. Going ahead, we believe that the contribution from the segment is likely to come down further, as non-oral care revenue will pick up pace. We expect the revenue contribution from FMCG to decline to 55% by the end of FY20E from 59% in FY18.

Changing consumption pattern

	Packing	
Product Packed	**Earlier**	**Current**
Toothpaste	Aluminium tubes	Laminated tube, coextruded tubes
Cosmetics	Metal, paper	HDPE, PP, Laminated tubes
Pharmaceuticals	Paper, glass, aluminium, tin plate	PVC, HDPE, blister, aluminium foils
Shampoo	Glass	HDPE, container, sachets

Source: Company, Industry data

Focus on non-oral led to decline in oral care contribution



Source: Company, Kotak Securities – Private Client Research

Non-oral care: 20-22 bn tubes market

Oral care segment consists more of staple products and is driven by the sales force, while the non-oral (dominated by toiletries, skin care and shampoo) segment is product development driven and requires R&D and innovations. The non-oral care segment is more than 3x in value terms compared to the oral care segment. Pharma and healthcare segment is 2.5x and beauty segment is 3.5-4x oral segments. The non-oral care segment also enjoys a relatively higher margin compared to oral care due to small size order (50,000 – 100,000 tubes), with a shorter tenure and a customized product.

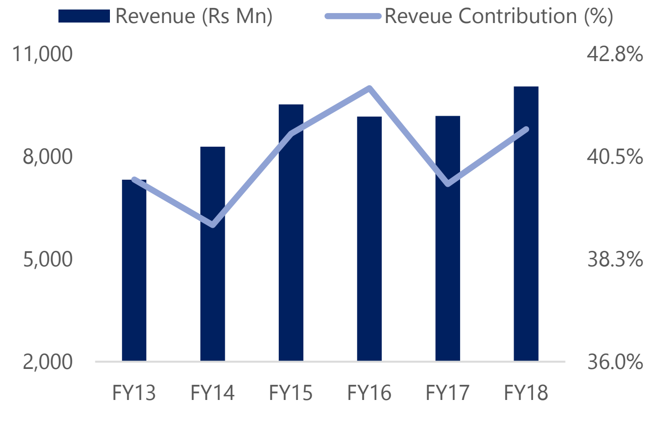
The total market size is estimated to be ~20-22bn tubes (valued at US$2.5bn) as compared to 14bn tubes oral market size. Hence, the company is aiming to increase the revenue contribution from non-oral category to 50% in the next three years from 41% in FY18. Sustained focus on non-oral care packaging has helped ESEL boost the segment's share in revenue to 42%. ESEL would be focusing on Emerging markets and Europe (biggest non-oral care market) to drive revenue from the non-oral care segment. We expect, the higher contribution from non-oral care would help the company to sustain its EBITDA margin at 19-19.5% in the coming years.

Market Size

Category	Market (Tubes) bn
Cosmetics/Beauty	12
Pharma	10-12
Total	**20-22**

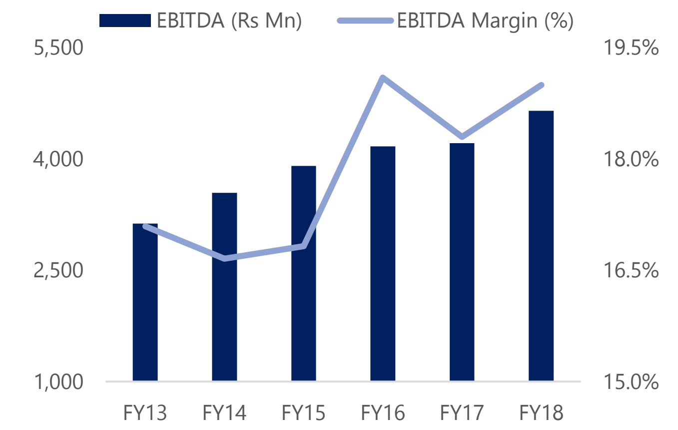
Source: Company

Increasing contribution of Non-oral care...



