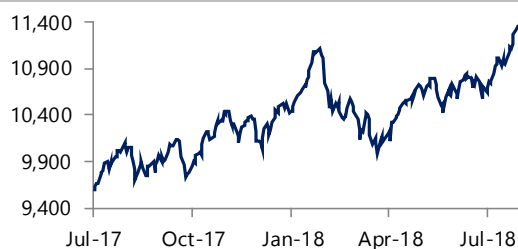


AUGUST 2, 2018

	1-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	37,522	(0.2)	5.9	6.7	
NIFTY Index	11,346	(0.1)	5.9	5.7	
NSEBANK Index	27,597	(0.6)	4.7	8.1	
NIFTY 500 Index	9,652	0.0	5.3	1.6	
CNXMcap Index	18,905	0.2	4.0	(6.8)	
BSESMCAP Index	16,628	0.3	3.7	(9.6)	
World Indices					
Dow Jones	25,334	(0.3)	4.2	5.9	
Nasdaq	7,707	0.5	1.8	8.5	
FTSE	7,653	(1.2)	1.4	1.5	
NIKKEI	22,747	0.9	3.9	0.9	
Hangseng	22,747	0.9	3.9	0.9	
Shanghai	28,341	(0.8)	(3.3)	(8.9)	
Value traded (Rs cr)		1-Aug	% Chg Day		
Cash BSE	3,207		(13.6)		
Cash NSE	33,806		(3.4)		
Derivatives	915,343		72.9		
Net inflows (Rs cr)		31-Jul	MTD	YTD	
FII	904	1,429	(3,410)		
Mutual Fund	(199)	5,512	74,115		
Nifty Gainers & Losers		Price	Chg	Vol	
1-Aug	(Rs)	(%)	(mn)		
Gainers					
Coal India	271	3.7	5.6		
Lupin	844	2.4	3.2		
Bharti Infra	293	2.3	1.9		
Losers					
Hindalco	208	(2.5)	11.2		
Maruti Suzuki	9,342	(1.9)	0.7		
Vedanta	218	(1.8)	14.7		
Advances / Declines (BSE)					
1-Aug	A	B	T	Total	% total
Advances	194	569	54	817	100
Declines	190	540	51	781	96
Unchanged	3	17	12	32	4
Commodity		% Chg			
	1-Aug	1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	72.7	0.5	(5.9)	(0.8)	
Gold (US\$/OZ)	1,216	(0.7)	(1.7)	(6.5)	
Silver (US\$/OZ)	15.4	(0.9)	(2.6)	(5.7)	
Debt / forex market		1-Aug	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.7	7.8	7.9	7.8	
Re/US\$	68.4	68.5	68.8	66.7	

Nifty



Source: Bloomberg

News Highlights

- ▶ The Monetary Policy Committee of the Reserve Bank of India on Wednesday decided to increase the repo rate by 25 basis points to 6.5%, as it remained concerned about rising inflation. (BL)
- ▶ Factory production slowed down a bit in July as the Nikkei India Manufacturing Purchasing Managers' Index (PMI) posted 52.3 in July, down from 53.1 in June. Still, it is the 12th consecutive month of expansion. (BL)
- ▶ The Finance Ministry announced that total collections from Goods and Services Tax (GST) in July reached Rs 964.83 bn. This is slightly lower than the monthly target of Rs 1trn. (BL)
- ▶ The Cabinet cleared the purchase of 51 per cent controlling stake in **IDBI Bank** by state-run insurer Life Insurance Corporation (LIC), sources said. As per the proposal, the debt-laden bank will issue preferential shares to Life Insurance Corporation (LIC) to raise capital. (ET)
- ▶ The National Company Law Appellate Tribunal (NCLAT) asked the three bidders for the debt-ridden Bhushan Power and Steel Ltd—**Tata Steel**, Liberty House and **JSW Steel**—to file revised resolution plans by Monday. (Mint)
- ▶ Cabinet Committee on Economic Affairs (CCEA) approved fresh issuance of 138.7 mn shares by **Hindustan Copper**. This consists of 15 per cent of paid-up capital. The issuance will help the company mop-up over Rs 9 bn through selling shares to institutional investors. (BL)
- ▶ The offer-for-sale (OFS) by **Larsen & Toubro** of L&T Technology Services' shares will open for non-retail investors on Thursday and for retail investors on Friday. It plans to sell up to 41 lakh shares (base offer) and additional shares of up to 25 lakh shares (oversubscription option). The floor price for the offer is Rs 1,400 a share. (BL)
- ▶ **Crisil Ltd.** has downgraded the debt instruments of Reliance Infrastructure Ltd. to its lowest level after it missed interest payments. The move was prompted by its exposure to other companies in the Reliance Anil Dhirubhai Ambani group. (Bloomberg)
- ▶ **Punjab National Bank** to consider capital infusion of Rs 28.16 bn by Government of India on Aug. 6. (Bloomberg)
- ▶ **Gujarat Alkalies and Chemicals** PAC plant in Vadodara commences commercial production. (Bloomberg)
- ▶ **Excel Crop Care** to merge business with Sumitomo Chemicals. (Bloomberg)

What's Inside

- ▶ **Economy Update:** Monetary Policy
- ▶ **Result Update:** Castrol India, Mahanagar Gas, Genus Power
- ▶ **Auto Industry Volume Update:** July 2018
- ▶ **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

Economy Update

MONETARY POLICY

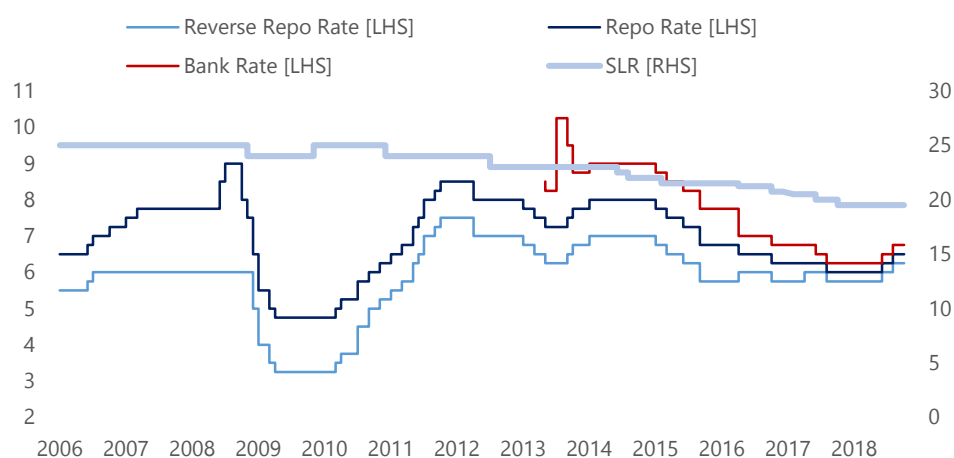
Another rate increase amid neutral policy stands!

MPC in its third bi-monthly meeting of FY19, expectedly decided to **raise the policy repo rate by another 25 bps to 6.50%**, consequently the reverse repo rate is now at 6.25%, MSF and Bank rate at 6.75%. Monetary policy stance remains neutral in consonance with the objective of achieving the medium-term target for CPI inflation of 4% +/- 2%, while supporting growth.

We had opined in our last note, "Policy rates are likely to be raised by 25-50 bps in FY19, taking policy repo rate to 6.50%-6.75% by March'19 to keep CPI inflation anchored around 4%". With 50 bps rate increase, we expect RBI to be on pause in the next policy (decision to be announced on October 5th). Depending on monsoon, food prices and secondary effect of MSP increases and global factors, RBI could change its policy stance towards end of the fiscal, as the output gap has virtually closed.

RBI has revised its CPI inflation projections to 4.6% in Q2FY19 and 4.8% (from 4.7%) in H2 and 5.0% in Q1FY20, including the HRA impact for central government employees, with risks evenly balanced. Excluding HRA CPI inflation is projected at 4.4% in Q2 and 4.7%-4.8% in H2 and 5.0% in Q2FY20. No change in GDP estimates projected at 7.4% for FY19, 7.5%-7.6% in H1FY19 and 7.3%-7.4% in H2FY19. GDP growth for Q1FY20 is projected at 7.5%.

Monetary policy rates



Source: RBI & Kotak Securities – Private Client Research

Known unknowns

Although RBI's Q2 inflation projection is marginally lower, projections for Q3 onwards remain unchanged. Several risks played out in the minds of MPC members, nudging them towards rate increase: (i) volatile crude oil prices (ii) volatility in global financial markets (iii) households' inflation expectations have risen significantly in the last two rounds (iv) manufacturing firms industrial outlook survey reported hardening of input price pressures (v) although the monsoon has been normal temporally so far, its regional distribution needs to be carefully monitored (vi) risk of fiscal slippage (vii) uncertainty around the full impact of MSP on inflation and (viii) the staggered impact of HRA revision by state governments.

