Morning Insight

AUGUST 6, 2018

	3-Aug	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,556	1.1	6.2	7.0
NIFTY Index	11,361	1.0	6.2	6.4
NSEBANK Index	27,696	1.2	5.7	8.2
NIFTY 500 Index	9,686	1.0	5.9	3.2
CNXMcap Index	19,113	1.0	4.8	(3.3)
BSESMCAP Index	16,834	1.2	5.3	(6.7)
World Indices				
Dow Jones	25,463	0.5	4.1	4.9
Nasdaq	7,812	0.1	1.6	8.4
FTSE	7,659	1.1	0.5	1.2
NIKKEI	22,525	0.1	3.8	0.6
Hangseng	22,525	0.1	3.8	0.6
Shanghai	27,676	(0.1)	(1.0)	(6.4)

Value traded (Rs cr)	3-Aug	% Chg Day
Cash BSE	3,864	39.6
Cash NSE	32,614	5.6
Derivatives	472,159	(67.3)

Net inflows (Rs cr)	2-Aug	MTD	YTD
FII	(553)	(828)	(4,239)
Mutual Fund	(238)	(238)	72,360

Nifty Gainers & Losers 3-Aug	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Indiabulls Housing	1,378	6.1	5.5
Axis Bank	575	5.0	16.0
Vedanta	222	3.9	18.3
Losers			
Tech Mahindra	663	(0.9)	2.9
Tata Motors	258	(0.9)	9.0
Grasim Ind	1,006	(0.8)	0.8

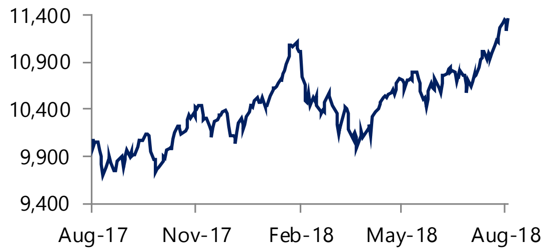
Advances / Declines (BSE)

3-Aug	A	B	T	Total	% total
Advances	281	779	64	1,124	100
Declines	104	325	52	481	43
Unchanged	2	24	11	37	3

Commodity	3-Aug	% Chg 1 Day	1 Mth	3 Mths
Crude (US$/BBL)	73.6	0.5	(4.5)	(1.7)
Gold (US$/OZ)	1,214	0.5	(3.1)	(7.5)
Silver (US$/OZ)	15.4	0.6	(3.6)	(6.5)

Debt / forex market	3-Aug	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.7	7.9	7.7
Re/US$	68.6	68.7	68.6	66.6

Nifty



Source: Bloomberg

News Highlights

- India has deferred imposition of retaliatory tariff on 29 US products by 45 days till September 18 due to the ongoing discussion between the two countries to resolve trade disputes. The tariffs were supposed to come into effect on August 4. (ET)
- Fugitive Economic Offenders Bill gets president's assent. A fugitive economic offender is an individual who has committed a fraud of at least ₹ 1bn and has left India so as to avoid criminal prosecution.(Mint)
- Government may ask RBI to relax resolution plan deadline for power firms. The government may approach the Reserve Bank of India to extend the deadline for management switchover of stressed power plants in the case of projects for which lenders have identified new promoters. (ET)
- Auto makers in India are set to spend up to ₹580bn in capital expenditure over the next two years—the highest in a decade—underscoring healthy demand prospects in the local market and impending safety and emission norms.(Mint)
- **Apollo Tyres, Ceat, MRF** betting big on rising local demand.The only hitch is that most tyre firms would need to raise debt to fund hefty capex.(Mint)
- **Indian Oil Corp, Ltd,** the country's largest oil firm, plans to invest ₹ 1.75 trillion to nearly double its refinery capacity, boost petrochemical production, expand gas business and lay new pipelines to become a vertically integrated company.(Mint)
- **HDFC Bank** has raised Rs 151.51 bn from domestic and foreign institutional investors. The money has been raised through a mix of qualified institutions placement (QIP) in the domestic market and American Depository Receipts (ADRs) in the US market. (ET)
- **Bank of Baroda** puts Rs 28 billion non-fund exposure under watch list.The bank is expecting slippages to be about Rs 40 billion in the current financial year.(BS)
- **NBCC** conducts detailed inspection of Amrapali's incomplete projects. The inspection was done to prepare a feasibility report after the Supreme Court asked NBCC to submit a report on how it plans to compete Amrapali's incomplete projects.(ET)
- Mumbai International Airport, the **GVK**-led consortium building the Navi Mumbai International Airport (NMIA), is enhancing the contours of the project, doubling its initial yearly passenger handling capacity to 20 million and increasing the final capacity by 50% to 90 million.

What's Inside

- **Result Update:** CDSL, Mold-Tek Packaging, Marico, VIP Industries, Time Technoplast
- **Analyst Meet Update:** Hero MotoCorp
- **Sector Update:** Natural Gas
- **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

CENTRAL DEPOSITORY SERVICES (INDIA) LTD

PRICE RS. 268 **TARGET RS.320** **BUY**

Central Depository Services (CDSL) 1QFY19 operating performance was in line, but lower other income weigh on PAT. Owing to the volatile capital markets, key segments (except data processing) grew at subdued pace. Data Processing revenue declined on challenging capital markets and lesser primary market traction.

Stock Details

Market cap (Rs mn)	:	28006
52-wk Hi/Lo (Rs)	:	398 / 251
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	360,442
Shares o/s (m)	:	105

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	1,910	2,089	2,366
Growth (%)	30.8	9.4	13.2
EBITDA	1,137	1,230	1,401
EBITDA margin (%)	59.5	58.9	59.2
PAT	1,032	1,105	1,251
EPS	9.9	10.6	12.0
EPS Growth (%)	20.3	7.1	13.2
BV (Rs/share)	10	11	12
Dividend/share (Rs)	3.5	4.2	4.8
ROE (%)	17.2	16.6	16.9
ROCE (%)	17.8	17.1	17.4
P/E (x)	27.1	25.3	22.4
EV/EBITDA (x)	19.7	17.9	15.3
P/BV (x)	4.7	4.2	3.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	24.0	24.0	24.0
FII	1.6	2.2	2.3
DII	48.7	48.0	48.9
Others	25.7	25.8	24.8

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Central Dep Ser	(0.7)	(5.4)	(15.9)
Nifty	6.2	6.4	5.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Key Highlights

- Central Depository Services (CDSL) has reported an in-line EBITDA in 1QFY19, which rose 11.9% YoY to Rs257 mn (-13% QoQ), with an EBITDA margin of 56.8% vs 56.6% in 1QFY18 (supported by cost control).
- CDSL continues to focus on increasing DPs with net beneficial owner accounts rising by 24% YoY to 15.3mn, which implies the highest ever incremental addition of ~3mn accounts, with an incremental market share of 71%.

Valuation & outlook

CDSL's annuity based revenue stream, new growth avenues of Insurance & Academics, fixed operating costs, robust cash flow generation coupled with a strong balance sheet and stable dividend policy is likely to drive earnings growth and keep valuation at the higher side. Return ratios are optically suppressed due to cash in the Balance Sheet. Besides this, compulsory demat of unlisted companies if it materializes, will further support higher valuation. We reiterate our BUY rating with an unchanged target price of Rs320. At CMP, the stock is trading at 25.3x/22.4x FY19E/FY20E earnings.

Quarterly performance table

Particulars (Rs Mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenue	**453**	**405**	**11.6**	**518**	**(12.6)**
Employee Expenses	80	70	14.1	96	(16.0)
Other Expenses	92	82	11.5	102	(10.4)
Total Expenses	196	176		223	
EBITDA	**257**	**230**	**11.9**	**295**	**(13.0)**
EBITDA Margin (%)	56.8	56.6		57.0	
Depreciation	25	10	138.5	27	(5.8)
EBIT	**232**	**219**	**5.9**	**269**	**(13.7)**
Interest	0	0		0	
Other Income	52	98	(47.2)	99	(47.7)
Exceptional Items	0	0		0	
PBT	**284**	**317**	**(10.5)**	**367**	**(22.8)**
Tax	64	62	2.1	108	(41.3)
ETR (%)	22.4	19.6		29.4	
PAT	**220**	**255**	**(13.6)**	**259**	**(15.1)**

Source: Company, Kotak Securities – Private Client Research

Key Risks

a) Low pricing power, b) dependence on capital market volume, c) regulatory oversight, d) loss of KYC business after the appointment of Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) are the key risks to our estimates

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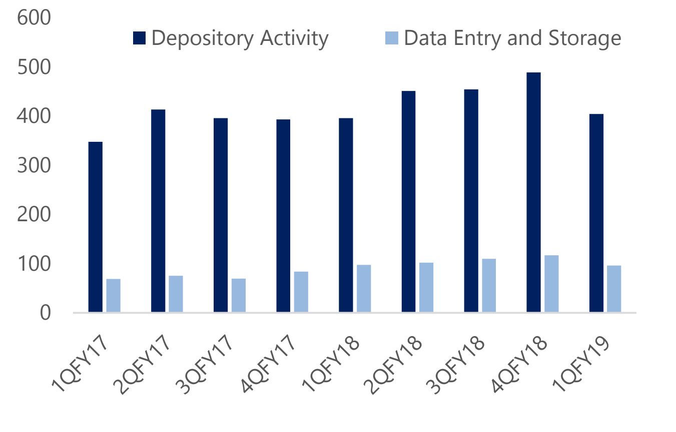
Volatile market restricted revenue growth

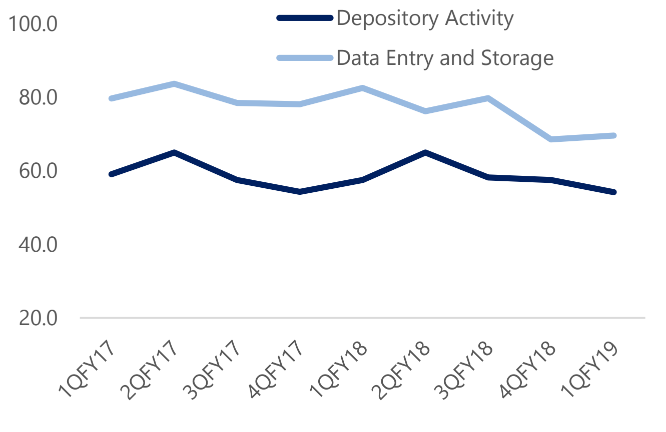
Volatile market condition in 1QFY19, resulted in subdued revenue across the segments. Revenue grew 11.6% YoY to Rs453 mn (down 12.6% QoQ). Transaction Charges revenue rose by 7% YoY (42% YoY in 4QFY18), IPO/Corporate Action Charges revenue rose by 8.6% YoY (70.8% YoY in 4QFY18) and KYC/Online Data Charges rose by 11.2% YoY (59.9% YoY in 4QFY18). The segment which witnessed the decline was Data Processing as growth in "downstream revenue" relating to KYC services led by new demat account openings slowed (related to market activities).