Source: Company

...supporting EBITDA Margin



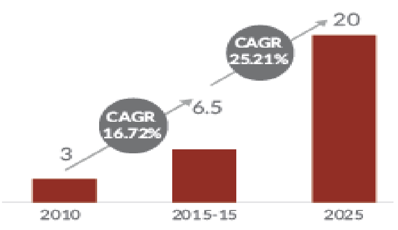
Source: Company

Cosmetic industry growing at faster pace

ESEL sees non-oral care categories such as pharmaceuticals, cosmetics, fast moving consumer goods (FMCG) and food as major growth drivers, going forward in the laminated tube business. The company plans to offer innovative products and packaging solutions in lieu of the traditional plastic/aluminum tubes and plastic/glass bottles, to increase its market share.

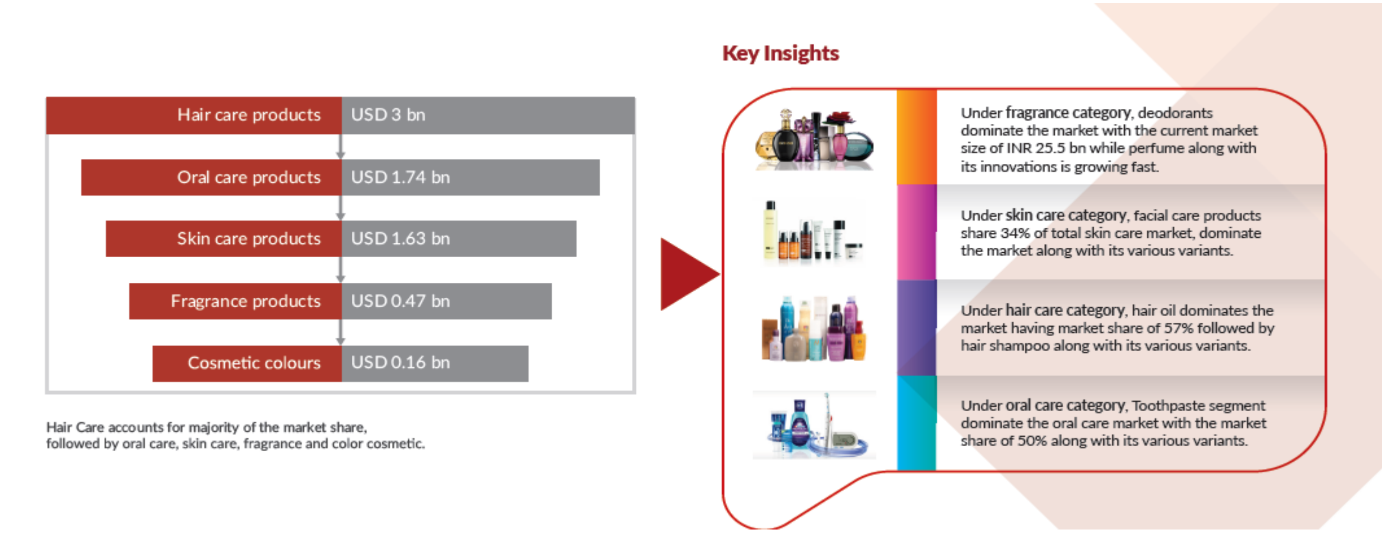
As per industry sources, the Cosmetics and Personal Care market are continuously growing at an annual rate of 3.6%. The steady increase in disposable income and proportionate rise in living standards, has led to increasing demand for skin care products. The market for Cosmetics and Personal Care and above all the Beauty market are dominated by 7 companies – L'Oréal, Unilever, Proctor & Gamble, Estée Lauder Companies, Johnson & Johnson, Shiseido and Coty – which account for most of the overall market sales and ESEL caters to most of them..

Cosmetic Market size (US$ bn)



Source: RedSeer Consulting presentation July 2017

Cosmetics Industry market size: Category and sub-category wise



Source: RedSeer Consulting presentation July 2017

Pharmaceutical industry: Huge growth opportunity if scaled up

ESEL has more than 50% share in pharma OTC market and is striving hard to get traction in pharma prescription market.

Pharmaceutical products of semi-solid formulations like ointments, creams and gel tubes are the ideal packaging formats. Industry used to pack the formulations in aluminium tubes earlier, while usage of laminated tubes was very marginal. However, the ratio is expected to skew in favor of laminated tubes, provided tubes makers reduce their lead times, price factor, hygiene and product stability. To capture this growth, EPL has co-developed special small tube machines and invested in R&D to develop new material, laminates that give stability and cost advantage. In the emerging markets, the company is focusing on OTC and prescribed formulations.