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Result Update

CASTROL INDIA LTD (CIL)

Stock Details

Market cap (Rs mn)	:	165777
52-wk Hi/Lo (Rs)	:	214 / 154
Face Value (Rs)	:	5
3M Avg. daily volume	:	1,719,500
Shares o/s (mn)	:	989

Source: Bloomberg

Financial Summary

Y/E Dec (Rs mn)	CY17	CY18E	CY19E
Revenue	35,843	38,989	41,544
Growth (%)	6.4	8.8	6.6
EBITDA	10,557	10,909	11,747
EBITDA margin (%)	29.5	28.0	28.3
PAT	6,916	7,190	7,712
EPS	7.0	7.3	7.8
EPS Growth (%)	3.2	4.0	7.3
BV (Rs/share)	10.3	11.6	12.7
Dividend/share (Rs)	4.7	5.0	5.5
ROE (%)	52.7	52.1	51.6
ROCE (%)	52.8	52.1	51.6
P/E (x)	23.9	23.0	21.5
EV/EBITDA (x)	14.9	14.3	13.2
P/BV (x)	16.2	14.9	13.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	51.0	51.0	51.0
FII	9.2	10.7	10.2
DII	18.6	17.9	16.8
Others	21.1	20.4	22.0

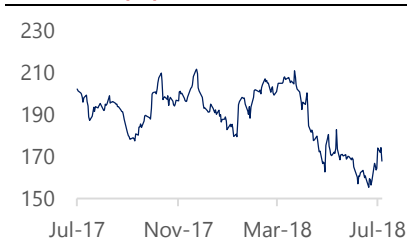
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Castrol India	2.4	(14.0)	(8.8)
Nifty	5.9	5.7	3.0

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PRICE Rs.167

TARGET Rs.195

BUY

Raw material pressure: Strong volume growth resulted in decent rise in revenue but headwinds in terms of higher base oil price and weaker currency impacted the margins. The company has undertaken average ~3% hike in selling price from July 2018 to combat the raising raw material cost pressure. New product launches led to impressive volume growth. Castrol has grown higher than industry growth rate (7.5% v/s 6% in H1CY18).

Key Highlights

- Castrol's performance is lower than our expectation. Castrol reported a PAT growth of 19% yoy to Rs.1.64 bn mainly on account of higher lubricant sales volumes, better realization and higher other income.
- The company has recommended an interim dividend of Rs.2.25/share.
- Personal mobility continues to be a key strategic growth driver. With the increased focus on commercial vehicle engine oil portfolio (CRB brand commands strong consumer loyalty) is also delivering results with record volume growth driven by launch of new products and aided by a favorable economic environment, with emphasis on infrastructure development.
- The company has strengthened its specialties portfolio, introducing Castrol TRANSMAX driveline oils and Castrol SPHEEROL greases providing increased protection and reduced downtime.
- Castrol is awarded the 'Overall Performance' trophy by Maruti Suzuki India Limited. The company has also been chosen as approved supplier for Suzuki Ecstar branded lubricants in their premium NEXA channel.

Valuation & outlook

We expect CIL to report an EPS of Rs.7.3 (earlier Rs.7.4) for CY2018 and an EPS of Rs.7.8 (earlier Rs.7.9) for CY2019. CIL is focusing on new customer acquisition, and distribution expansion to boost Castrol's volume growth. New product launches will also boost lubricant sales. On the basis of our estimates, the stock at CMP is attractively valued at 13.2x EV/EBITDA, 21.5x P/E and 13.8x P/BV on the basis of CY19E earnings. Based on our valuation multiples model, the target price of Castrol is Rs.195/share (earlier Rs.213) and we maintain BUY rating on the stock. We value the stock at 25x CY19E EPS (earlier 27x). We have lowered our target price to reflect the key headwinds like margin pressure, higher base oil prices and weaker currency.

Quarterly performance table

Particulars (Rs Mn)	Q2CY18	Q1CY18	Q2CY17	YoY (%)	QoQ (%)
Net Sales	10,172	9,306	8,704	16.9	9.3
Incr/(Decr) in stock	(19)		112		
Total Expenditure	7,636	6,589	6,721	13.6	15.9
EBITDA	2,517	2,717	2,095	20.1	(7.4)
Depreciation	115	105	118	(3)	10
EBIT	2,402	2,612	1,977	21.5	(8.1)
Other income	173	185	155	11.6	(6.5)
Interest-net	3.0	3.0	1.0	200.0	0.0
PBT	2,572	2,794	2,131	20.7	(8.0)
Tax	930	933	752	23.7	(0.3)
PAT	1,642	1,861	1,379	19.1	(11.8)
Basic EPS	1.66	1.88	1.39	19.1	(11.8)

Source: Company. Face value is Rs.5/share.

Quarterly result analysis – Q2CY18

- **Revenue growth:** Castrol's net revenue increased 17% yoy to Rs.10.2 bn supported by higher sales volume and better realization yoy basis. Castrol's lubricant volume grew 12% yoy to 57 ltrs supported by new product launches.
- A large part of the volume growth has come from the automotive lubricants from the retail business.
- **Lubricant sales volume mix:** Commercial vehicle contributed 46%, mobility vehicles contributed 41% and others contributed 13%. Strong volume growth is witnessed in commercial vehicle segment due to higher industrial activity in the economy.
- The management highlighted that 50% of the products have been re-launched with better technology and are now future ready products.
- The company has guided that its volume growth will be better than the industry growth. Industry growth is expected to be in the range of 4-5% yoy in CY18. In Q2CY18, the company has growth faster than the market.
- **Raw material cost including purchases of finished goods:** Raw material cost has increased 17% yoy to Rs.5.2 bn due to higher base oil prices resulting from rise in crude oil prices and weaker rupee. Raw material cost (including purchase of finished goods) to sales ratio (%) increased by 10 bps yoy to 50.67% in Q2CY18. Raw material cost is dependent on lube oil prices and rupee movement.
- **Employee cost:** Staff cost has increased 7.4% yoy to Rs.525 mn (0.7% qoq). Employee cost to sales ratio (%) has decreased 40 bps yoy to 5.2%. We believe staff cost is within acceptable range.
- **Other expenses:** Other expense has increased by 7% yoy to Rs.1.96 bn. Other expense to sales ratio decreased 140 bps yoy basis to 19.3% in Q2CY18.
- **Operating margin:** Overall operating margin increased marginally to 24.7% in Q2CY18 negatively impacted due to higher raw material cost.

Quarterly result

Profitability analysis (%)	Q2CY18	Q1CY18	Q2CY17	YoY (%)	QoQ (%)
EBITDA Margin	24.7	29.2	24.1	0.7	(4.5)
EBIT Margin	23.6	28.1	22.7	0.9	(4.5)
Adj. PAT Margin	16.1	20.0	15.8	0.3	(3.9)
Other Income/PBT	6.7	6.6	7.3	(0.5)	0.1
Tax/PBT	36.2	33.4	35.3	0.9	2.8

Source: Company

Operational parameters

(Rs. mn)	Q2CY18	Q1CY18	Q2CY17	YoY (%)	QoQ (%)
Raw Materials	4,509	3,815	3,887	16.0	18.2
Staff costs	525	521	489	7.4	0.7
Purchase of Finished Goods	645	484	519	24.3	33.3
Other Expenses	1,957	1,768	1,826	7.2	10.7
Total	7,636	6,589	6,721	13.6	15.9

Source: Company

Cost ratio analysis (% of (Net sales + Inventory))

	Q2CY18	Q1CY18	Q2CY17	YoY (%)	QoQ (%)
RM & Service cost	44.4	41.0	44.1	0.3	3.4
Staff cost	5.2	5.6	5.5	(0.4)	(0.4)
Purchase of FG	6.4	5.2	5.9	0.5	1.2
Other expenses	19.3	19.0	20.7	(1.4)	0.3

Source: Company

NOTE: The lubricant business is a seasonal business and volume gets affected due to various seasonal factors. Hence, quarter-on-quarter result comparison will not give the correct picture. We have observed that for Castrol Quarter 2 (April- June) and Quarter 4 (Oct-Dec) of the calendar year are generally the best quarters.

- **Depreciation:** Depreciation cost decreased 3% yoy to Rs. 115 mn (+10% qoq).
- **Other income:** Other income has increased meaningfully 12% yoy to Rs.173 mn (-7% qoq) party due to base effect.
- **PAT:** Castrol reported a PAT growth of 19% yoy to Rs.1.64 bn mainly on account of higher volumes, better realization and higher other income.
- **Castrol's margin.** PAT margin has increased 30 bps yoy to 16.1% in Q2CY18 due to higher volumes and better operating performance.

Maintain BUY

We expect CIL to report an EPS of Rs.7.3 (earlier Rs.7.4) for CY2018 and an EPS of Rs.7.8 (earlier Rs.7.9) for CY2019. CIL is focusing on new customer acquisition, and distribution expansion to boost Castrol's volume growth. New product launches will also boost lubricant sales. On the basis of our estimates, the stock at CMP is attractively valued at 13.2x EV/EBIDTA, 21.5x P/E and 13.8x P/BV on the basis of CY19E earnings. Based on our valuation multiples model, the target price of Castrol is Rs.195/share (earlier Rs.213) and we maintain BUY rating on the stock. We value the stock at 25x CY19E EPS. We have lowered our target price to reflect the key headwinds like margin pressure, higher base oil prices and weaker currency.