Segment wise revenue contribution (Rs Mn)



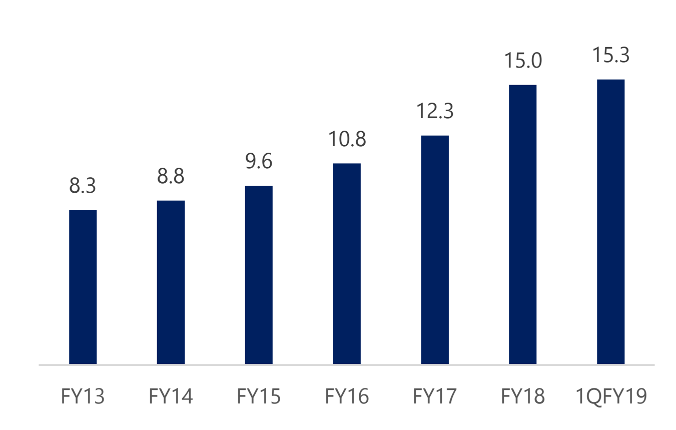
Source: Company

Segment wise EBIT Margin (%)



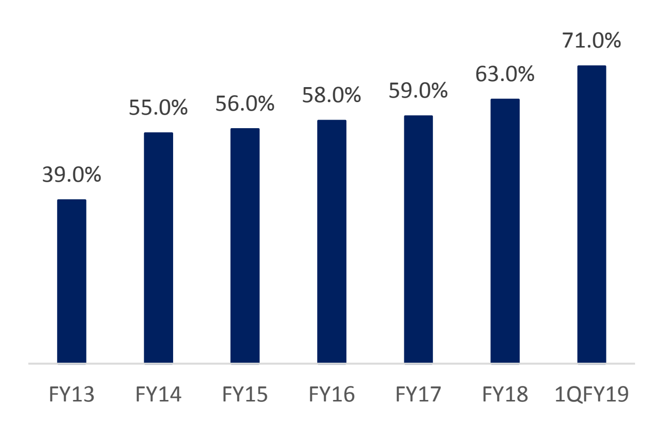
Source: Company

Growth in CDSL's Demat account (mn)



Source: Company

CDSL Incremental market share

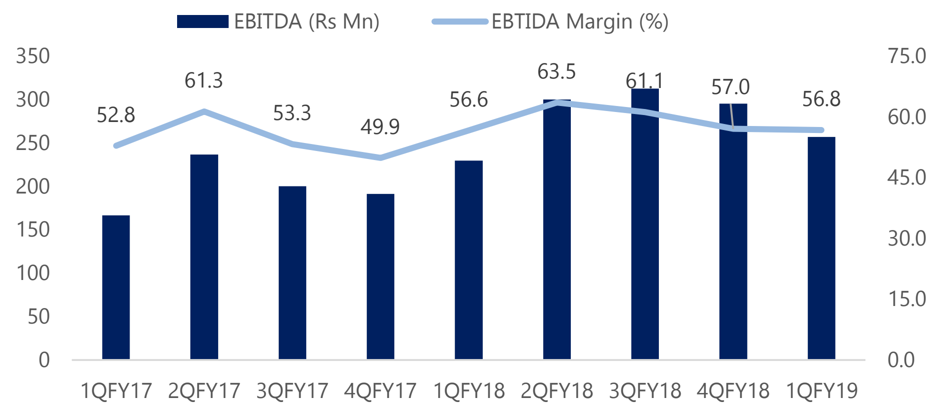


Source: Company

Margin above 55%

EBITDA during the quarter grew 11.9% YoY to Rs257mn (down 13% QoQ), with an EBITDA margin of 56.8%. Despite the sharp fall in the data processing revenue, margin continued to remain strong due to an effective cost control.

EBITDA and EBITDA Margin (%) trend



Source: Company

Other Highlights

- CDSL continues to sustain leadership in demat segment in terms of incremental market share (71% in 1QFY19). Overall market share improved 50bps to 47%.
- Transaction charges during the quarter was up 7% YoY to Rs96.6 mn, as against 20% YoY growth in cash delivery volume in the market.
- The company had invested in new office facilities in 4QFY18, which resulted into steep rise in depreciation YoY.
- Lower other income in 1QFY19 is attributed to lower MTM value of investments (Rs19.4mn vs. Rs52mn in 1QFY18).
- The company is looking to diversify its e-voting business beyond corporates to other potential customers like insolvency professionals and academic institutes etc. It enabled conduct of student union elections in Tata Institute of Social Sciences (TISS) through its e-voting service.
- CDSL Ventures sustained its leadership with 17.4mn accounts at the end of 1QFY19 vs 1.70mn at the end of 4QFY18 in KYC business.
- Clarity on dematerialization of unlisted companies should come in the next two months, as per the management. If it materializes, revenue will start reflecting from 3Q onwards.
- National Academic Depository service has tied up with ~300 universities as against ~250 of NSDL. The rampup of these services will provide additional revenue growth drivers over the long term

Recommend BUY

CDSL's annuity based revenue stream, new growth avenues of Insurance & Academics, fixed operating costs, robust cash flow generation coupled with a strong balance sheet and stable dividend policy is likely to drive earnings growth and keep valuation at the higher side. Return ratios are optically suppressed due to cash in the Balance Sheet. Besides this, compulsory demat of unlisted companies if it materializes, will further support higher valuation. We reiterate our BUY rating with an unchanged target price of Rs320. At CMP, the stock is trading at 25.3x/22.4x FY19E/FY20E earnings.

Company Background

Central Depository Services (India) Limited ("CDSL" or the "Company") was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. A depository facilitates holding of securities in the electronic form and enables securities transactions to be processed by book entry by a Depository participant (DP) who as an agent of the depository, offers depository services to investors. CDSL is the leading securities depository in India by incremental growth of Beneficial Owner (BO) accounts over the last three Fiscal years.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net sales	**1,460**	**1,910**	**2,089**	**2,366**
growth (%)	18.8	30.8	9.4	13.2
Operating expenses	666	773	859	965
EBITDA	**794**	**1,137**	**1,230**	**1,401**
growth (%)	24.3	43.2	8.2	13.9
Depreciation	37	69	90	108
EBIT	**757**	**1,068**	**1,140**	**1,292**
Other income	408	347	380	428
Interest paid	0	0	0	0
Exceptional items	0	0	0	0
PBT	**1,166**	**1,414**	**1,520**	**1,720**
Tax	300	378	410	464
Effective tax rate (%)	25.7	26.7	27.0	27.0
Net profit	**866**	**1,036**	**1,110**	**1,256**
Minority interest	8	5	5	5
Reported Net profit	858	1,032	1,105	1,251
Non-recurring items	0	0	0	0
Adjusted Net profit	**858**	**1,032**	**1,105**	**1,251**
growth (%)	48.2	20.3	7.1	13.2

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	483	411	604	834
Other Current assets	351	417	350	385
Investments	5,029	5,175	5,434	5,705
Net fixed assets	55	761	1,035	1,310
Goodwill & intangible assets	0	0	0	0
Other non-current assets	154	170	172	173
Total assets	**6,072**	**6,933**	**7,595**	**8,407**
Current liabilities	571	765	762	812
Borrowings	0	0	0	0
Other non-current liabilities	14	20	13	13
Total liabilities	584	785	775	825
Share capital	1,045	1,045	1,045	1,045
Reserves & surplus	4,288	4,943	5,608	6,362
Shareholders' funds	5,333	5,988	6,653	7,407
Minority interest	155	159	167	176
Total equity & liabilities	**6,072**	**6,932**	**7,595**	**8,407**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	1,159	1,410	1,520	1,720
Depreciation	37	69	90	108
Chg in working capital	47	129	59	12
Taxes	300	378	410	464
Others	20	(12)		
Operating CF	**963**	**1,218**	**1,259**	**1,377**
Capital expenditure	(53)	(706)	(275)	(275)
Chg in investments	(454)	(146)	(258)	(270)
Other investing activities	0	0	0	0
Investing CF	**(507)**	**(852)**	**(532)**	**(544)**
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	376	439	533	603
Other financing activities	0	0	0	0
Financing CF	**(376)**	**(439)**	**(533)**	**(603)**
Net chg in cash & bank bal.	79	(73)	194	230
Closing cash & bank bal	**483**	**410**	**604**	**834**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	54.4	59.5	58.9	59.2
EBITM	51.9	55.9	54.6	54.6
NPM	58.8	54.0	52.9	52.9
RoE	16.1	17.2	16.6	16.9
RoCE	14.2	17.8	17.1	17.4
RoIC	99.0	57.7	58.3	54.2
Per share data (Rs)				
EPS	8.2	9.9	10.6	12.0
FDEPS	8.2	9.9	10.6	12.0
CEPS	8.6	10.5	11.4	13.0
BV	51.0	57.3	63.7	70.9
DPS	3.0	3.5	4.2	4.8
Valuation ratios (x)				
PE	32.6	27.1	25.3	22.4
P/BV	5.3	4.7	4.2	3.8
EV/EBITDA	28.3	19.7	17.9	15.3
EV/Sales	15.4	11.7	10.5	9.1
Other key ratios				
DSO (days)	33	36	36	36