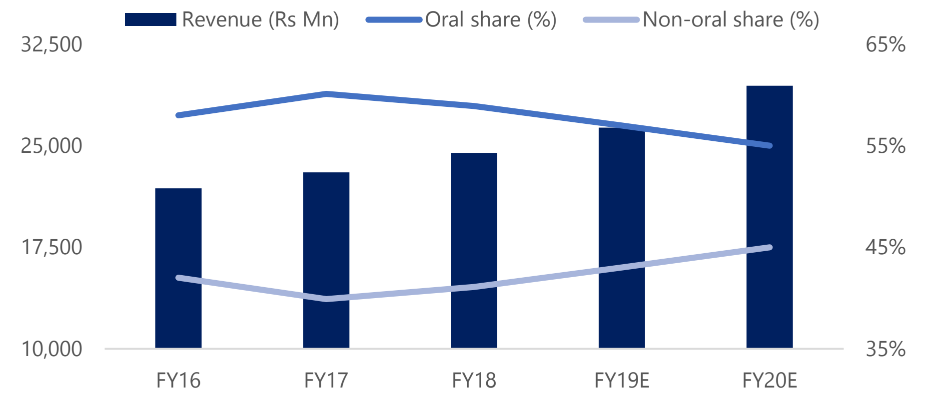
Shorter lead time, hygiene, comparative price and product stability are the key driver to increase pharma industry share

Global presence, CGMP and HMP, USDMF registered plants in India, Class D clean room facility, state-of-the-art R&D facility, extractable leachable study capabilities, end-to-end manufacturing (no outsourcing of components), use of FDA grade polymers, patented anti-counterfeiting solution for brand protection are some of the features that EPL offers compared to other players in the tube industry. It also offers tubes from four factories in India, ensuring an efficient supply chain.

Oral: Non-oral – 50:50 in the next three years

The company has gradually shifted its focus from the oral to a non-oral category given its huge market potential and growth opportunities globally as well as in the domestic market. The company is also looking to expand its presence in categories such as cosmetics, pharmaceuticals and consumer goods. We believe that, R&D and the launch of new products in non-oral care segment will aid the company to reduce its dependence on the oral care segment. Further, this also augurs well for its operating performance, as margin in non-oral care category is higher than the oral care segment. The revenue contribution from non-oral care has increased from 35.2% in FY12 to 41% in FY18 and the company is further targeting to increase it to 50% over the next three years by using laminated tubes as packing material.

ESEL contribution from non-oral to increase



Source: Company

Sustained focus on non-oral care packaging has helped ESEL boost the segment's share in revenue to 41 per cent. In the years ahead, increased awareness among customers about the superior barrier properties and decoration capability of the laminated tubes is expected to open up several non-oral-care brands for ESEL's new range of tubes.

Innovation thrust

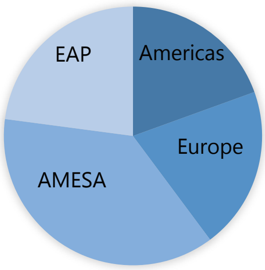
Source: Company

Global presence: helps catering to key markets

ESEL has an expansive global reach and capable of supplying a perfectly harmonized system for all production needs, as per customer requirements. With 19 facilities in 11 countries, the company delivers over 6 billion tubes annually to over 400 clients worldwide. In order to meet the growing need of the clients and changing customer preferences, the company has been driving forward with new product (R&D focus) and enhancing their performance to remain the global packaging partner of choice. Being a leader in the laminate technology, ESEL is constantly looking to expand its presence globally in the tube space through innovative new products for the non-oral care brands

International revenue accounts for 64% of sales with Europe and Americas making up for 18% and 20%. Emerging markets, including India (37% of overall topline), account for a chunk at 40%.