Company background

Castrol India manufactures and markets a range of automotive, marine, energy and industrial lubricants. With the largest manufacturing and marketing network among the lubricant companies in India, the Company has leadership positions in most of the segments in which it operates including passenger-car engines oils, four-stroke oils and multi-grade diesel engine oils. The three manufacturing facilities include a state-of-the-art plant in Silvassa. Customers are reached through distributors, servicing over 91,000 retail outlets. Power1, Active, Go, Edge, Magnatec and GTX are popular brands. The debt free company reports healthy return ratios.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Dec)	CY16	CY17	CY18E	CY19E
Revenues	33,703	35,843	38,989	41,544
% change YoY	2.4	6.4	8.8	6.6
EBITDA	10,161	10,557	10,909	11,747
% change YoY	10.1	3.9	3.3	7.7
Other Income	705	611	516	608
Depreciation	450	455	520	660
EBIT	10,417	10,713	10,904	11,695
% change YoY		2.8	1.8	7.2
Net interest	15	12	12	12
Profit before tax	10,402	10,701	10,892	11,683
% change YoY	0.0	2.9	1.8	7.3
Tax	3,699	3,783	3,702	3,971
as % of PBT	35.6	35.3	34.0	34.0
Profit after tax	6,703	6,918	7,190	7,712
Minority interest	2	2	0	0
Share of profit of associates	0	0	0	0
Net income	6,701	6,916	7,190	7,712
% change YoY	0.0	3.2	4.0	7.3
Shares outstanding (m)	495	989	989	989
EPS (reported) (Rs)	6.8	7.0	7.3	7.8
CEPS (Rs)	7.1	7.3	7.8	8.5
DPS (Rs)	5.5	4.7	5.0	5.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Dec)	CY16	CY17	CY18E	CY19E
Cash and cash equivalents	8,219	7,842	9,457	10,609
Accounts receivable	2,552	2,850	2,884	3,073
Inventories	3,439	3,196	3,514	3,742
Loans and Adv & Others	1,899	3,028	3,038	3,046
Current assets	16,109	16,916	18,893	20,470
Misc exp.	0	0	0	0
LT investments	0	0	0	0
Net fixed assets	1,842	1,962	1,972	2,025
Total assets	17,951	18,878	20,865	22,495
Payables	4,966	6,066	6,738	7,137
Others	1,333	999	1,085	1,156
Current liabilities	6,299	7,065	7,823	8,293
Provisions	2,769	2,503	2,663	2,845
LT debt	0	0	0	0
Min. int and Others	(932)	(891)	(1,058)	(1,248)
Equity	2,473	4,946	4,946	4,946
Reserves	7,343	5,256	6,492	7,660
Total liabilities	17,951	18,878	20,865	22,495
BVPS (Rs)	9.9	10.3	11.6	12.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Dec)	CY16	CY17	CY18E	CY19E
EBIT	10,417	10,713	10,904	11,695
Depreciation	450	455	520	660
Change in working capital	(2,826)	(649)	376	27
Chgs in other net current assets	(1)	-	-	-
Operating cash flow	8,040	10,519	11,801	12,382
Interest	(15)	(12)	(12)	(12)
Tax	(3,699)	(3,783)	(3,702)	(3,971)
Cash flow from operations	4,326	6,724	8,086	8,399
Capex	(439)	(575)	(530)	(713)
(Inc)/dec in investments	-	-	-	-
Cash flow from investments	(439)	(575)	(530)	(713)
Others	3,907	(883)	-	0
Increase/(decrease) in debt	-	-	-	-
Proceeds from share premium	(1)	-	-	-
Dividends	(6,540)	(5,643)	(5,941)	(6,533)
Cash flow from financing	(2,635)	(6,526)	(5,941)	(6,533)
Opening cash	6,965	8,219	7,842	9,457
Closing cash	8,219	7,842	9,457	10,609

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Dec)	CY16	CY17	CY18E	CY19E
EBITDA margin (%)	30.1	29.5	28.0	28.3
EBIT margin (%)	30.9	29.9	28.0	28.2
Net profit margin (%)	19.9	19.3	18.4	18.6
Receivables (days)	27.6	29.0	27.0	27.0
Inventory (days)	37.2	32.5	32.9	32.9
Sales/gross assets(x)	3.1	2.8	2.8	2.7
Interest coverage (x)	687	880	909	979
Debt/equity ratio(x)	-	-	-	-
ROE (%)	59.0	52.7	52.1	51.6
ROCE (%)	59.1	52.8	52.1	51.6
EV/ Sales	4.7	4.4	4.0	3.7
EV/EBITDA	15.4	14.9	14.3	13.2
Price to earnings (P/E)	24.6	23.9	23.0	21.5
Price to book value (P/B)	8.4	16.2	14.9	13.8

Source: Company, Kotak Securities – Private Client Research

Result Update

MAHANAGAR GAS LTD

PRICE Rs.948
TARGET Rs.1030
ACCUMULATE

Stock Details

Market cap (Rs mn)	:	93533
52-wk Hi/Lo (Rs)	:	1378 / 772
Face Value (Rs)	:	10
3M Avg. daily vol	:	364,771
Shares o/s (mn)	:	99

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	22,177	26,434	28,395
Growth (%)	9.8	19.2	7.4
EBITDA	7,801	9,070	9,532
EBITDA margin (%)	35.2	34.3	33.6
PAT	4,779	5,596	5,917
EPS	48.4	56.7	59.9
EPS Growth (%)	21.5	17.1	5.7
BV (Rs/share)	212	243	276
Dividend/share (Rs)	19.0	21.5	22.5
ROE (%)	24.3	24.9	23.1
ROCE (%)	39.6	40.3	37.2
P/E (x)	19.6	16.7	15.8
EV/EBITDA (x)	10.7	9.0	8.4
P/BV (x)	4.5	3.9	3.4

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	56.5	65.0	65.0
FII	12.7	9.7	9.4
DII	7.7	5.6	6.2
Others	13.1	9.8	19.4

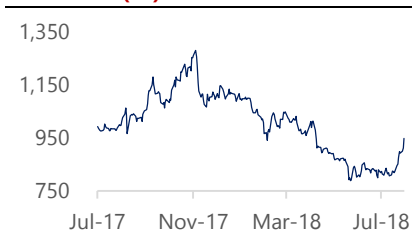
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Mahanagar Gas	14.1	6.5	(6.1)
Nifty	5.9	5.7	3.0

Source: Bloomberg

Price chart (Rs)


Source: Bloomberg

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Impressive performance: Operating margin per unit jumped significantly by 15% qoq to Rs.8.1/scm supported by price hike undertaken and improved operational efficiency. On the top of it, meaningful jump in PAT is also supported by higher gas sales volume.

Key Highlights

- MGL's Q1FY19 result is better than our expectation. The company has reported a PAT of Rs.1.3 bn higher by 22% qoq due to higher gross margin, lower operating cost, and lower depreciation charge.
- Gross margin (Revenue-raw material) has increased 10% qoq to Rs.3.26 bn (+9% yoy) due to price hike undertaken and higher gas sales volume.
- Impressive improvement in per unit of operating profit. EBIDTA/SCM increased by 15% qoq to Rs.8.07/Scm.
- The Company is planning to connect 1,50,000 household with PNG against current 1,00,000 PNG connection. In Raigad district, MGL has commissioned 5 CNG stations.

Valuation & outlook

We believe there exists a meaningful growth potential for MGL due to anticipated growth in the number of CNG operated vehicles considering cost effectiveness of CNG as a fuel, potential growth in the number of households in the areas of operation and gas supply to consumers in the Raigad district. We expect an EPS of Rs.56.7 for FY19E (earlier Rs.51.6) and an EPS of Rs.59.9 for FY20E (earlier Rs.53.5). Based on our estimates, at CMP the stock is trading at 8.3x EV/EBIDTA and 15.7x P/E on FY20E earnings. Post recent rise in the stock price, we now recommend ACCUMULATE (earlier BUY) on MGL with a DCF based price target of Rs.1030 (earlier Rs.948). We have revised our target price to reflect better margins, higher realization and other minor changes.

Quarterly performance table

Particulars (Rs Mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Sales	6,763	6,438	5,829	16.0	5.0
Less: Excise duty	569	568	520	10	0
Less: Raw Material	2,930	2,914	2,312	27	1
Gross Margin	3,264	2,956	2,997	8.9	10.4
Gross Margin (%)	48.3	45.9	51.4	-3.1	2.4
Salaries, Wages & Bonus	169	161	175	-3.3	4.8
Other Mfg. Expenses	986	1,033	789	24.9	(4.6)
EBIDTA	2,109	1,762	2,033	3.8	19.7
EBIDTA Margin (%)	31.2	27.4	34.9	(3.7)	3.8
Add: Other Income	153	174	120	27.7	(11.6)
Less: Depreciation	295	339	246	19.8	(13.1)
EBIT	1,968	1,596	1,906	3.2	23.3
Less: Interest	1	1	2	(70.0)	0.0
PBT	1,967	1,595	1,904	3.3	23.3
Less: Tax	684	548	661	3.4	24.9
PAT	1,283	1,048	1,243	3.2	22.5
PAT (%)	19.0	16.3	21.3	(2.4)	2.7
EPS (Rs)	13.0	10.6	12.6	3.2	22.5

Source: Company

Quarterly result analysis – Q1FY19

- **Revenue growth** – Revenue stands at Rs. 6.76 bn, up 5% sequentially and 16% yoy basis reflecting better sales realization and higher total sales volume. Combined gas sales volume has increased 4% qoq to 261 mmscm (12% yoy). Blended average realization has increased 1.2% qoq to Rs.25.87/scm (+3.6% yoy) mainly due to price hike undertaken.
- **Sales Volume:** MGL sold ~107 mn kg of CNG thereby registering a growth of 4% on sequential basis and 13% yoy. MGL sold 68 mmscm of PNG in Q1FY19 showing a growth of 2% qoq and 10% yoy.
- **Segment wise revenue analysis:** CNG segment registered a revenue of Rs.4.73 bn, up 13% yoy and 4% qoq due to higher sales volume. Similarly, PNG segment has registered a revenue of Rs.1.99 bn resulting in a revenue growth of 8% qoq and 24% yoy.
- **Raw Material Cost:** The raw material cost has increased by 1% qoq to Rs.2.9 bn (+27% yoy) partly due to rupee depreciation and increase in domestic gas prices. The raw material cost as a percentage of revenue is down 190 bps qoq to 43.3% (370 bps yoy). In order to meet the rising domestic demand of natural gas, MGL not only sources KG-D6 gas and Administered price mechanism (APM) gas but also sources higher priced long-term RLNG as well as spot RLNG. We would like to highlight here that the gas supplied by RIL and ONGC is fixed by government in US dollar terms. Hence, any rupee depreciation increases the cost for MGL and vice-a-versa.
- **Employee expenses:** In absolute terms, employee cost has increased 5% qoq to Rs.169 mn (-3.3% yoy). We believe staff cost is within acceptable range.
- **Other expenses:** Other expenses has decreased 5% qoq to Rs.986 mn (25% yoy) presumably due to lower maintenance activity. Generally, opex is higher in second half of the year as most of the maintenance activity (repairs and maintenance) is done in second half of the year.
- **Operating profit:** In absolute terms, EBIDTA stands lower at Rs.2.1 bn, 20% qoq basis mainly due to higher gross profit and lower operating cost. Another important factor to monitor is EBIDTA per unit of sales. The same has increased 15% qoq to Rs.8.07/scm (-7.3% yoy) due to higher gross margin and lower operating cost.
- **Operating Margins:** In Q1FY19, the EBIDTA margin stood lower at 31.2%, which is up 380 bps qoq.