Source: Company, Kotak Securities – Private Client Research

Result Update

MOLD-TEK PACKAGING LIMITED (MTPL)

PRICE RS. 305 **TARGET RS.351** **BUY**

Stock Details

Market cap (Rs mn)	:	8501
52-wk Hi/Lo (Rs)	:	374 / 254
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	40,010
Shares o/s (mn)	:	27.7

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	3,577	4,074	4,641
Growth (%)	15.8	13.9	13.9
EBITDA	615	765	876
EBITDA margin (%)	17.2	18.8	18.9
PAT	278	403	462
EPS	10.1	14.6	16.7
EPS Growth (%)	14.7	44.9	14.6
BV (Rs/share)	4.0	5.0	5.0
Dividend/share (Rs)	61.2	70.8	82.0
ROE (%)	16.0	20.5	20.4
ROCE (%)	16.3	17.2	17.3
P/E (x)	30.3	20.9	18.3
EV/EBITDA (x)	15.3	12.4	9.6
P/BV (x)	4.9	4.3	3.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	35.6	35.8	35.8
FII	8.3	7.5	6.5
DII	12.6	13.6	13.9
Others	43.6	43.1	43.8

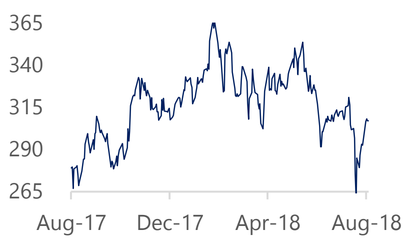
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Mold-Tek Packaging	(1.0)	(9.3)	(10.4)
Nifty	6.2	6.4	5.6

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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MTPL Q1FY19 PAT was in-line with estimates, but EBITDA was above estimates, due to higher realisation. Despite the increase in raw materials costs, margin during the quarter remained flat QoQ, backed by higher IML sales and higher realisation. MTPL is on its way of sustainable growth story, backed by capacity addition at Mysuru, Vizag, greenfield plant at Hyderabad for Food and FMCG, ramp-up at RAK, increasing share of IML and strong clientele.

Key Highlights

- The recovery in edible oil is visible, with the acceptance of Packs of S.l5 and 17 liters in Edible oil and ghee segments. Management is planning to launch a small (50ml to 1000 ml) retail pack from Oct'18.
- The contribution from IML continued to remain strong at 61.7% in value terms in 1QFY19 and expect the momentum to continue.
- RAK operations will take some more time to break-even, as various products are under development stage and the management is also realigning the product mix in favor of F&F. The current utilisation stands at 30-35%.

Valuation & outlook

Rising sales of IML in the revenue, has helped the company to report improvement in EBITDA/kg to Rs32.6/kg (standalone) in 1QFY19. We expect EBITDA/kg to remain strong in the next two years, driven by higher contribution from the F&F segment. Increasing share of IML in the overall revenue mix and higher visibility of volume augurs well for the company. Given the company's strong tool room capability and structural improvement in business mix supports our positive view on the MTPL. At CMP, the stock is trading at 20.9x/18.3x FY19E/FY20E earnings, which in our view is attractive. We reiterate BUY with an unchanged target price of Rs351.

Quarterly performance table

Particulars (Rs Mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net sales	**1,023**	**899**	**13.7**	**946**	**8.2**
Materials & subcontracting	621	526	18.1	564	9.9
Employee Expenses	104	87	19.0	97	6.6
Total Expenditure	845	741	14.0	781	8.2
EBITDA	**178**	**158**	**12.7**	**165**	**8.0**
EBITDA Margin (%)	17.4	17.6		17.4	
Depreciation	37	30	23.0	35	6.3
Interest	16	10	57.1	15	10.8
EBT	**125**	**117**	**6.1**	**115**	**8.2**
Other income	4	3	23.7	2	78.8
PBT	**129**	**121**	**6.6**	**118**	**9.7**
Provision for tax	47	50	(6.0)	49	(4.4)
-effective tax rate (%)	36.3	41.2		41.7	
PAT (reported)	**82**	**71**	**15.4**	**68**	**19.8**
Minority/ Share of Profit	0	0		0	
PAT (Adjusted)	**82**	**71**	**15.4**	**68**	**19.8**
NPM (%)	**8.0**	**7.9**		**7.2**	

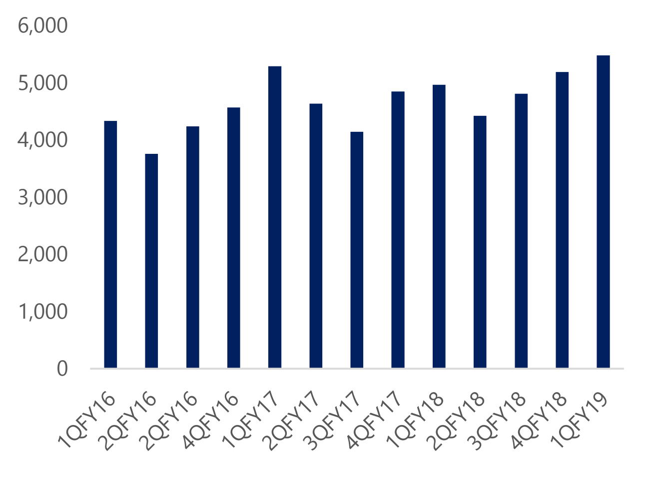
Source: Company, Kotak Securities – Private Client Research

Higher realisation and contribution from IML supported operating performance

Standalone volume during the quarter strong stood at 5,472kg, up 10.3%/5.3% YoY/QoQ. The growth in volume was contributed by paints, food and FMCG Industry. Rising penetration of IML into rigid packaging has led to the value share of IML rising to 61.7% in 1QFY19 from 53.5% in 1QFY18, the sequential decline in value is largely attributed to the lower sales to "chocolates" and "ice cream" players during the quarter. Management indicated that sales volume to "chocolate" category has picked up from the month of Jul and the momentum is expected to sustain.

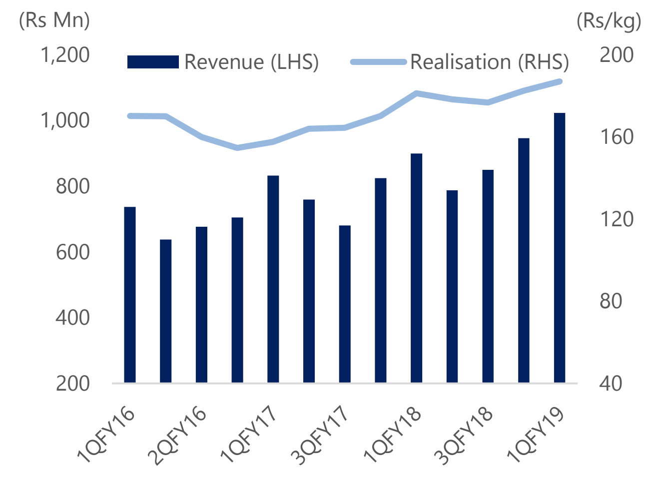
During the quarter, the company witnessed Rs12/kg sequential increase in raw material costs, however same was being passed on to the end users, with a one month lag. Despite the rise in raw material costs, the company reported 17.4% EBITDA margin (flat QoQ), due to increase in blended realisation (up 3.2%/2.5% YoY/QoQ to Rs186.9/kg) and strong contribution from IML sales. EBITDA/kg during the quarter stood at Rs32.6.

Volume trend (kg)



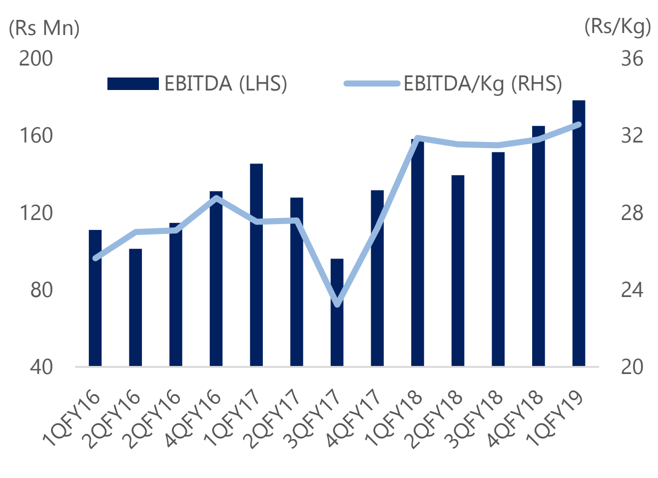
Source: Company

Revenue and realisation trend



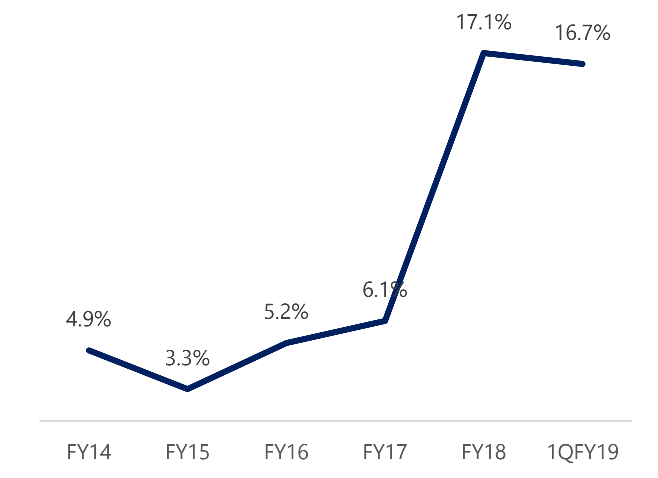
Source: Company

EBITDA/kg improved on increasing IML contribution



Source: Company

Revenue contribution of F&F



Source: Company

F&F segment contribution to go up further

Post, the successful execution of "Mondelez" order, the company is developing the IML containers for leading Food and FMCG companies. Any successful closure, would take contribution of F&F segment higher from 16.7% in 1QFY19 (17.1% in FY18). Besides this, the company acceptance of pails in Edible oil and ghee segment, would further strengthen the company's position in Food and FMCG industry. In order to further penetrate into the segment, the company is launching a smaller retail pack from the month of October onwards. MTPL, expects the growth from this range of products would further strengthen its Food and FMCG portfolio in the coming years.