FY18 Revenue break-up



Source: Company

Global Footprint

Source: Company

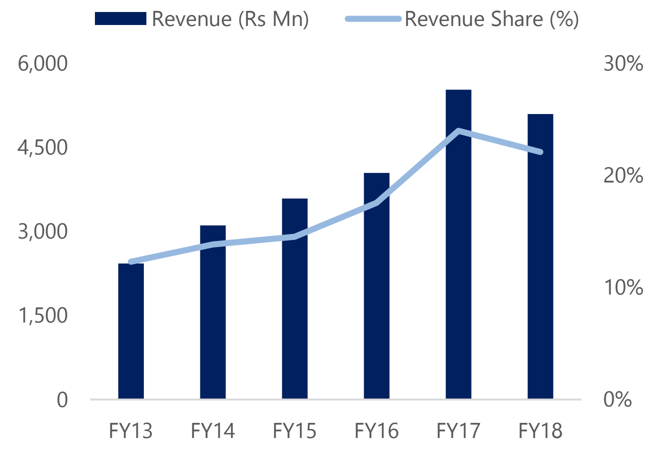
ESEL has chalked out different growth plans for developed and emerging markets. In developed markets, the company is focusing on beauty and cosmetics, while in the emerging markets; it is more focused on pharmaceuticals. In the emerging markets, the company is focusing on OTC and prescribed formulations. These geographies not only consume a good deal of pharmaceutical products, but also export huge quantities to other emerging countries which are not seeing too many regulatory headwinds.

Capability augmentation in both laminated and plastic tubes, revival of Russian operations and new customer additions mainly in the non-oral care segment would drive revenue growth in Europe going ahead. Further, AMESA region (hit in 1QFY19 was due to Indian business which got hit by change in packaging norms under the pharma category coupled with lower offtake by key customers), is expected to grow at a CAGR of 8-9% over FY18-20E driven by growth in Indian business helped by recovery in the FMCG industry. Sales from EAP region (25% of sales in FY18) is expected to register a CAGR of 10% during the same period on the back of a recovery in demand from China and healthy pipeline. America is expected to grow by 8% CAGR helped by non-oral care business and improved sales from Colombia.

Stabilisation in Europe business to boost earnings

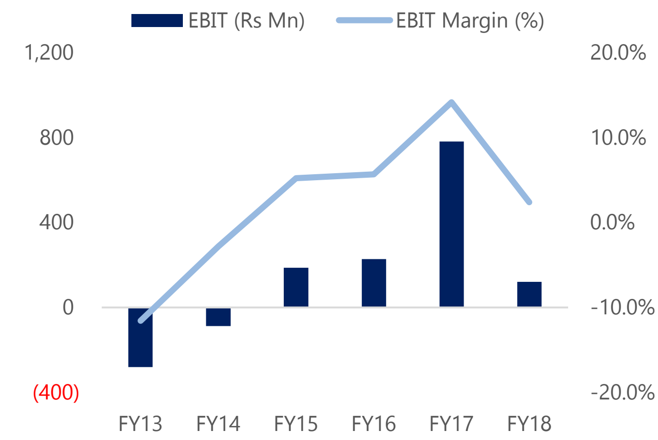
Europe operations was a setback since 2008, when ESEL shifted its manufacturing operations from UK to Poland to bring down costs. In FY18, the European region contributed ~22% of the revenue, but EBIT remained under pressure due to the implementation of different cost effective programmes, stabilisation of the Poland unit and lower offtake from new clients in various geographies. EBIT margin turned positive in Q4FY18 to 3.7% as compared to -1.1% in 3QFY18. 1QFY19 margin stood at 1.5%. Stabilisation of the unit and new long term contracts are expected to translate to higher operating leverage and reducing fixed cost. We expect the momentum to continue in the coming years as well, due to decent pipeline, inquiries and ESEL's efforts to bring EDG at the level of overall Europe's profitability.

Europe Revenue trend



Source: Company

EBIT and EBIT margin (%) trend



Source: Company

During FY14-17, the company's European operations have grown at 12%, but it has not been smooth sailing. In Oct 2016, ESEL bought its partner in its JV Essel Deutschland Germany (EDG). The German unit, which accounts for 40% of Europe's topline saw its revenue drop by 10% during 9MFY17, as ESEL was not realistic about the actual conversions of orders and couldn't meet requirements on time. As a result, some customers moved to more reliable suppliers.