Ratio's (%)

	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
RW/Net Sales (Excise)	43.3	45.3	39.7	3.7	(1.9)
Staff Cost	2.5	2.5	3.0	(0.50)	(0.0)
Other Mfg Expenses Excl Excise	14.6	16.0	13.5	1.0	(1.5)
Cash EPS (Rs/share)	16.0	14.0	15.1	6.0	13.8
Other Income/PBT	7.8	10.9	6.3	1.5	(3.1)
Tax rate	34.8	34.3	34.7	0.0	0.4

Source: Company

- **Other income** of the company has decreased 12% qoq (partly base effect) to Rs.153 mn (+28% yoy). Other income consist of interest income and tax-free dividend.

- **Non-cash charges:** The depreciation cost has gone down 13% qoq to Rs.295 mn. Net fixed assets has increased to Rs. 15.3 bn as on 31st March 2018 as against Rs. 13 bn as on 31st March 2017.
- PBT for Q1FY19 is at Rs.1.97 bn up 23% qoq and 3% yoy due to strong operating performance and lower depreciation charge.
- Bottom line is at Rs. 1.3 bn up 22% qoq thereby translating into Q1FY19 EPS of Rs.13 and CEPS of Rs.16.

Recommend BUY

We believe there exists a meaningful growth potential for MGL due to anticipated growth in the number of CNG operated vehicles considering cost effectiveness of CNG as a fuel, potential growth in the number of households in the areas of operation and gas supply to consumers in the Raigad district. We expect an EPS of Rs.56.7 for FY19E (earlier Rs.51.6) and an EPS of Rs.59.9 for FY20E (earlier Rs.53.5). Based on our estimates, at CMP the stock is trading at 8.3x EV/EBIDTA and 15.7x P/E on FY20E earnings. Post recent rise in the stock price, we now recommend ACCUMULATE (earlier BUY) on MGL with a DCF based price target of Rs.1030 (earlier Rs.948). We have revised our target price to reflect better margins, higher realization and other minor changes.

Key Risk and Concerns

- In CNG - majority of outlets are owned and operated by OMC's in which company shares Rs.2.74/kg margins to OMC's
- Any meaningful slowdown in CNG conversion can impact the earnings
- In PNG - cheaper availability of alternative fuels in industrial/commercial segment can affect the margin and volume growth.

Company background

Mahanagar Gas Ltd (MGL) was incorporated on 8th May 1995 with the objective of supplying natural gas as compressed natural gas (CNG) and piped natural gas (PNG) in Mumbai and the adjoining areas. MGL is a joint venture between GAIL (India) Ltd and BG Group, UK. Recently, Royal Dutch Shell acquired BG group plc. Hence, Shell has become the ultimate holding company of all the BG Group companies, including that of BG Asia Pacific Holdings Pte. Limited (BGAPH). MGL's IPO came in June'16 and was entirely an offer for sale of 24.7 mn shares (25% stake) by the promoters GAIL and BG Asia Pacific Holdings PTE Ltd (12.3 mn shares each).

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	20,198	22,177	26,434	28,395
% change YoY	(2.2)	9.8	19.2	7.4
EBITDA	6,441	7,801	9,070	9,532
% change YoY	22.3	21.1	16.3	5.1
Other Income	527	577	614	795
Depreciation	951	1,112	1,203	1,361
EBIT	6,017	7,266	8,480	8,966
% change YoY	27.6	20.8	16.7	5.7
Net interest	10	1	2	2
Profit before tax	6,006	7,265	8,478	8,963
% change YoY	28.2	21.0	16.7	5.7
Tax	2,072	2,486	2,882	3,047
as % of PBT	34.5	34.2	34.0	34.0
Profit after tax	3,934	4,779	5,596	5,917
Minority interest	0	0	0	0
Share of profit of associates	0	0	0	0
Net income	3,934	4,779	5,596	5,917
% change YoY	27.5	21.5	17.1	5.7
Shares outstanding (m)	98.8	98.8	98.8	98.8
EPS (reported) (Rs)	39.8	48.4	56.7	59.9
CEPS (Rs)	49.5	59.6	68.8	73.7
DPS (Rs)	19.0	19.0	21.5	22.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,481	919	3,114	5,100
Accounts receivable	949	916	1,091	1,172
Inventories	238	240	257	276
Loans and Adv & Others	1,745	2,266	2,266	2,266
Current assets	4,413	4,340	6,727	8,814
Misc exp.	0	0	0	0
LT investments	4,667	6,877	6,877	6,877
Net fixed assets	17,163	18,886	20,686	22,831
Total assets	26,243	30,102	34,290	38,522
Payables	1,490	1,100	1,282	1,369
Others	4,127	5,688	6,344	6,815
Current liabilities	5,616	6,789	7,626	8,184
Provisions	823	591	634	681
LT debt	27	21	0	0
Min. int and def tax liabilities	1,376	1,748	2,039	2,351
Equity	988	988	988	988
Reserves	17,413	19,966	23,002	26,318
Total liabilities	26,243	30,102	34,290	38,522
BVPS (Rs)	186	212	243	276

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	6,017	7,266	8,480	8,966
Depreciation	951	1,112	1,203	1,361
Change in working capital	467	907	1,030	816
Chgs in other net current assets	-	-	-	-
Operating cash flow	7,435	9,285	10,713	11,143
Interest	(10)	(1)	(2)	(2)
Tax	(2,072)	(2,486)	(2,882)	(3,047)
Cash flow from operations	5,352	6,798	7,830	8,094
Capex	(2,229)	(2,835)	(3,003)	(3,506)
(Inc)/dec in investments	(785)	(2,210)	-	-
Cash flow from investments (3,014)	(5,045)	(3,003)	(3,506)	(3,506)
Proceeds from issue of equity	1,450	33	-	-
Increase/(decrease) in debt	(17)	(6)	(21)	-
Proceeds from share premium	-	-	-	-
Dividends	(4,011)	(2,342)	(2,611)	(2,601)
Cash flow from financing (2,578)	(2,315)	(2,631)	(2,601)	(2,601)
Opening cash	1,721	1,481	919	3,114
Closing cash	1,481	919	3,114	5,100

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	31.9	35.2	34.3	33.6
EBIT margin (%)	29.8	32.8	32.1	31.6
Net profit margin (%)	19.5	21.5	21.2	20.8
Receivables (days)	17.2	15.1	15.1	15.1
Inventory (days)	4.3	4.0	3.6	3.6
Sales/gross assets(x)	4.1	3.8	3.1	2.8
Interest coverage (x)	NM	NM	NM	NM
Debt/equity ratio(x)	0.0	0.0	-	-
ROE (%)	23.4	24.3	24.9	23.1
ROCE (%)	38.2	39.6	40.3	37.2
EV/ Sales	4.1	3.8	3.1	2.8
EV/EBITDA	12.9	10.7	9.0	8.4
Price to earnings (P/E)	23.8	19.6	16.7	15.8
Price to book value (P/B)	5.1	4.5	3.9	3.4

Source: Company, Kotak Securities – Private Client Research

Result Update

GENUS POWER LTD

Stock Details

Market cap (Rs mn)	:	11246
52-wk Hi/Lo (Rs)	:	86 / 38
Face Value (Rs)	:	1
3M Avg. daily volume	:	373,531
Shares o/s (mn)	:	257.3

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	8,351	10,386	12,284
Growth (%)	30.0	24.4	18.3
EBITDA	931	1,205	1,525
EBITDA margin (%)	11.1	11.6	12.4
PAT	517	665	831
EPS	2.0	2.6	3.2
EPS Growth (%)	(10.8)	28.7	24.9
BV (Rs/share)	29.1	31.1	33.3
Dividend/share (Rs)	0.4	0.6	0.8
ROE (%)	7.1	8.6	10.0
ROCE (%)	12.6	13.1	15.1
P/E (x)	21.9	17.0	13.6
EV/EBITDA (x)	13.0	10.4	8.3
P/BV (x)	1.6	1.5	1.4

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	50.5	50.5	50.5
FII	1.9	1.7	1.6
DII	9.4	8.6	8.0
Others	38.3	39.2	40.0

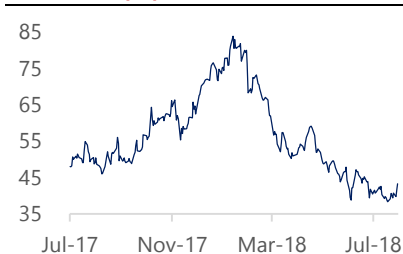
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Genus Power	4.4	(15.9)	(42.8)
Nifty	5.9	5.7	3.0

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE Rs.44

TARGET Rs.58

BUY

Genus reported good numbers on the operational front but missed our profit estimates partly due to forex loss of Rs 33 mn. Outlook on EBITDA margins remains positive as material cost pressure is easing off. Further, strong order book makes us comfortable on growth in FY19-20.

Key Highlights

- Strong revenue growth on the back of pick-up in execution.
- EBITDA margin lower due to commodity price pressures and forex loss, but the outlook is improving
- Robust order book of Rs 9.7 bn (net of GST) as compared to Rs 7.0 bn in Q1FY18.

Valuation and Outlook

After the correction in stock price, valuations are reasonable at 17x and 14x FY19E and FY20E respectively. We reiterate BUY with a price target of Rs 58 based on 18x FY20E (prior price target of Rs 71, based on 20x FY20E).