Other Highlights:

- **Expansion:** Mysuru plant and Vizag plant expansion for Asian paints, is on track and the production is expected to start from Oct/Nov'18 at Mysuru and Jan'19 at Vizag. The company received their first order from Asian Paint-Mysuru units, which will be executed by end of Sep'18, from their existing plant location.
- **Capex:** MTPL is expected to spend Rs520 mn in FY19 for Asian Paint facilities and expanding the food and FMCG capacity in Hyderabad (greenfield project), which is expected to come on stream by 2HFY20. The second phase of Mysuru expansion will be undertaken in Q4FY19 and Q2FY20 for Vizag.
- **Volume Growth:** On standalone basis, the management expects 15% volume growth in FY19E and over 20% from FY20E onwards, once the Mysuru and Vizag facilities comes on stream.
- **RAK:** The facility is currently operating at 30-35% utilisation and it requires 60% utilisation to reach a break even. The company has developed certain product, if it materialized in a final order, the management expects the facility can reach 60% utilisation by the end of 2QFY19 and achieve break-even in the month of October / November, 2018.

Maintain BUY

Rising sales of IML in the revenue, has helped the company to report improvement in EBITDA/kg to Rs32.6/kg (standalone) in 1QFY19. We expect EBITDA/kg to remain strong in the next two years, driven by higher contribution from the F&F segment. Increasing share of IML in the overall revenue mix and higher visibility of volume augurs well for the company. The company's strong tool room capability and structural improvement in business mix supports our positive view on the MTEP. At CMP, the stock is trading at 20.9x/18.3x FY19E/FY20E earnings, which in our view is attractive. We reiterate BUY with an unchanged target price of Rs351.

Company Background

Mold-Tek Packaging is the market leader in rigid plastic packaging in India with more than 20 years of experience. It is involved in manufacturing injection molded packaging containers, primarily pails (cylindrical containers) for paints, lubricants, food and other products. The company has a world-class integrated facility, from product inception to mold designing, processing and decorating products. It has seven processing plants in India, three stock points and ~70 molding machines. The company has capacity of ~27,000 tonnes in India and 3,000 tonnes in the UAE.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net sales	**3,089**	**3,577**	**4,074**	**4,641**
growth (%)	12.1	15.8	13.9	13.9
Operating expenses	2,595	2,961	3,347	3,813
EBITDA	**494**	**615**	**765**	**876**
growth (%)	7.8	24.6	24.3	14.5
Depreciation	103	132	137	157
EBIT	**391**	**484**	**628**	**719**
Other income	10	10	11	13
Interest paid	19	46	33	38
Exceptional Items	1	0	0	0
PBT	**383**	**447**	**606**	**694**
Tax	140.3	168.8	202.3	231.8
Effective tax rate (%)	37	38	33	33
Net profit	**243**	**278**	**403**	**462**
Minority interest	0	0	0	0
Reported Net profit	243	278	403	462
growth (%)	0.7	14.7	44.9	14.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	9	10	11	45
Other Current assets	1,321	1,473	1,900	2,189
Investments	32	103	32	32
Net fixed assets	1,147	1,477	1,757	1,957
Other non-current assets	12	76	76	76
Total assets	**2,519**	**3,138**	**3,776**	**4,298**
Current liabilities	510	339	767	939
Borrowings	540	957	1,069	1,079
Other non-current liab	58	102	135	176
Total liabilities	1,108	1,398	1,971	2,194
Share capital	138	138	138	138
Reserves & surplus	1,274	1,601	1,667	1,967
Shareholders' funds	1,413	1,740	1,805	2,105
Minority interest	0	0	0	0
Total equity & liabilities	**2,519**	**3,138**	**3,776**	**4,298**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-tax profit	383	447	606	694
Depreciation	103	132	137	157
Chg in working capital	(234)	(263)	(276)	(248)
Other operating activities	(122)	(123)	(170)	(180)
Operating CF	**131**	**192**	**297**	**423**
Capital expenditure	(252)	(330)	(286)	(200)
Chg in investments	0	(71)	71	0
Other investing activities	0	0	0	0
Investing CF	**(252)**	**(401)**	**(215)**	**(200)**
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	246	415	114	10
Dividend (incl. tax)	120	130	162	162
Other financing activities	32	17	33	38
Financing CF	**120**	**210**	**(81)**	**(190)**
Net chg in cash & bank bal.	(2)	1	1	34
Closing cash & bank bal	9	10	11	45

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	16.0	17.2	18.8	18.9
EBITM	12.7	13.5	15.4	15.5
NPM	7.9	7.8	9.9	10.0
RoE	15.9	16.0	20.5	20.4
RoCE	16.4	16.3	17.2	17.3
Per share data (Rs)				
EPS	8.8	10.1	14.6	16.7
CEPS	12.5	14.8	19.5	22.3
DPS	3.6	4.0	5.0	5.0
BV	55.1	61.2	70.8	82.0
Valuation ratios (x)				
PE (x)	34.8	30.3	20.9	18.3
P/BV (x)	5.5	4.9	4.3	3.7
EV/EBITDA (x)	18.3	15.3	12.4	9.6
EV/Sales (x)	2.9	2.6	2.3	1.8
Other key ratios				
D/E (x)	0.4	0.6	0.6	0.5
DSO (days)	61	74	74	74

Source: Company, Kotak Securities – Private Client Research

MARICO LTD (MARICO)

Result Update

PRICE RS.352 **TARGET RS.375** **ACCUMULATE**

Stock Details

Market cap (Rs mn)	:	455030
52-wk Hi/Lo (Rs)	:	375 / 284
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	2,106,798
Shares o/s (mn)	:	1291

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	63,222	75,727	85,738
Growth (%)	6.8	19.8	13.2
EBITDA	11,378	13,292	16,471
EBITDA margin (%)	17.1	18.4	18.5
PAT	8,155	9,308	11,508
EPS	6.3	7.2	8.9
EPS Growth (%)	0.4	24.5	13.9
BV (Rs/share)	19.7	22.2	25.3
Dividend/share (Rs)	3.8	4.1	5.0
ROE (%)	33.7	34.4	37.6
ROCE (%)	42.0	43.9	48.8
P/E (x)	55.7	48.8	39.5
EV/EBITDA (x)	37.2	32.0	26.0
P/BV (x)	17.8	15.9	13.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	59.7	66.3	65.8
FII	25.6	18.0	18.0
DII	7.5	12.2	11.8
Others	6.9	3.5	4.4

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Marico Ltd	3.4	12.9	15.8
Nifty	6.2	6.4	5.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Marico has delivered strong quarterly performance in the backdrop of the extremely challenging input cost environment, with healthy volume growth across key segments including Parachute Rigids (+9% YoY), Value Added Hair Oils (VAHO) (+15% YoY) and Saffola (+15% YoY). YoY comparison is not possible as Q1FY18 was a pre-GST quarter. The company continue to face Gross margin pressure due to steep increase in copra prices, which Marico countered with price hikes in the Coconut Oil portfolio. While near-term earnings shall continue to face pressure on weaker margins (higher copra prices), we believe that Marico's longer-term prospects remain strong, as the company continues to maintain/ gain market share in most of its categories. We maintain ACCUMULATE with a revised price target of Rs 375(Rs 334 earlier).

Key Highlights

- Revenues was reported at Rs20.27 bn (+20.5% YoY), marginally ahead of expectations. Outperformance was driven by the domestic business with volumes growing by 12.4% (YoY), while the International business posted a volume growth of 3% YoY. Also rural growth (+28% YoY) outpaced urban growth (+16% YoY) for the fourth straight quarter.
- Gross profit was reported at Rs 8.57 bn with gross margins of 42.3% (down 550 bps YoY). Gross Margins continued to remain under pressure owing to inflationary cost environment. Marico has taken price hikes in the Coconut Oil portfolio to counter the steep increase in copra prices. During the quarter, the average market price of copra was up 42% YoY, but down 6% sequentially. The downward trend in Copra prices is healthy for Marico.
- During the quarter, other key inputs - Rice Bran Oil, Safflower Oil, Liquid Paraffin (LLP) and HDPE (a key ingredient in packaging material) were up 18%, 26%, 12% and 22%, respectively, on a YoY basis in sync with prices of edible oils and crude oil. However, Marico has the pricing power to pass on the raw material inflation gradually to customers.
- Promotion expenses, employee cost, miscellaneous expenditure, depreciation and taxation remained stable for the company.
- The company would continue to exercise a bias for franchise expansion as long as margins remain within a band and do not fall below a threshold at the overall business level.
- Consequently company reported PAT of Rs 2.6 bn, marginally below our expectation

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Quarterly Performance

Rs mn, FY Ends Mar	Q1FY18	Q4FY18	Q1FY19	YoY (%)	QoQ (%)
Sales	**16,815**	**14,801**	**20,268**	**20.5**	**36.9**
Raw Material Expenses	8,782	7,896	11,697	33.2	48.1
Gross Profit	**8,033**	**6,905**	**8,571**	**6.7**	**24.1**
Gross Margin (%)	47.8	46.6	42.3		
Employee Expenses	1,086	1,035	1,146	5.5	10.8
Advertising	1,612	1,175	1,657	2.8	41.0
Other Expenses	2,091	2,172	2,219	6.1	2.1
EBITDA	**3,243**	**2,523**	**3,549**	**9.4**	**40.7**
EBIDTA Margin (%)	19.3	17.0	17.5		
Depreciation	211	230.9	224	6.0	-3.0
EBIT	**3,032**	**2,292**	**3,325**	**9.7**	**45.1**
Other Income	229	228.8	240	4.8	4.9
Financial Expenses	35	52.9	53	52.7	0.2
Exceptional Items	0	0	0		
PBT	**3,226**	**2,468**	**3,512**	**8.9**	**42.3**
Tax Expenses	866	642.1	913	5.4	42.2
PAT before JV/ Assoc	2,360	1,826	2,599	10.1	42.4
JV/ Associate Income	-1	6.4	3		
PAT	**2,359**	**1,832**	**2,602**	**10.3**	**42.0**