The turnaround at EDG will offer Essel Propack better cross-selling opportunities, sourcing flexibility and ensure higher capacity utilisation at all its European plants. Over FY18-20 we expect revenue to grow at 17% compounding for the Europe business. While 59% of the European (biggest non-oral care market at 62%) revenue is driven by non-oral care market, the Americas' revenue share from non-oral care business stands at less than half of Europe at 21%. However, we expect revenue from Americas to grow at 8% CAGR over FY18-20 driven by non-oral care business and improved sales from Colombia.

Region wise performance (Rs Mn)

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Americas	4,264	4,569	4,782	4,719	4,828	4,885	5,275	5,697
Europe	2,427	3,108	3,585	4,046	5,529	5,096	5,952	6,952
AMESA	8,827	9,807	10,974	8,842	9,808	9,348	10,143	11,005
EAP	4,212	4,984	5,338	5,459	4,353	5,744	6,462	7,269

Source: Company, Kotak Securities – Private Client Research

Strong R&D and innovative thrust

Essel Propack has a strong client base for both oral and non-oral care product categories across the world. EPL's client list includes the world's biggest oral and non oral care players such as Colgate, Uniliver PLC, P&G, GSK etc. We believe the FMCG space across the world is poised for rapid growth driven by changes in demographics, lifestyles and growing disposable incomes. EPL's distinct competitive advantage lies in its continuous effort to launch innovative products in the oral and non-oral categories.

Recently launched

Source: Company

Innovation thrust

Source: Company

Recently, the company launched Mystik tubes for hair colours and with R&D measures, these tubes can be used for highly sensitive products like ketchup, which gets oxidised fast. It has created Mystik for packaging premium hair colorants (market size of 2.5 billion tubes globally) and developers with unique shaped inner barrier multilayer membrane that provides complete protection to all hair colorant formulations as well as any other aggressive product formulations like Rx Pharma products. The company believes this is a breakthrough innovation and thus offer brands a unique opportunity to upgrade their packaging. The company sees this a huge business opportunity in the non-oral care category.

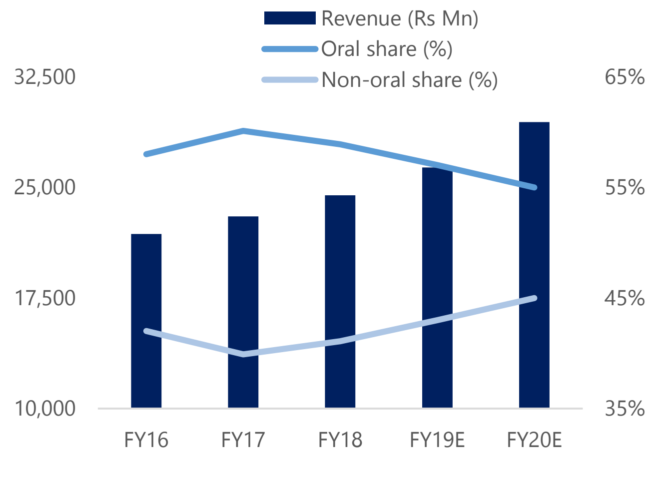
Marquee Clients

Source: Company

FINANCIAL ANALYSIS

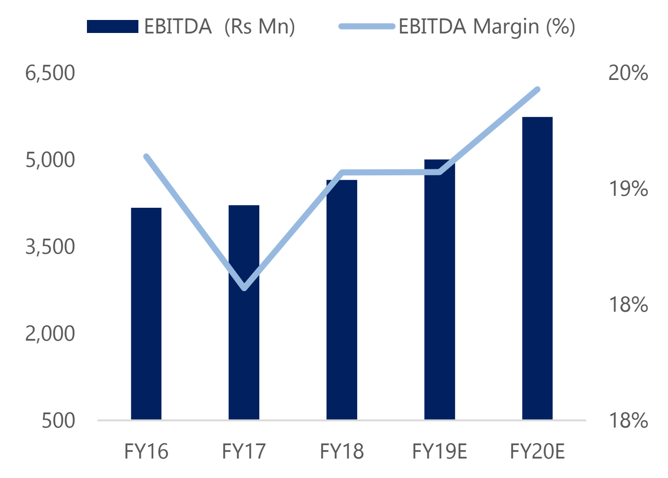
ESEL is constantly focusing on expanding its presence globally through innovative new product launches (supported by strong in-house R&D) for the non-oral care brands. We model revenue and earnings CAGR of 10% and 25%, respectively, during FY18-FY20E period, led by AMESA and EUROPE region. Further, increasing contribution from non-oral care segment to 50% over the next three years would help the company to sustain its EBITDA margin. We estimate, the contribution from non-oral care to increase to 45% by end of FY20E, and believe EBITDA margin to remain in the range of 19-19.5%. Sustainability of margin coupled with improved cash flow on account of stabilisation of European operations should help drive ESEL's earnings, going forward. This will further result in debt/equity (following the long term debt reduction plan) coming down from 0.6x in FY18 to 0.4x in FY20E.