Quarterly performance

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	2386	1828	30.5	2858	(16.5)
Raw Material Consumed	1729	1092	58.3	2000	(13.5)
Stock Adjustment	(77.7)	78.6	(198.9)	46.3	(267.8)
Employee Expenses	226	195	15.9	245	(7.9)
Other Expenses	230	243	(5.5)	215	7.1
Operating expenditure	2107	1609	30.9	2506	(15.9)
PBIDT	279	219	27.4	352	(20.8)
Depreciation	45	42	8.1	44	3.9
Other Income	26	62	(57.7)	29	(9.0)
EBIT	260	239	8.7	337	(23.0)
Interest	68.1	54.8	24.3	73.2	(7.0)
PBT	192	184	4.0	264	(27.4)
Tax	48	42	14.0	112	(57.4)
Reported profit after tax	144	142	1.1	152	-5.3
EBITDA (%)	11.7	12.0		12.3	
Raw material to sales (%)	69.2	64.1		71.6	
Employee costs to sales (%)	9.5	10.7		8.6	
Other expenditure to sales (%)	9.6	13.3		7.5	
Tax rate (%)	24.9	22.7		42.5	

Source: Company

Reported Vs Estimated performance

(Rs mn)	Reported	Estimated
Revenue	2385	2900
EBITDA (%)	11.7	12.80
PAT	144	204

Source: Kotak Securities – Private Client Research

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Result Highlights

Strong revenue growth

Genus reported strong revenue growth of 31% y-o-y in Q1FY19, led by robust demand for electric meters and aided by healthy order book.

On a QoQ basis, the revenue growth slowed down due to seasonal factors (Q4 being the seasonally strongest quarter).

In terms of revenue mix, revenue from sale of meters stood at Rs 2.0 bn while the balance revenue of Rs 330 mn were contributed by EPC projects.

EBITDA margins lower due to forex loss. However, outlook is positive

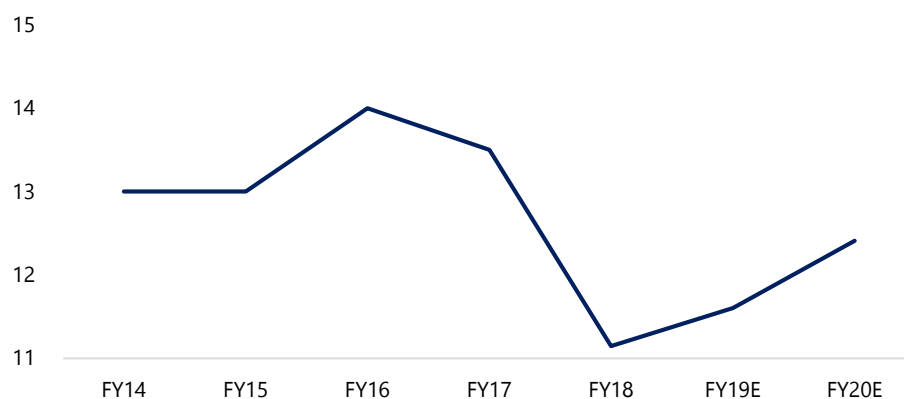
Contrary to our expectation, the company reported minor contraction in EBITDA margins by 30 bps on a y-o-y basis and by 60 bps on a q-o-q basis.

Gross margins have however declined sharply on a y-o-y basis, which is mainly attributed to increase in commodity prices – price of Polycarbonate used in meter casing has gone up sharply in past few months.

However, prices of raw materials like Polycarbonates has stabilized now, which is positive for the company as further material cost pressures would be under control.

The company also booked forex loss of Rs.33mn under head of the "Other expenditure" as against gain of Rs 2 mn in Q1FY18 (included in other income). This also weighed on the margins and shaved off 140 bps from the EBITDA margins.

EBITDA (%)



Source: Company, Kotak Securities – Private Client Research

Interest cost have gone up sharply

Genus reported increase in interest cost due to combined effect of

- 1) higher revenue growth necessitating higher working capital engagement and
- 2) higher than normal receivables at the end of the fiscal

Higher Tax rate led to lower than expected profits

Genus reported PBT of Rs 192 mn, up 4% on y-o-y basis. However, PAT came lower than expected due to higher tax rate at 25%.

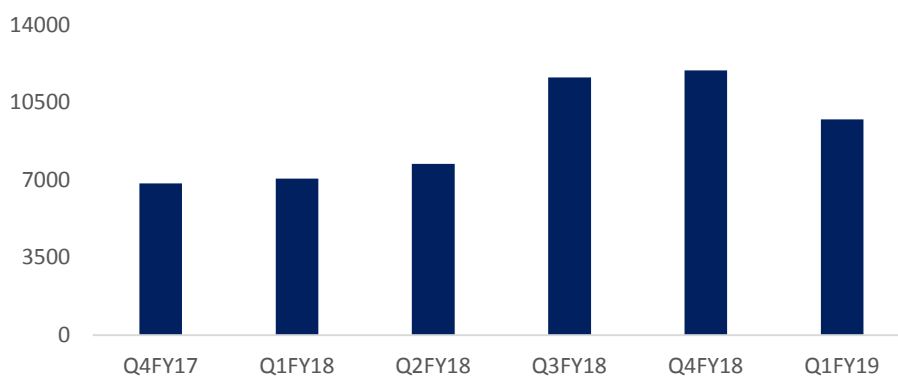
Strong order book getting stronger

Order book at the end of Q1FY19 stands at Rs 9.7 bn as against Rs 7.0 bn at the end of Q1FY18.

The company recently announced two major order wins

- Received Letter of Intent for supply of 5 mn Prepaid meters, valued at Rs 6.5 bn.
- Received LOI for supply of AMR enabled Smart meters in Maharashtra. The order would be worth Rs. 923.4 mn

Order book (Rs mn)



Source: Company

Conference call highlights

- Deliveries of EESL order for smart meter was weak in Q1FY19 but the management indicated that it has picked up steam from July onwards.
- Except for the EESL order which is partly deliverable (40% of EESL order of Rs 4.5 bn in FY19), the rest of the order book is deliverable in current fiscal. Thus, the company expects to close the fiscal with good growth in revenue. The management is guiding for ~ Rs 11 bn revenue in FY19.
- The management indicated that there are enough orders in the pipeline from several states like Rajasthan/Maharashtra.
- The management expects to reach EBITDA margins of 13-14% by the end of the fiscal driven by higher revenue booking and fixed cost absorption. However, our forecast is conservative given elevated cost pressures. Moreover, we are still unsure of how the margins on EESL order will pan out in FY19.
- The management expects tax rate to remain at 26-27% in FY19.
- Gross debt at the end of Q1FY19 stood at Rs 2.38 bn and Cash stood at Rs 1.6 bn.

Industry development

In a concerning development for the domestic smart meter manufacturers like Genus, the government is keen on bringing down the price of smart meters in the country. Further, the government's call for fast roll out has led to the entry of Chinese companies, much to the ire of domestic makers. At the same time, the power minister has urged the agencies to set the benchmark price of a smart meter at Rs 1,400 a unit — which is half of prevalent market rate. In the second tender held in June, the L1 and L2 (top two bidders) turned out to be Inhemeter and Hexing Electrical Company meters, both Chinese companies.

Earnings Revision – Broadly maintained earnings

(Rs mn)	FY19		FY20	
	Earlier	Revised	Earlier	Revised
Revenue	10,247.0	10,385.7	12,416.0	12,283.6
EBITDA (%)	11.8	11.6	12.4	12.4
EPS (Rs)	2.8	2.6	3.6	3.2

Source: Kotak Securities – Private Client Research

Valuations

The GPIL stock has corrected sharply by ~ 55% from its high of Rs86. Weak Q3 and Q4FY18 results and concerns on future margins and working capital led to this selloff, in our view. However, we note that the demand outlook for the meters business remains strong. We are projecting EPS growth of 23% CAGR between FY18-20E. After the correction in stock price, valuations are reasonable at 17x and 13.6x FY19E and FY20E respectively. We reiterate BUY with a price target of Rs 58 (Rs 67 earlier) based on 18x FY20E (prior price target of Rs 67, based on 20x FY20E). We are according lower target multiple than earlier due to 1) slippage in performance in Q1 as compared to our expectations and general contraction in valuations of mid and small caps.

Company background

Genus is the flagship company of the USD 400 million Kailash group. The company primarily manufactures and distributes Electric meters (EMs) and hybrid microcircuits as well as executes power distribution management projects in India and across the world. It manufactures the entire range of EMs, ie from transformer meters to household and industrial meters. The company also has a rich clientele that includes the state electricity boards (SEBs) as well as private utility firms like Reliance Energy, the Torrent Group, Tata Power and JSW Energy.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	6,424	8,351	10,386	12,284
% change yoy	(25.1)	30.0	24.4	18.3
EBITDA	866	931	1,205	1,525
% change yoy	(30.3)	7.5	29.4	26.5
Depreciation	153	171	183	206
EBIT	713	760	1,022	1,319
% change yoy	(35.4)	6.6	34.5	29.1
Net Interest	249	228	272	356
Other Income	240	220	146	160
Earnings Before Tax	704	752	896	1,122
% change yoy	(26.3)	6.8	19.1	25.3
Tax	125	235	231	292
as % of EBT	17.7	31.3	25.8	26.0
Net Income adj	579	517	665	831
% change yoy	(23.9)	(10.8)	28.7	24.9
Exceptional items	0.0	0.0	0.0	0.0
Reported Net Income	579	517	665	831
Shares outstanding (m)	256.9	256.9	256.9	256.9
EPS (Rs)	2.3	2.0	2.6	3.2
DPS (Rs)	0.4	0.4	0.6	0.8
CEPS	2.9	2.7	3.3	4.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	568	377	509	908
Accounts receivable	3,305	5,083	5,975	6,731
Stocks	1,160	1,956	2,419	2,861
Loans and Advances	260	-	-	-
Others	61	102	102	102
Current Assets	5,354	7,519	9,005	10,601
LT investments	3,303	3,083	3,228	3,228
Net fixed assets	1,620	1,654	1,721	1,785
Intangible assets	16	12	12	12
Deferred tax assets	459	367	367	367
CWIP	-	19	19	19
Other non current assets	446	690	512	512
Total Assets	11,198	13,344	14,864	16,525
Payables	1,380	2,553	3,000	3,500
Provisions	31	104	104	104
Current liabilities	1,411	2,656	3,104	3,604
LT debt	2,199	2,377	2,911	3,411
Other liab (defD tax+minrty int)	542	826	869	946
Equity & reserves	7,045	7,485	7,980	8,564
Total Liabilities	11,197	13,344	14,864	16,525
BVPS (Rs)	27.4	29.1	31.1	33.3