Source: Company, Kotak Securities – Private Client Research

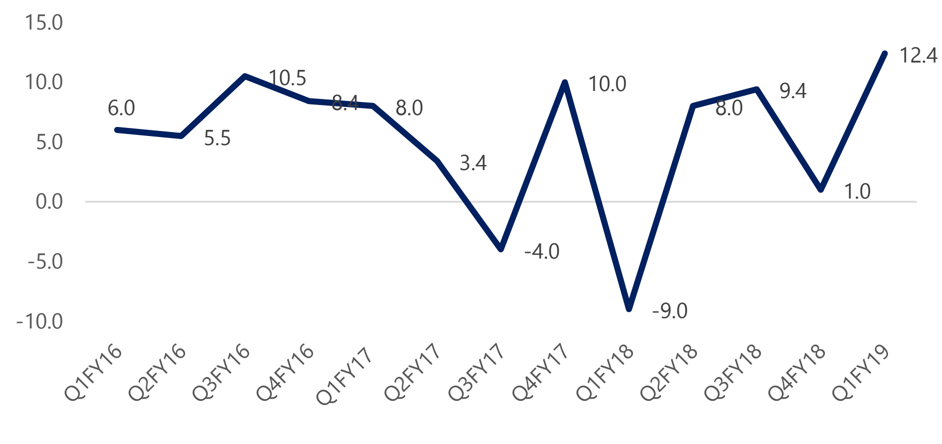
Valuation & outlook

Marico had a satisfactory quarter with healthy topline growth and a resilient margin performance in a tough business environment. The management has indicated that the quarter's growth can be read as a trend and the worst is behind in terms of demand weakness and raw material inflation, and that rural growth is picking up. Management is not yet in a position to say rural growth has bounced back to historic levels, but on a low base, rural has started going faster than urban growth. Management expects the competitive intensity to increase going forward with Marico growing ahead of the industry and consistently delivering strong margins. The prospects for the rest of FY19 looks encouraging as sales growth (including market share) and operating margins trending favorably. The company is also looking to aggressively drive growth in core and new growth engines by investing behind brands and capability building. We remain positive on Marico and Maintain Accumulate at 42x FY20E (10% discount to HUL) earnings with a revised price target of Rs 375(Rs 334 earlier).

Key highlights of the management commentary and segmental performance

Rural growth (+28% YoY) outpaced urban growth (+16% YoY) for the fourth straight quarter. The recent MSP hikes, farm loan waivers and the likelihood of normal Monsoons have strengthened the case for a sustained momentum in rural growth. Outperformance was driven by the domestic business with volumes growing by 12.4% (YoY), while the International business posted a volume growth of 3% YoY.

Domestic volume growth trend for Marico (%)

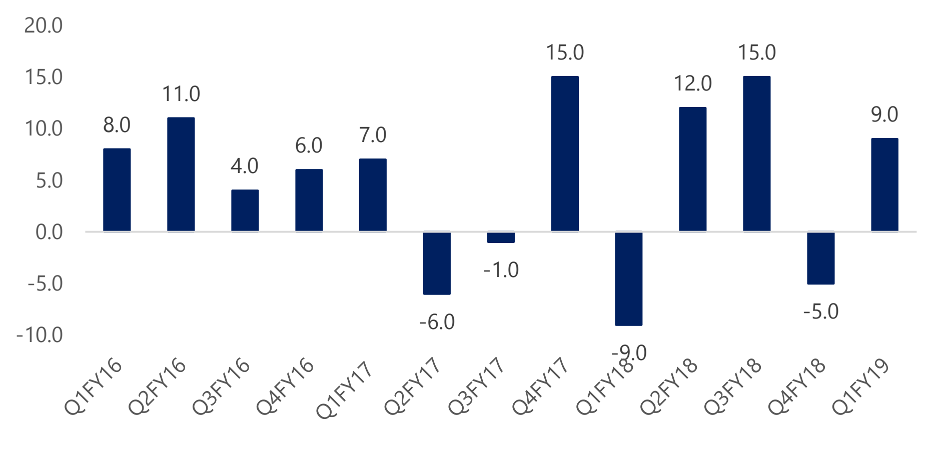


Source: Company, Kotak Securities – Private Client Research

Parachute Rigids reported a volume growth of 9% YoY. During the quarter, the average market price of copra was up 42% YoY, but down 6% sequentially .The downward trend in Copra prices is healthy for Marico.

The YoY increase in copra prices in Q1FY19 prompted Marico to take price hike in the Coconut Oil portfolio. As a result, the portfolio grew 38% in value terms. The Coconut Oil franchise strengthened its leadership, holding a volume market share of ~59% (June 2018 MAT). Two important observations for the coconut oil portfolio: 1) Parachute (Rigids) volume growth print of 9% despite price hikes and 2) Sequential fall in copra prices which is critical for the company to delivery healthy earnings growth. In the medium term, the company expects to deliver 5-7% volume CAGR (guidance unchanged).

Parachute volume growth for Marico (%)



Source: Company, Kotak Securities – Private Client Research

Saffola refined edible oils grew 10% YoY in volume terms. The franchise gained traction in Modern Trade and E-Commerce. Management highlighted that the challenges for the brand are still not completely over. In addition to tactical inputs towards improving the consumer value proposition, Marico upped media investments in the brand in the quarter. Management expects a healthy growth trajectory for Saffola over the next 2-3 quarters and expects double-digit growth in the medium term. The brand consolidated its leadership position in the super premium refined edible oils segment with ~70% volume market share (June 2018 MAT).

Value Added Hair Oils (VAHO) - Domestic VAHO portfolio grew 15% in volume terms and 12% in value terms. Marico has consolidated its market leadership with a volume share of ~34% and value share of ~26% (June 2018 MAT). Going forward, the company targets double-digit volume growth in VAHO. They also aim to defend both their volume and value market share in the segment. For fueling growth in the segment: 1) Nihar Naturals Shanti Jasmine Coconut Hair Oil was launched in Maharashtra, Chhattisgarh, Madhya Pradesh and Gujarat and 2) Company launched a new-age hair nourishment product range to capture the hair nourishment needs of consumers who usually neglect their hair health for want of time.

Growth trends for other categories (YoY %)

Quarter	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
VAHO	10.0	(8.0)	12.0	8.0	11.0	15.0
Saffola	6.0	(9.0)	3.0	0.0	(1.0)	10.0

Source: Company, Kotak Securities – Private Client Research

Healthy Foods grew by 23% YoY in value terms. Saffola Masala Oats continued to dominate the flavored oats category with a value market share of ~69%. During the quarter, the Company prototyped Saffola Masala Oats with Multigrain Crunchies, a first-of-its-kind innovation in the category, and also launched two new variants– Lemony Twist & Mint Chutney. With current vending machine network of 200, management believes that this initiative drives consumer trials and repeats. They continue to guide that they are aiming to grow the business first to Rs 2 bn by FY20 (achieve a critical mass) and will then chalk out a future strategy.

Male grooming portfolio grew 44% YoY in value terms during the quarter. Given the strong response to its pocket spray, company plans to extend it to beyond the initial launch markets. They have also launched its first exclusively digital brand – Set Wet Studio X – introducing products across seven categories such as Shampoo, Bodywash, Facewash, etc. Company seeks to build a consistent value growth trajectory of 20%+ in the category in the medium term.

Outperformance was driven by the domestic business with volumes growing by 12.4% (YoY), while the International business posted a volume growth of 3% YoY. Bangladesh grew by 9% in constant currency (cc) terms. Middle East and North Africa posted a volume led recovery, growing 17% (in cc terms).Vietnam was flattish as the growth in Home and Personal Care (HPC) was offset by the decline in Foods. Myanmar faced one-off supply constraints. South Africa (including Isoplus) posted a growth of 7% (in cc terms). New Country Development & Exports grew 5% in cc terms.

Valuation & outlook

In terms of numbers, we factor in 20%/13% growth in revenues for FY19/FY20. While gross margins are likely to contract in the coming year, we expect that the company shall be able to save costs in other lines to expand EBITDA margin by ~140 bps over FY18-FY20E. We expect EPS growth of 25%/14% in FY19/FY20.We expect earnings growth acceleration from 2HFY19 onwards on the back of improving underlying demand environment. Copra prices remain a risk but historical trends suggest favorable movement from here. We remain positive on Marico and Maintain Accumulate at 42x FY20E (10% discount to HUL) earnings with a revised price target of Rs 375(Rs 334 earlier).

Key risks to our investment view/ estimates include competitive risks, risks from higher raw material prices.