Contribution from non-oral to increase



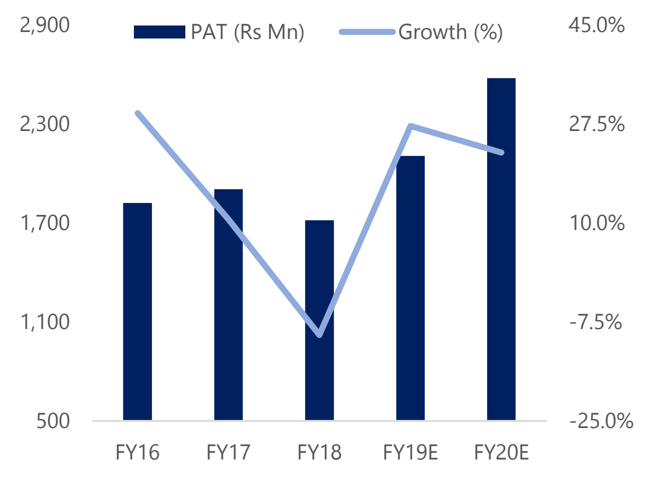
Source: Company, Kotak Securities - Private Client Research

EBITDA margin to sustain in range of 19-19.5%



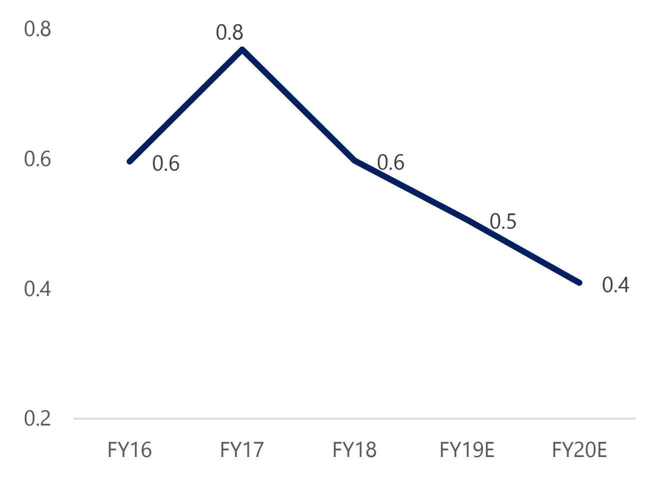
Source: Company, Kotak Securities - Private Client Research

Sustained Margin + improved cashflow to drive PAT



Source: Company, Kotak Securities - Private Client Research

Debt/Equity to decline to 0.4x by FY20E



Source: Company, Kotak Securities - Private Client Research

KEY RISKS

Backward integration by customers

Development of in-house tube making facilities by some customers is an impending threat to the laminated tube packaging industry. In order to control the value chain of operations, end users can set-up their own facilities.

Raw material price movement

Raw material accounts for ~60% of the total cost. Polymer and aluminium foils are the key raw material and these being a crude derivative, the price of the same is highly volatile. Any increase in raw material prices and the lag effect in passing the same to the end users could impact our earnings estimates.

Risk linked to overseas operations

Overseas operations contribute ~2/3rd to the overall revenue. ESEL's operations in Europe, Mexico and several other geographies faced several challenges in the past on account of i) economic uncertainties; ii) price competitive; iii) inflationary pressure, etc. Besides these, ESEL'S operations is also exposed to multiple currencies and any wide fluctuations could affect the profitability.