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PBDIT	866	931	1,205	1,525
Tax and adjustments	(171)	508	(231)	(292)
Cash flow from operations	695	1,439	974	1,233
Net Change in Working Capital	(138)	(1,443)	(907)	(697)
Net Cash from Operations	557	(4)	67	535
Capital Expenditure	(351)	(225)	(250)	(270)
Cash from investing	240	196	179	160
Net Cash from Investing	(111)	(29)	(71)	(110)
Interest paid	(249)	(228)	(272)	(356)
Issue of Shares	-	-	-	-
Dividends Paid	(108)	(108)	(127)	(170)
Debt Raised	(413)	178	534	500
Net cash from financing	(769)	(158)	135	(26)
Net change in cash	(323)	(190)	131	399
Free cash flow	206	(228)	(183)	265
Cash at end	568	377	509	908

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	13.5	11.1	11.6	12.4
EBIT margin (%)	11.1	9.1	9.8	10.7
Net profit margin (%)	9.0	6.2	6.4	6.8
Adjusted EPS growth (%)	(23.9)	(10.8)	28.7	24.9
Receivables (days)	187.8	222.2	210.0	200.0
Inventory (days)	65.9	85.5	85.0	85.0
Sales / Net Fixed Assets (x)	4.0	5.0	6.0	6.9
ROE (%)	8.5	7.1	8.6	10.0
ROCE (%)	11.8	12.6	13.1	15.1
EV/ Sales	1.8	1.4	1.2	1.0
EV/EBITDA	13.5	13.0	10.4	8.3
Price to earnings (P/E)	19.5	21.9	17.0	13.6
Price to book value (P/B)	1.7	1.6	1.5	1.4
Price to cash earnings	15.4	16.4	13.3	10.9

Source: Company, Kotak Securities – Private Client Research

Auto Sector Report
AUTO INDUSTRY VOLUME UPDATE – JULY 2018

In July 2018, wholesale volume growth varied amongst segments and for players within the same segment. Despite uncertainty over revised axle norms, commercial vehicle segment posted high growth in July 2018. Rural pick-up and aggressive pricing boosted two wheeler sales volume growth. Passenger vehicle segment witnessed a lackluster month and for tractors the performance varied between the key listed players. We believe that sales during the month would have been impacted on account of transporters strike. Further, base effect also played a role as July 2017 was the first month of GST implementation and manufacturer's had resorted to inventory restocking. In the auto OEM space, Mahindra and Mahindra and Maruti Suzuki remains our preferred picks.

Two wheeler segment posted strong volume growth

We believe that the domestic two wheeler industry grew by 13% in July 201 (HMSI is still to report numbers). Bajaj Auto reported strong 30% YoY increase in volume. Domestic and export volume grew by 27% and 34% respectively. Aggressive pricing by the company led to 22% YoY increase in sales volume for Bajaj Auto in July 2018. Hero Motocorp's volume growth of 9% was supported by rural demand recovery. TVS Motors reported 18% YoY volume increase on the back of higher growth in exports. Royal Enfield's volume growth at 7% was lower than expectation. Going ahead, we expect Bajaj Auto will continue to reported strong volume growth and continue to gain market share. Hero MotoCorp is expected to report high single digit to low double digit volume growth. For TVSM and Eicher Motors, volume growth is expected to remain in double-digit.

Passenger vehicle demand remained flat

As per our calculation, domestic passenger vehicle growth remained flat YoY. Honda Cars and Tata Motors reported double digit volume growth. M&M, Ford and Toyota reported YoY decline in domestic sales. Maruti Suzuki and Hyundai posted marginal growth in domestic segment. Maruti Suzuki will be launching Ciaz in August 2018 and accordingly Ciaz volume declined significantly in July 2018. Despite flat volume growth, Maruti Suzuki seems to have maintained its June 2018 market share in July 2018 as well. Given capacity constraint, we expect Maruti Suzuki's volumes to grow by ~12% in FY19.

Commercial vehicle segment springs a positive surprise

We expect the total domestic commercial vehicle industry growth to be 27% in July 2018. With new axle norms getting announced, top commercial vehicle industry players indicated that near term MHCV demand will likely get impacted. Despite that, Tata Motors and Ashok Leyland reported 18% and 22% YoY volume growth in the MHCV segment. We expect there could be near term impact on MHCV demand due to new regulation on axle load limits.

Tractor growth was mixed in July 2018

M&M and Escorts reported contrast growth in tractor sales in July 2018. While M&M reported 20% YoY growth in tractors, Escorts volume growth stood at mere 3.5%. Escorts management has guided for a weak 2QFY18 industry growth on account of delayed sowing, higher base and shift in festive season. For the full year though, Escorts has raised industry growth guidance to 12-15%. We believe that peak tractor growth is behind us and we expect growth to moderate in coming quarters.

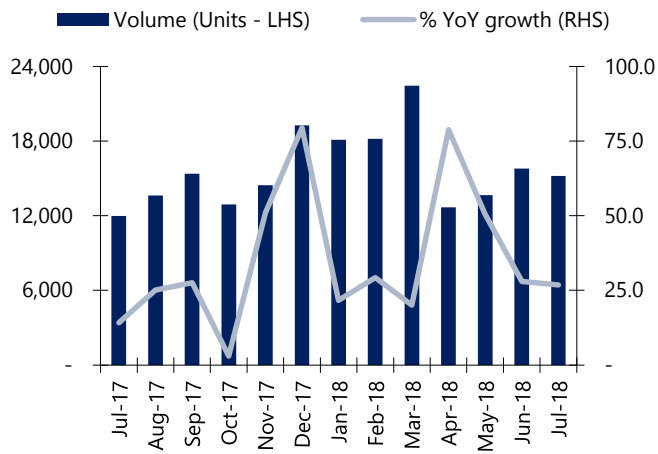
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Summary – July 2018 volumes (Nos)

	July 2017	June 2018	July 2018	YoY gth (%)	MoM gth (%)	FY18 YTD	FY19 YTD	Growth (%)
Ashok Leyland								
MHCV	9,026	11,257	10,996	21.8	(2.3)	28,906	41,642	44.1
LCV	2,955	4,534	4,203	42.2	(7.3)	11,573	15,684	35.5
Total	11,981	15,791	15,199	26.9	(3.7)	40,479	57,326	41.6
Atul Auto								
3W	3,402	3,847	3,855	13.3	0.2	12,376	14,423	16.5
Bajaj Auto								
Domestic 2W	164,915	200,949	201,433	22.1	0.2	591,477	795,667	34.5
Domestic 3W	21,582	33,627	36,078	67.2	7.3	73,929	130,509	76.5
Domestic Total	186,497	234,576	237,511	27.4	1.3	665,406	926,176	39.2
Export 2W	100,267	136,803	131,247	30.9	(4.1)	449,419	566,977	26.2
Export 3W	20,963	33,050	31,585	50.7	(4.4)	81,336	133,831	64.5
Export Total	121,230	169,853	162,832	34.3	(4.1)	530,755	700,808	32.0
Overall Volumes	307,727	404,429	400,343	30.1	(1.0)	1,196,161	1,626,984	36.0
Eicher Motors								
Royal Enfield (2W)	64,459	74,477	69,063	7.1	(7.3)	248,457	294,424	18.5
Commercial Vehicle	4,363	6,390	5,964	36.7	(6.7)	15,913	22,187	39.4
Escorts								
Tractors	5,418	9,983	5,610	3.5	(43.8)	22,979	30,104	31.0
Hero MotoCorp								
2W	623,269	704,562	679,862	9.1	(3.5)	2,472,644	2,784,811	12.6
Maruti Suzuki								
Mini Segment	42,310	29,381	37,710	(10.9)	28.3	145,820	142,749	(2.1)
Compact Segment	63,116	71,570	74,373	17.8	3.9	218,430	307,040	40.6
Mid-Size Segment	6,377	1,579	48	(99.2)	(97.0)	22,075	10,767	(51.2)
UV Segment	25,781	19,321	24,505	(4.9)	26.8	82,906	90,259	8.9
Van Segment	15,714	12,185	15,791	0.5	29.6	51,453	60,579	17.7
Total Domestic	154,001	135,662	154,150	0.1	13.6	522,432	617,990	18.3
Export	11,345	9,319	10,219	(9.9)	9.7	37,485	36,858	(1.7)
Total Sales	165,346	144,981	164,369	(0.6)	13.4	559,917	654,848	17.0
M&M								
Passenger Vehicle	21,034	18,137	19,781	(6.0)	9.1	77,029	80,560	4.6
Commercial Vehicle	15,023	19,229	19,284	28.4	0.3	61,476	76,224	24.0
3W	3,777	4,323	5,540	46.7	28.2	13,832	18,545	34.1
Total Domestic	39,834	41,689	44,605	12.0	7.0	152,337	175,329	15.1
Export	1,985	3,466	2,594	30.7	(25.2)	6,661	11,971	79.7
Total Sales	41,819	45,155	47,199	12.9	4.5	158,998	187,300	17.8
Tractors	18,957	40,529	22,679	19.6	(44.0)	103,950	123,463	18.8
SML Isuzu								
Commercial Vehicle	788	1,564	1,130	43.4	(27.7)	3,928	5,284	34.5
Tata Motors								
Commercial Vehicles	27,842	38,560	34,817	25.1	(9.7)	93,125	146,459	57.3
Passenger Vehicles	14,933	18,213	17,079	14.4	(6.2)	49,791	70,016	40.6
Total Domestic	42,775	56,773	51,896	21.3	(8.6)	142,916	216,475	51.5
Export	3,441	5,246	4,971	44.5	(5.2)	12,973	16,926	30.5
Total Sales	46,216	62,019	56,867	23.0	(8.3)	155,889	233,401	49.7
TVS Motors								
Scooters	92,378	102,763	118,996	28.8	15.8	349,950	406,883	16.3
Motorcycles	109,427	128,825	121,434	11.0	(5.7)	439,477	508,674	15.7
Mopeds	61,531	69,613	67,426	9.6	(3.1)	258,980	285,053	10.1
Total 2W sales	263,336	301,201	307,856	16.9	2.2	1,048,407	1,200,610	14.5
2W Exports (incl. above)	43,940	55,025	60,474	37.6	9.9	154,444	219,217	41.9
3W	7,835	12,413	13,323	70.0	7.3	24,872	48,843	96.4
Overall sales	271,171	313,614	321,179	18.4	2.4	1,073,279	1,249,453	16.4