Company background

Marico is a leading Indian Group in Consumer Products in the Global Beauty and Wellness space. Marico markets well-known brands such as Parachute, Saffola, Hair & Care, Nihar, Parachute Advansed, Nihar Naturals, Mediker, Revive, Set Wet, Livon, Fiancée, HairCode, Caivil, Black Chic, Isoplus, Code 10, Ingwe, X-Men, and Thuan Phat. 90% of Marico's portfolio of brands occupies leadership positions in their respective categories.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**59,178**	**63,222**	**75,727**	**85,738**
% change YoY	-1.6	6.8	19.8	13.2
Raw material cost	28,310	33,482	41,879	46,486
Employee cost	3,022	3,234	3,791	4,246
Other expenses	16,254	15,129	16,765	18,536
Total Operating expd	47,585	51,844	62,435	69,267
EBITDA	**11,593**	**11,378**	**13,292**	**16,471**
Depreciation	903	891	953	1,020
EBIT	**10,690**	**10,487**	**12,339**	**15,451**
Other income	973	846	900	1,020
Interest expense	166	162	162	222
Profit before tax	11,497	11,171	13,077	16,249
Tax	3,377	3,016	3,769	4,741
ETR (%)	29.4	27.0	28.8	29.2
Profit after tax	**8,120**	**8,155**	**9,308**	**11,508**
Minorities& Associates	0	0	0	0
Net income	**8,120**	**8,155**	**9,308**	**11,508**
% change YoY	13.7	0.4	14.1	23.6
Shares outstanding (m)	1,290	1,290	1,290	1,290
EPS (Rs)	**6.3**	**6.3**	**7.2**	**8.9**

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	2,443	2,086	3,776	5,613
Debtors	2,470	3,406	4,072	5,237
Inventory	12,534	15,109	18,066	23,235
Other current assets	1,598	3,310	3,811	4,894
Total current assets	16,603	21,824	25,949	33,367
LT investments	6,082	5,724	5,724	5,724
Net fixed assets	10,733	11,076	10,622	10,103
Total assets	**35,861**	**40,710**	**46,073**	**54,808**
Creditors	6,966	8,217	9,825	13,301
Other current liabilities	2,567	2,948	3,525	4,772
Provisions	961	1,004	1,004	1,004
Total current liabilities	10,494	12,168	14,354	19,077
LT debt	2,388	3,093	3,093	3,093
Minority Interest	0	0	0	0
Equity Capital	1,290	1,290	1,290	1,290
Reserves	21,689	24,159	27,335	31,347
Networth	22,980	25,449	28,626	32,638
Total liabilities	**35,861**	**40,710**	**46,073**	**54,808**
BVPS (Rs)	17.8	19.7	22.2	25.3

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	8,120	8,155	9,308	11,508
Depreciation	903	891	953	1,020
Change in working capital	(1,827)	(3,547)	(1,940)	(2,695)
Cash flow from operations	**7,196**	**5,500**	**8,322**	**9,833**
Capex	(401)	(1,233)	(500)	(500)
Investments	(950)	358	-	-
Cash flow from investments	**(1,351)**	**(875)**	**(500)**	**(500)**
Equity issuance	(0)	-	-	-
Debt raised	(918)	705	-	-
Dividend Paid	(5,655)	(5,686)	(6,132)	(7,496)
Miscellanous items	-	-	-	-
Cash flow from financing	**(6,573)**	**(4,981)**	**(6,132)**	**(7,496)**
Net cash flow	(728)	(357)	1,690	1,837
Opening cash	3,171	2,443	2,086	3,776
Closing cash	**2,443**	**2,086**	**3,776**	**5,613**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	19.6	17.1	18.4	18.5
EBIT margin (%)	18.1	16.6	16.3	18.0
Net profit margin (%)	13.7	12.9	12.3	13.4
ROE (%)	37.3	33.7	34.4	37.6
ROCE (%)	47.4	42.0	43.9	48.8
DPS	3.8	3.8	4.1	5.0
Dividend payout (%)	37.9	32.2	29.9	30.6
Working capital turnover (days)	32.0	45.5	51.2	55.1
Debt Equity (x)	0.1	0.1	0.1	0.1
PER (x)	55.9	55.7	48.8	39.5
P/C (x)	50.3	50.2	44.3	36.3
Dividend yield (%)	1.1	1.1	1.2	1.4
P/B (x)	19.8	17.8	15.9	13.9
EV/Sales (x)	7.7	7.2	6.0	5.3
EV/ EBITDA (x)	36.1	37.2	32.0	26.0

Source: Company, Kotak Securities – Private Client Research

Result Update

VIP INDUSTRIES LTD (VIP)

PRICE RS.529 **TARGET RS.570** **ACCUMULATE**

Multi quarter super performance – VIP Industries has reported its strongest quarter in the history of the company. The strength of the performance indicates strong volume growth in a seasonally strong quarter for the company, improvement in realisations with pass through of raw material price inflation and sustained efforts by the company to improve its performance.

Key Highlights

- VIP has reported strong sales of Rs 5.18 bn (+42.8% QoQ and +29.5% YoY) net of all taxes. Management indicated that the domestic segment remains strong for the company. Reduction in GST rate from the peak of 28% to 18%, increase air travel and Q1 Indian marriage season propelled the demand.
- Healthy realisations, strong demand and favorable product mix has helped the company with its strongest ever EBIDTA of Rs 911 mn with EBIDTA margin of 17.6 % (+260 bps QoQ and +230 bps YoY). It is commendable that the margins have improved by a significant proportion despite an inflationary cost environment. The current quarters strong margins has prompted us to increase our margin assumption by 100 bps each for FY19E and FY20E
- Consequently PAT was reported at Rs 599 mn ahead of our expectation of Rs 411 mn. We interpret the results as very strong for the company.

Valuation & Outlook

We estimate the company to be a major beneficiary of increasing penetration of luggage bags and back-packs in the country, improving living standards leading to increased air and rail travel and also the desire for travellers to have branded luggage.

We are increasing our earnings estimate to Rs 12.3 per share (from Rs 11) for FY19 and to Rs 14.2 per share (from 12.7) on the back of strong operational performance in Q1FY19, healthy volume growth and strong guidance We now estimate a revenue CAGR of 21% and earnings CAGR of 26% over FY18 to FY20E with strong operating margins and return ratios. The stock has run by more than 30% since our last update, but still offers upside owing to its continued strong performance. We now Recommend an ACCUMULATE for this high growth stock with an increased TP of Rs 570 (from Rs450) at 40x FY20E (increased from 35x).

Quarterly performance

(Rs mn)	Q1FY18	Q4FY18	Q1FY19	YoY%	QoQ%
Net sales	**3997**	**3,626**	**5,178**	**29.5**	**42.8**
Raw material cost	2179	1678	2669	22.5	59.1
Employee cost	372	423	408	9.7	-3.5
Other expenses	834	981	1190	42.7	21.3
Total Expd	3385	3082	4267	26.1	38.4
EBIDTA	**612**	**544**	**911**	**48.9**	**67.5**
EBIDTA (%)	15.3	15.0	17.6	14.9	17.3
Depreciation	30	35	30	0.0	-14.3
Other income	23	24	23		
Interest cost	0	0	0		
PBT	**605**	**533**	**904**	**49.4**	**69.6**
Taxes	195	180	305	56.4	69.4
PAT	**410**	**353**	**599**	**46.1**	**69.7**

Source: Company

Stock Details

Market cap (Rs mn)	:	74665
52-wk Hi/Lo (Rs)	:	538 / 175
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	730,200
Shares o/s (m)	:	141

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	14,095	17,919	20,533
Growth (%)	10.5	27.1	14.6
EBITDA	1,917	2,560	2,977
EBITDA margin (%)	13.6	14.3	14.5
Net profit	1,277	1,746	2,016
EPS (Rs)	9.0	12.3	14.2
Growth (%)	50.4	36.7	15.5
Book value (Rs/share)	34.0	42.1	51.5
Dividend per share (Rs)	3.0	3.5	4.0
ROE (%)	26.5	29.3	27.7
ROCE (%)	37.3	40.5	38.7
EV/EBITDA (x)	36.4	27.7	23.9
P/E (x)	58.2	42.6	36.8
P/BV (x)	15.4	12.5	10.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	53.5	52.5	52.5
FII	11.0	10.3	8.2
DII	8.5	10.7	12.6
Others	27.1	26.5	26.7

Source: Company

Price Performance (%)

(%)	1M	3M	6M
VIP Industries	27.5	32.1	54.9
Nifty	6.2	6.4	5.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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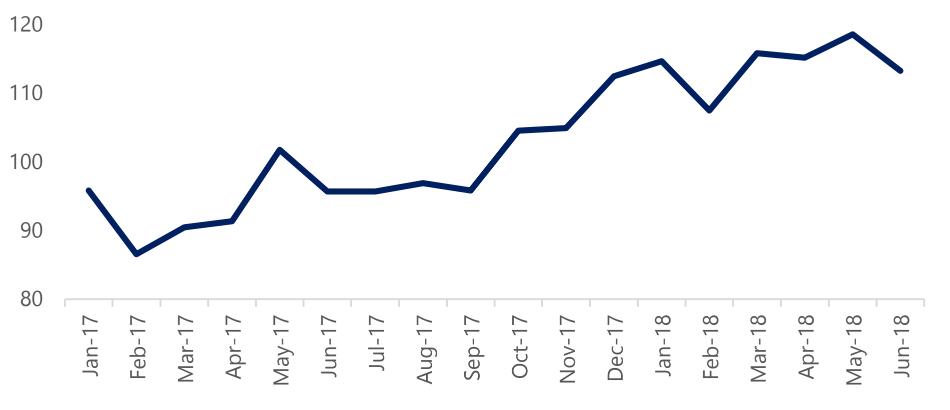
Currents quarter's performance was propelled by volume growth across segments by the company including VIP, Aristocrat, Alfa, Skybags, Caprese and Carlton attributed to:

1. Increasing penetration of luggage bags
2. Customer preference for branded products
3. Substantial brand availability with wide distribution network
4. Diversified product portfolio
5. Implementation of GST
6. Healthy domestic air traffic
7. Seasonal marriage season in India

Strong traffic – creates demand for branded luggage

The domestic passenger traffic to continue to grow at a healthy pace of ~15% per annum due to conducive factors like relatively low penetration levels, favourable macro-economic environment, support from regulatory environment (i.e. regional connectivity scheme) and development of new airports. The growth will also be supported by phase-wise capacity addition by airlines as reflected by their large order book. As on date, approximately 1,033 aircraft of various sizes and configurations, are on order by Indian airlines. The strong traffic leads to demand for luggage bags (especially branded).

Passengers flown by Indian airlines (in lakhs)



Source: DGCA

Level playing field post GST implementation

Before GST, VIP has been paying an effective indirect tax of 20% against our estimate of 12% paid by the unorganized players. GST of 18% is applicable now (reduced from 28% in November 2017) to the entire luggage industry which has maintained the indirect tax situation for organized players, but increased the tax burden of unorganized players.