VALUATION & OUTLOOK

The EDG acquisition and increase customer offtake, coupled with demand recovery in India (post GST implementation), is expected to support the recovery in the EU and AMESA region. Further, with company's focus on the increasing contribution from non-oral care segment across geographies, we expect EBITDA margin to sustain at 19-19.5%. We model revenue and earnings CAGR of 10% and 25%, respectively, during the FY18-FY20E period, led by AMESA and EUROPE region. Large non-oral care market and better utilisation of assets at Europe, make ESEL a good investment opportunity. At CMP, the stock is trading at 15.8x/12.9x FY19E/FY20E. We initiate coverage with BUY rating, and a target price of Rs140, valuing it at 17x FY20E earnings.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Net sales	**23,023**	**24,464**	**26,339**	**29,431**
Growth (%)	5.4	6.3	7.7	11.7
Operating expenses	18,810	19,817	21,335	23,692
EBITDA	**4,213**	**4,648**	**5,004**	**5,739**
Growth (%)	1.0	10.3	7.7	14.7
Depreciation	1,415	1,671	1,712	1,766
EBIT	**2,798**	**2,977**	**3,292**	**3,973**
Other income	353	264	251	238
Interest paid	575	549	414	382
Exceptional items	167	(60)	0	0
PBT	**2,743**	**2,631**	**3,129**	**3,829**
Tax	787	889	970	1,187
Effective tax rate (%)	28.7	33.8	31.0	31.0
Net profit	**1,956**	**1,742**	**2,159**	**2,642**
Minority interest	53	26	54	66
Reported Net profit	**1,903**	**1,716**	**2,105**	**2,576**
Growth (%)	10.6	(9.8)	22.7	22.4

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	991	1,736	1,530	1,150
Other Current assets	9,037	9,740	10,255	11,346
Investments	153	131	131	131
Net fixed assets	11,846	12,258	13,267	14,493
Other non-current assets	471	627	627	627
Total assets	**22,497**	**24,492**	**25,810**	**27,747**
Current liabilities	3,749	4,300	4,555	4,896
Borrowings	7,984	7,340	6,677	6,157
Other non-current liabilities	317	302	302	302
Total liabilities	12,050	11,943	11,534	11,355
Share capital	628	628	628	628
Reserves & surplus	9,762	11,878	13,522	15,639
Shareholders' funds	10,390	12,507	14,151	16,267
Minority interest	57	43	125	125
Total equity & liabilities	**22,497**	**24,492**	**25,810**	**27,747**

Source: Company, Kotak Securities – Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Net profit before tax	2,743	2,631	3,129	3,829
Depreciation	1,415	1,671	1,712	1,766
Interest	575	549	414	382
Others	(427)	(98)	(240)	(399)
Opt Profit before WC Changes	4,306	4,753	5,015	5,578
WC Changes	185	(308)	(260)	(751)
Cash Gene from Op.	4,492	4,445	4,755	4,827
Direct Taxes Paid	787	889	970	1,187
Cash from Ope act	**3,705**	**3,556**	**3,785**	**3,640**
Purchases of F.A	(3,284)	(1,375)	(2,435)	(2,551)
Investment	323	223	0	0
Cash from Inv Act	**(2,961)**	**(1,151)**	**(2,435)**	**(2,551)**
Proc from Issue of Eq Shares	0	0	0	0
Net loans	1,757	(632)	(664)	(520)
Dividend Paid	405	478	478	568
Others	1,958	549	414	382
Cash from Fin Act	**(606)**	**(1,659)**	**(1,556)**	**(1,470)**
Net Increase in Cash	137	745	(206)	(381)
Cash at End	**991**	**1,736**	**1,530**	**1,150**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	18.3	19.0	19.0	19.5
EBITM	12.2	12.2	12.5	13.5
NPM	9.0	6.8	8.0	8.8
RoE	19.9	13.2	14.9	15.8
RoCE	12.4	12.2	12.8	14.3
Per share data (Rs)				
EPS	6.1	5.5	6.7	8.2
CEPS	11.1	10.6	12.2	13.8
BV	33.1	39.8	45.1	51.8
DPS	1.1	1.2	1.2	1.5
Valuation ratios (x)				
PE	17.5	19.4	15.8	12.9
P/BV	3.2	2.7	2.4	2.0
EV/EBITDA	8.7	7.4	6.3	5.5
EV/Sales	1.7	1.5	1.3	1.1
Other key ratios				
D/E (x)	0.8	0.6	0.5	0.4
DSO (days)	56	62	65	65

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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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