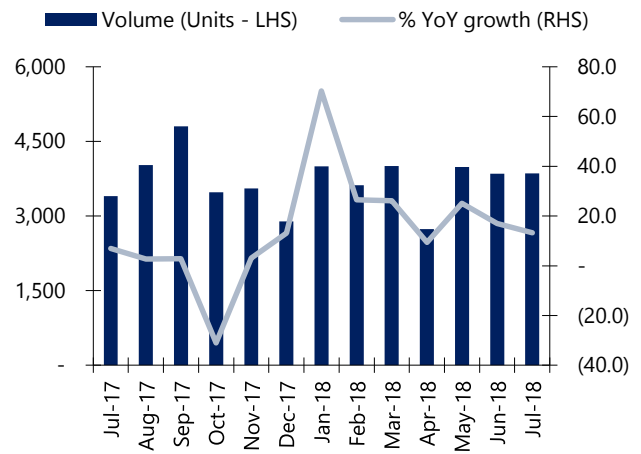
Source: Companies

Ashok Leyland - Commercial Vehicle Sales Volume



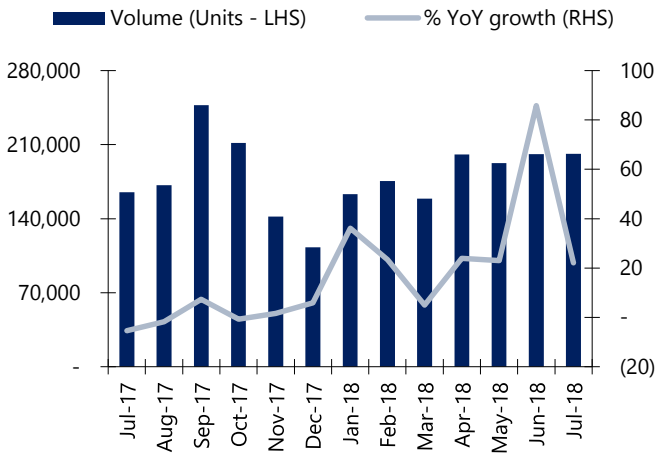
Source: Company

Atul Auto - Three Wheeler Sales Volume



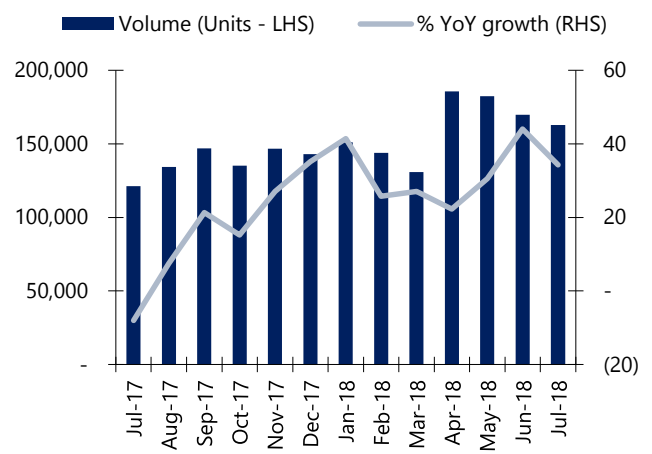
Source: Company

Bajaj Auto - Domestic Two Wheeler Sales Volume



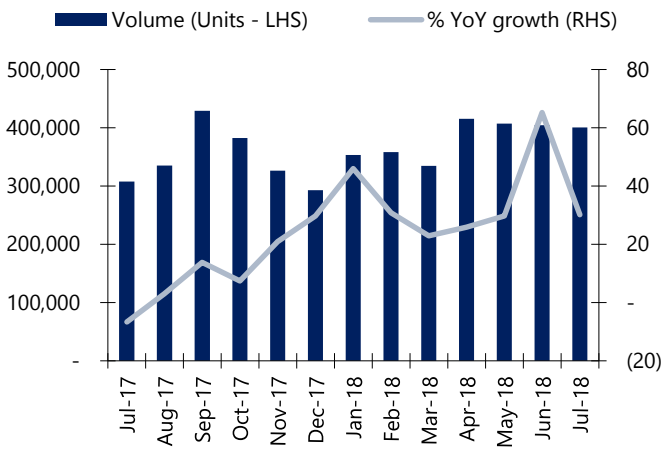
Source: Company

Bajaj Auto - Export Sales Volume



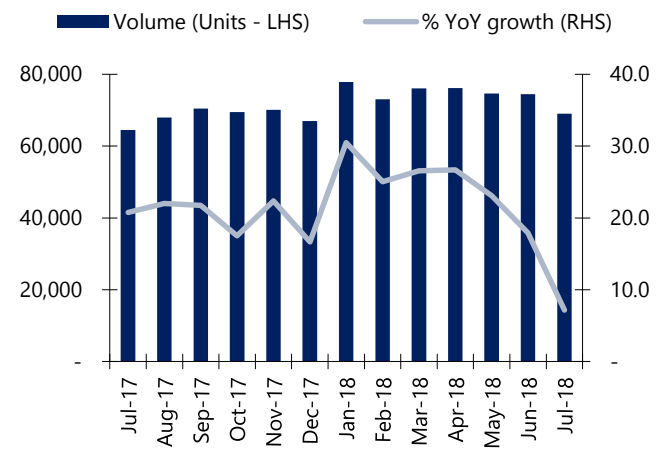
Source: Company

Bajaj Auto - Total Sales Volume



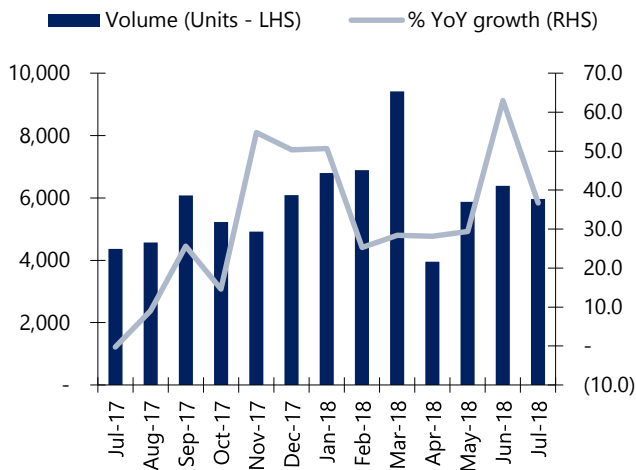
Source: Company

Eicher Motors (Royal Enfield) - TW Sales Volume



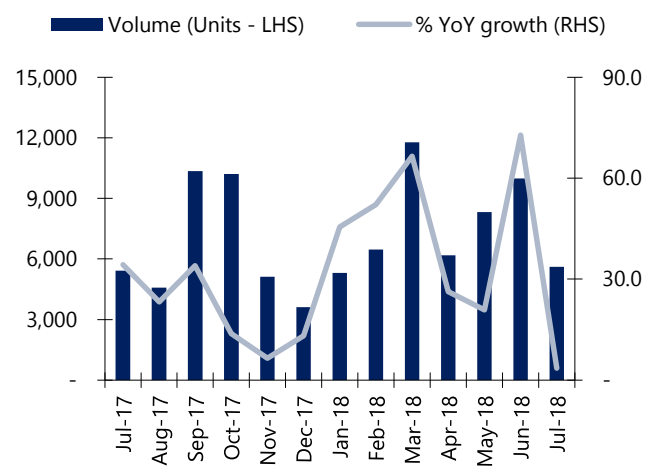
Source: Company

Eicher Motors (VECV) - Commercial Vehicle Sales Volume



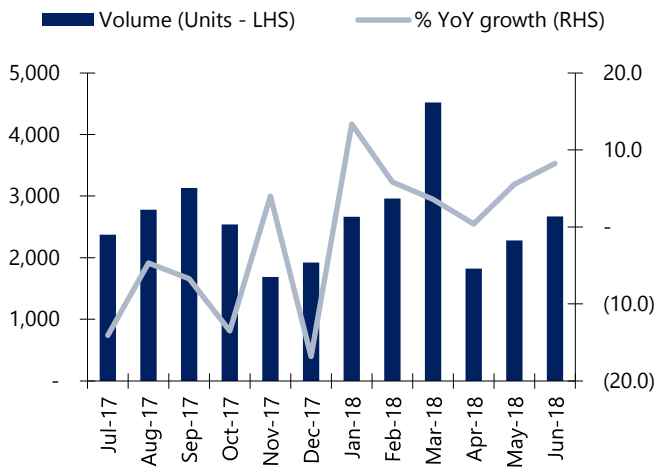
Source: Company

Escorts - Tractor Sales Volume



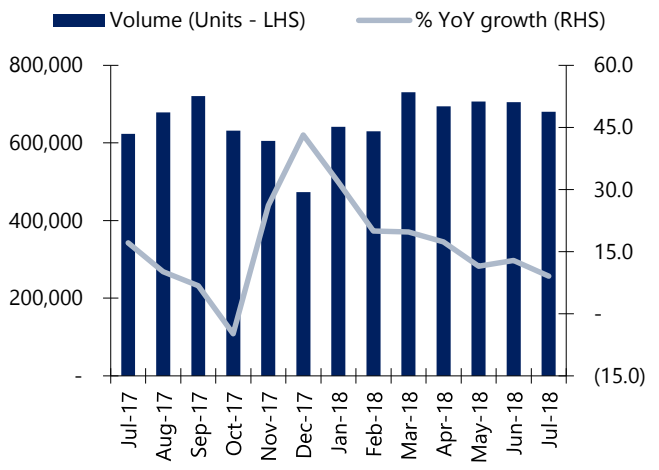
Source: Company

Force Motors - Total Sales Volume



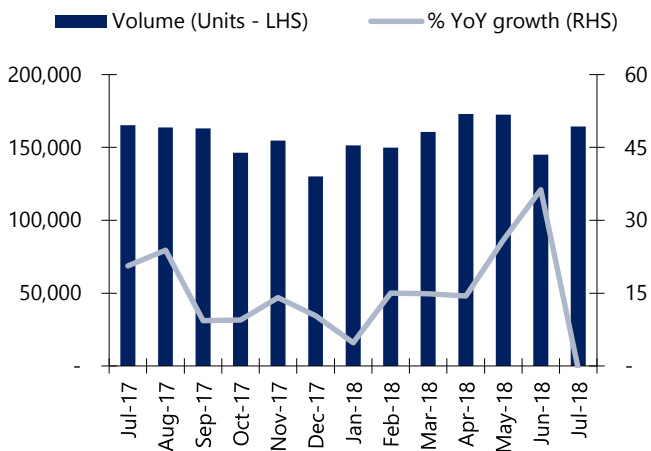
Source: Company

HMC - Two Wheeler Sales Volume