We estimate the unorganized players to have taken price increase for its products to recover the increased indirect tax impact, which has reduced the pricing gap between the organized and unorganized players creating a level playing field. Management indicated that this development has led to shift of volumes from the unorganized towards branded organized players like VIP with customers preferring to have branded luggage at similar prices. This has helped and would continue to help VIP to grow at faster pace over unorganized players and improve market share.

Level playing field post GST

Indirect tax	Rate for VIP	Unorganized player
Excise duty (%)	12.5	8
Sales tax (%)	5 to 13	3 to 7
Effective indirect tax (%)	20	12
Current GST (%)	18	18

Source: Kotak Securities – Private Client Research

Raw material situation is currently not healthy

Management indicated that the company has been experiencing increasing raw material trend (since Q4FY18) in both the 2 major categories of inputs - polypropylene (for hard luggage) and polycarbonate. VIP is trying to contain its margins under these adverse circumstance by increasing prices and also by reducing other cost. Other factors like, rupee depreciation by 8.1% YTD, appreciation of Yuan vs. the INR and cost increase in China also contributed to cost inflation. Management of VIP is trying to fire-fight each one of the cost elements through various measures.

Further depreciation of rupee, increase in prices of crude and increase in operational expenditure in china have the potential to impact the margins for VIP over FY18-FY20E. However, we believe this would be off-setted by strong volume growth leading to operating leverage and economies of scale. We expect the sustainable EBIDTA of 14/15% in a strong volume growth and high cost inflation environment.

Sourcing from China gradually shifting to Bangladesh

Due to increasing labour costs and other reasons such as strengthening of the Yuan vs. INR, the company is gradually reducing its dependency on China and increasing its sourcing from Bangladesh through its wholly owned subsidiaries (total 3) in Bangladesh set-up with an investment of Rs 150 mn. VIP has flexibility in increasing the capacities with minimum capex and within a short time-frame.

Going forward by FY20, we expect the sourcing of soft luggage to fall from China to 90% and with share of Bangladesh increasing to 10% (currently negligible) which would aid margins going forward. It is important to note that, revenues from Bangladesh has increased to Rs 250 mn (from Rs 128 mn YoY) with PAT of Rs 40 mn (from Rs 32 mn YoY)

Valuation and Outlook

In recent years in India, luggage and handbags have managed to shed their traditional utilitarian tag and have now evolved as lifestyle products. Increasing business and leisure travels coupled with rising disposable income and organized retailing have led to increased demand for luggage. Within this category, the demand for brand names has grown, as consumers aspire for goods that are branded, durable and count as status symbol. We expect VIP to be one of the largest beneficiaries of this change in the country.

With strong outlook, we have increased our earnings estimate to Rs 12.3 per share (from Rs 11) for FY19 and to Rs 14.2 per share (from 12.7). The stock has run by more than 30% since our last update, but still offers upside owing to its continued strong performance. We now Recommend an ACCUMULATE for this high growth stock with an increased TP of Rs 570 (from Rs450) at 40x FY20E (increased from 35x).

Company Background

VIP Industries, established in the year 1971, is a leading luggage maker in India offering a wide range of products in hard luggage and soft luggage segments including school bags, trolleys, backpacks, suitcases, executive cases, duffels and overnight travel solutions. Some of its brands include VIP, Caprese, Alfa, Aristocrat, Buddy and Carlton. The company is Asia's No.1 luggage manufacturer and transforming its business strategy from time to time. The company has manufacturing facilities located at Haridwar in Uttarakhand, Jalgaon, Nagpur and Nashik in Maharashtra. The company has set up a subsidiary in Bangladesh to manufacture and market luggage and bags. The company is maintaining its market share of 50% in the organized luggage industry by offering wide range of product mix like Carlton and VIP catering to high-end segment, Aristocrat caters to mid-segment, Skybags cater to mid and sub-mid segment and Alfa for lower-end price segment.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**12,752**	**14,095**	**17,919**	**20,533**
% change YoY	4.8	10.5	27.1	14.6
Raw material cost	6,759	7,140	8,849	10,121
Employee cost	1,415	1,582	1,864	2,135
Other expenses	3,259	3,456	4,647	5,300
Total Operating expd	11,433	12,178	15,359	17,556
EBITDA	**1,319**	**1,917**	**2,560**	**2,977**
Depreciation	128	124	147	157
EBIT	**1,191**	**1,793**	**2,413**	**2,819**
Other income	59	104	100	100
Interest expense	6	0	0	0
Profit before tax	1,244	1,897	2,513	2,919
Tax	395.0	620.0	767.0	903.1
ETR (%)	31.8	32.7	30.5	30.9
Profit after tax	**849**	**1,277**	**1,746**	**2,016**
Minorities& Associates	0	0	0	0
Net income	849	1,277	1,746	2,016
% change YoY	25.2	50.4	36.7	15.5
Shares outstanding (m)	142	142	142	142
EPS	**6.0**	**9.0**	**12.3**	**14.2**
DPS	2.2	3.0	3.5	4.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	73	430	751	1,455
Debtors	1,209	1,520	1,943	2,129
Inventory	2,874	3,168	4,076	4,638
Loans and advances	558	666	853	948
Other current assets	46	56	68	80
Total current assets	4,687	5,409	6,940	7,795
LT investments	679	600	500	500
Net fixed assets	615	719	822	914
Total assets	**6,054**	**7,158**	**9,013**	**10,664**
Creditors	1,457	1,692	2,189	2,439
Provisions	113	257	311	304
Other current liabilities	425	397	556	633
Total current liabilities	1,995	2,345	3,057	3,377
LT debt	13	3	0	0
Minority Interest	0	0	0	0
Equity	283	283	283	283
Reserves	3,763	4,527	5,673	7,004
Networth	4,046	4,810	5,956	7,287
Total liabilities	**6,054**	**7,158**	**9,013**	**10,664**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	849	1,277	1,746	2,016
Depreciation	128	124	147	157
Changes in working capital	12	(372)	(819)	(534)
Cash flow from operations	**989**	**1,029**	**1,073**	**1,639**
Capex	(65)	(228)	(250)	(250)
Investments	(679)	79	100	-
Cash flow from investments	**(744)**	**(149)**	**(150)**	**(250)**
Equity issuance	-	-	-	-
Debt raised	(145)	(10)	(3)	-
Dividend Paid	(371)	(514)	(599)	(685)
Miscellanous items	-	-	-	-
Cash flow from financing	**(516)**	**(524)**	**(602)**	**(685)**
Net cash flow	(271)	356	321	704
Opening cash	345	73	430	751
Closing cash	**73**	**430**	**751**	**1,455**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	10.3	13.6	14.3	14.5
EBIT margin (%)	9.3	12.7	13.5	13.7
Net profit margin (%)	6.7	9.1	9.7	9.8
ROE (%)	21.0	26.5	29.3	27.7
ROCE (%)	29.3	37.3	40.5	38.7
Dividend payout (%)	43.8	40.2	34.3	34.0
BVPS (Rs)	28.6	34.0	42.1	51.5
Working capital turnover (days)	77.2	65.0	62.0	62.0
Debt Equity (x)	0.0	0.0	-	-
PER (x)	87.5	58.2	42.6	36.8
P/C (x)	76.0	53.0	39.2	34.2
Dividend yield (%)	0.4	0.6	0.7	0.8
P/B (x)	18.4	15.4	12.5	10.2
EV/Sales (x)	5.8	5.2	4.1	3.6
EV/ EBITDA (x)	53.4	36.4	27.7	23.9

Source: Company, Kotak Securities – Private Client Research

kotak Securities

Result Update

TIME TECHNOPLAST LTD

PRICE RS.140 | TARGET RS.195 | BUY

Time Technoplast reported healthy operating level performance for Q1FY19. Profits exceeded our estimates. The company shared positive outlook on future growth and reiterated its target to scale up the ROCE to 20% plus by FY21.

Key Highlights

- The company reported volume growth of 14% in Q1FY19
- The share of value added products has risen to 19% of the total sales in Q1FY19 as against 17% in the corresponding quarter of previous year.
- The company has envisaged capex of Rs 2.0 bn in FY19.

Valuation and Outlook

At CMP, TTL is trading at P/E of 13.6x and 10.8x FY19E and FY20E earnings respectively, which is attractive as it is at a discount to midcap index valuation. In recent months, the TTL stock has been derated in line with general sell-off in the midcaps and smallcaps universe. However, the Q1FY19 results should put at rest concerns related to growth and profit margins. Reiterate BUY.