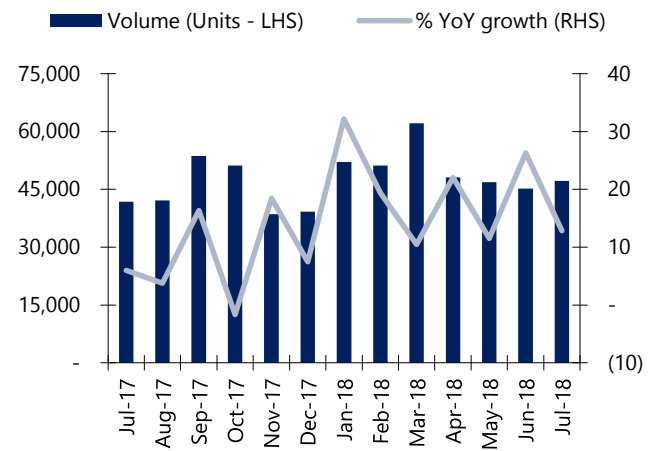
Source: Company

Maruti Suzuki - Total Passenger Vehicle Sales Volume



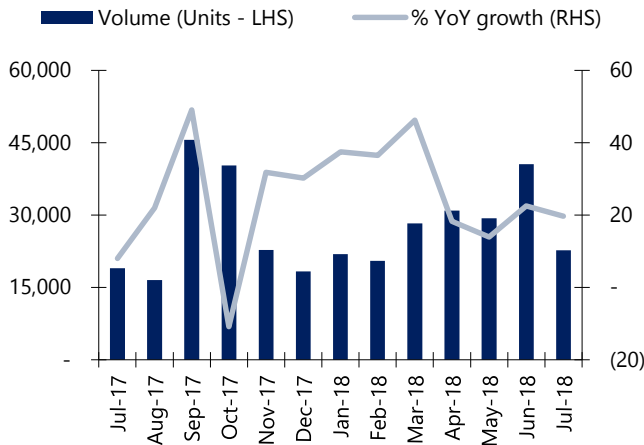
Source: Company

M&M - Auto Segment Sales Volume



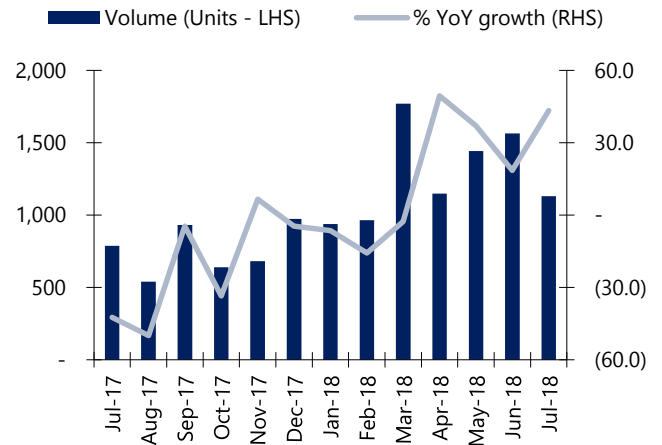
Source: Company

M&M - Tractor Segment Sales Volume



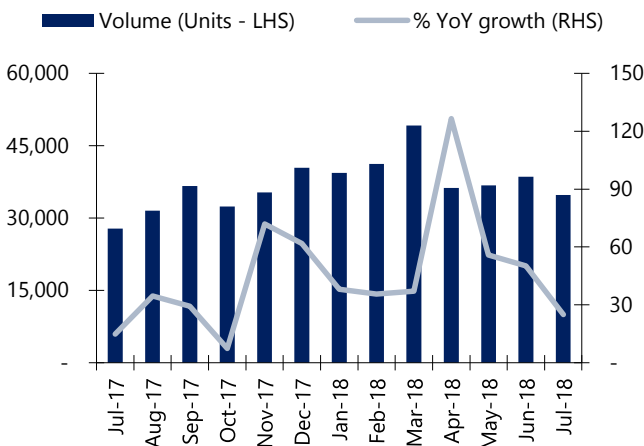
Source: Company

SML Isuzu - Commercial Vehicle Sales Volume



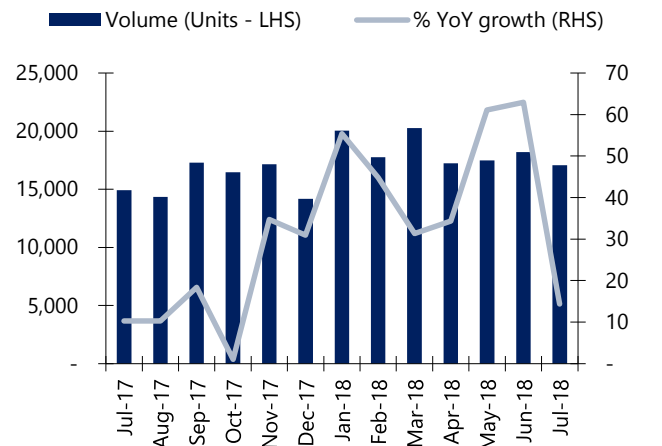
Source: Company

Tata Motors - Domestic Commercial Vehicle Sales Volume



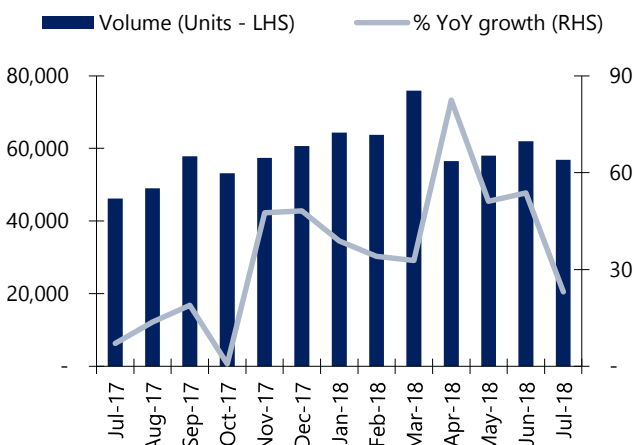
Source: Company

Tata Motors - Domestic Passenger Vehicle Sales Volume



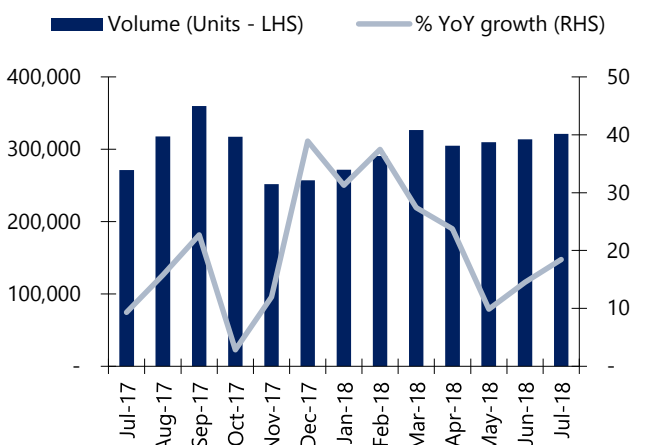
Source: Company

Tata Motors - Total Sales Volume



Source: Company

TVS Motors - Total Sales Volume



Source: Company

Forthcoming Events**Forthcoming events**

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

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- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91- (022) 4285 8301.