Q1FY19 Results

(Rs mn)	Q1 FY19	Q1 FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	**7815**	**6806**	**14.8**	**9427**	**-17**
Material costs	5395	4705	14.7	6588	-18
Staff costs	369	328	12.4	432	-15
Other expenditure	847	758	11.8	948	-11
Total Expenditure	6611	5791	14.2	7968	-17
PBIDT	**1205**	**1015**	**18.6**	**1459**	**-17**
Depreciation	392	328	19.6	386	2
Other Income	5	4	36.3	11	-58
EBIT	**817**	**691**	**18.3**	**1085**	**-25**
Interest	227	210	7.8	247	-8
PBT	**590**	**480**	**22.8**	**837**	**-30**
Tax	149	111	34.5	267	-44
Minority Interest	7.29	5.9	23.6	17	-57
Net Profit after Minority Interest	434	364	19.2	554	-22
EPS (Rs)	**2.1**	**1.7**		**2.6**	
EBITDA (%)	15.4	14.9		15.5	
Material costs to sales (%)	69.0	69.1		69.9	
Other expenditure (%)	10.8	11.1		10.1	
Tax rate (%)	25.3	23.1		31.8	
NPM (%)	5.5	5.3		5.9	

Source: Company

Earnings estimates

	Reported	Estimated
Net sales	7815	7622
EBITDA (%)	15.5	15.0
PAT	433	378

Source: Kotak Securities – Private Client Research

Stock Details

Market cap (Rs mn)	:	31706
52-wk Hi/Lo (Rs)	:	233 / 116
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	314,967
Shares o/s (mn)	:	226

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	31,027	35,992	41,750
Growth (%)	12.6	16.0	16.0
EBITDA	4,731	5,579	6,680
EBITDA margin (%)	15.2	15.5	16.0
PAT	1,806	2,327	2,944
EPS	8.0	10.3	13.0
EPS Growth (%)	22.7	28.9	26.5
BV (Rs/share)	65.6	41.2	43.6
Dividend/share (Rs)	0.8	0.9	0.9
ROE (%)	12.9	14.7	16.1
ROCE (%)	11.0	12.4	13.6
P/E (x)	17.5	13.6	10.8
EV/EBITDA (x)	8.3	7.0	5.8
P/BV (x)	2.1	1.9	1.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	52.4	52.4	52.5
FII	19.3	19.4	19.2
DII	9.0	9.1	9.0
Others	19.3	19.2	19.3

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Time Technoplast	8.8	(6.8)	(20.7)
Nifty	6.2	6.4	5.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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Consolidated results highlights

- The company reported consolidated net revenues of Rs 7.8 bn in Q1FY19, up 14.8% YoY.
- Volume growth was at 14% during Q1FY19; indian and overseas markets grew 15% and 11% respectively in volume terms.
- The management reflected optimism in the demand scenario on account of the ongoing shift in manufacturing of chemicals from developed countries to India.
- The company's overseas business accounted for 31% of sales.
- Share of value added products like (IBCs and Mox films) in Q1FY19 rose to 19% as compared to 17% on a y-o-y basis.
- The operating margin for the quarter stood at 15.4%, an expansion of 50 bps on a YoY basis.
- Despite cost pressure from commodities like HDPE, gross margins for the quarter was stable at 30%, which could be attributed to the higher share of value added products in revenue.
- Geography-wise, the EBITDA margins in India is more or less same as in the overseas locations. However, net profit margins are higher in overseas due to lower tax rates.
- Interest cost reversed its declining trend and rose 7.8% y-o-y to Rs 227 mn in Q1FY19.
- Tax rate stood at 25.3% in Q1FY19 as against 23.1% in corresponding quarter of the previous fiscal.
- Net profits grew by 19.2% y-o-y to Rs 434 mn driven by healthy revenue growth coupled with margin expansion.
- Gross debt on consolidated basis stands at Rs 7.7 bn (as against Rs 7.77 bn in FY18), a marginal decline on a q-o-q basis.

Capex Update

The company undertook capex of Rs 355 mn in Q1FY19 consisting of Rs 255 mn and Rs 100 mn on maintenance, capacity expansion and value added products.

Product update:

- The management indicated healthy order book in PE Pipe and DWC Pipe business.
- The company launched new generation multilayer pipes for power / communication cable ducts with silicon in-lining. The pipes / ducts have substantial business potential specially in development of Smart Cities.
- Launched next generation Matting : Duro Gel, Duro Comfort, Duro Carpet & Duro Mat.
- The management indicated that private gas distribution companies are aggressively promoting & distributing cylinders across PAN India. The Company is in the process of getting approvals for composite cylinders from Chile, Taiwan and Kenya.
- The Company is innovating new applications of MOX films. It is also launching new products in the market like Truck covers, Pond Liners, Mulching Films & Poly house Films.

Management concall highlights

- Crisil has upgraded the company's credit rating on short term paper to A1+ from A1.
- The company has order book of Rs 2.5 bn in PE pipes and of 1.5 mn in composite cylinders.
- The company has envisaged capex of Rs 2.0 bn in FY19.
- The company reiterated its target of reaching 20% ROCE by 2020-21, which is based on 15% cagr in revenue growth, reduction in working capital intensity (targeting 85 days of sales) and control over borrowings.
- Discussions on for divestment of battery business.

Earnings Change

	FY19E		FY20E	
(Rs mn)	**Earlier**	**Revised**	**Earlier**	**Revised**
Revenue	37045	35,992	42601	41,750
EBITDA (%)	15.0	15.5	15.0	16.0
CEPS	17.1	17.2	20.1	21.2
% change		0.4%		5%

Source: Kotak Securities – Private Client Research

At CMP, TTL is trading at P/E of 14x and 11x FY19E and FY20E earnings respectively, which is attractive as it is at a discount to midcap index valuation. In recent months, the TTL stock has been derated in line with general sell-off in the midcaps and smallcaps universe. However, the Q4FY18 results should put at rest concerns related to growth and profit margins.

We continue to maintain our positive stance on the company in view of healthy earnings growth coupled with improving return ratios. We value the stock at 15x FY20 earnings and arrive at a price target of Rs 195 (Rs 214 ealier, based on 14x FY20E).

Background

TTL's products are based on the polymer platform and has access to major plastic moulding technologies including blow moulding and injection moulding.

The key product categories for the company are Industrial packaging products, lifestyle products (door mats, chairs, syringes), technical products (automotive components), infrastructure products (pipes and monolithic construction) and new products (composite cylinders). The largest segment is the industrial packaging accounting for 59% of revenues.

The company enjoys dominant market share in the industrial packaging business in India. The company's multi-locational advantage enables it to respond to customer needs in an efficient basis. Also the company keeps coming out with innovations in its product offerings.

User breakup for packaging products

No.	User Segment	share of business (%)
1	Speciality Chemicals	31
2	FMCG	29
3	Paints & Inks	12
4	Pharmaceuticals	5
5	construction chemicals and Adhesives	13
6	Lube oils & Addictives	5
7	Food	3
8	Others	2
	Total	**100**

Source: Company

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**27,546**	**31,027**	**35,992**	**41,750**
% change YoY	13.7	12.6	16.0	16.0
EBITDA	**4,042**	**4,731**	**5,579**	**6,680**
% change YoY	16.2	17.0	17.9	19.7
Other Income	22.2	21.5	40.0	40.0
Depreciation	1,155.0	1,372.3	1,555.1	1,841.1
EBIT	**2,910**	**3,380**	**4,064**	**4,879**
% change YoY	15.9	16.2	20.2	20.1
Interest	901.1	875.2	922.8	906.6
Profit before tax	**2,009**	**2,505**	**3,141**	**3,972**
% change YoY	29.7	24.7	25.4	26.5
Tax	494	651	754	953
as % of PBT	24.6	26.0	24.0	24.0
Minority Interest	43.4	47.6	59.7	75.5
PAT before exceptional items	1,471	1,806	2,327	2,944
% change YoY	6.5	22.7	28.9	26.5
Exceptional items	-	-	-	-
Reported PAT	**1,471**	**1,806**	**2,327**	**2,944**
Shares outstanding (m)	226.1	226.1	226.1	226.1
EPS (before exp items) (Rs)	**6.5**	**8.0**	**10.3**	**13.0**
CEPS (Rs)	11.6	14.1	17.2	21.2
DPS (Rs)	0.7	0.8	0.9	0.9

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	656	328	343	347
Accounts receivable	5,782	6,703	7,396	8,579
Inventories	5,473	6,409	7,198	8,350
Other current assets	1,761	1,910	2,100	2,100
Current assets	13,672	15,349	17,036	19,376
Intangible assets	6	6	6	0
Other assets	168	220	220	220
LT investments	0	0	0	0
Net fixed assets	11,873	12,932	13,977	14,736
Def tax assets	0	0	0	0
Total assets	**25,719**	**28,507**	**31,239**	**34,332**
Payables	3,861	4,789	5,029	5,834
Others	0	0	0	0
Current liabilities	3,861	4,789	5,029	5,834
Provisions	170	83	190	190
LT debt	7,227	7,775	7,999	7,499
Other liabilities	341	42	42	42
Equity	226	226	226	226
Reserves	13,039	14,605	16,708	19,426
Def tax liability	471	581	581	581
Minority Interest	384	405	464	540
Total liabilities	**25,719**	**28,507**	**31,239**	**34,332**
BVPS (Rs)	59	66	75	87

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	4,042	4,731	5,579	6,680
Direct tax paid	(396)	(651)	(754)	(953)
Adjustments	(330)	(41)	-	-
Cash flow from operations	3,316	4,039	4,825	5,727
Net Chg in Working Capital	(1,460)	(1,164)	(1,326)	(1,530)
Net Cash from Operations	**1,856**	**2,874**	**3,499**	**4,196**
Capital Expenditure	(2,124)	(2,686)	(2,600)	(2,600)
Cash from investing	30	21	40	40
Net Cash from Investing	**(2,094)**	**(2,665)**	**(2,560)**	**(2,560)**
Interest paid	(901)	(875)	(923)	(907)
Issue of Shares/(buyback)	1,477	-	-	-
Dividends Paid	(145)	(212)	(225)	(225)
Debt Raised	(239)	549	223	(500)
Net cash from financing	**192**	**(538)**	**(924)**	**(1,631)**
Net change in cash	(46)	(328)	15	5
Free cash flow	(267)	188	899	1,596
Cash at end	656	328	343	347

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	14.7	15.2	15.5	16.0
EBIT margin (%)	10.6	10.9	11.3	11.7
Net profit margin (%)	5.3	5.8	6.5	7.1
Receivables (days)	76.6	78.9	75.0	75.0
Inventory (days)	72.5	75.4	73.0	73.0
Sales/gross assets(x)	1.5	2.4	2.3	2.3
Interest coverage (x)	4.5	5.4	6.0	7.4
Debt/equity ratio(x)	0.5	0.5	0.5	0.4
ROE (%)	11.8	12.9	14.7	16.1
ROCE (%)	10.4	11.0	12.4	13.6
EV/ Sales	1.4	1.3	1.1	0.9
EV/EBITDA	9.5	8.3	7.0	5.8
Price to earnings (P/E)	21.5	17.5	13.6	10.8
Price to book value (P/B)	2.4	2.1	1.9	1.6

Source: Company, Kotak Securities – Private Client Research

Analyst Meet Update

HERO MOTOCORP LTD (HMC)

PRICE RS.3251 TARGET RS.3473 ACCUMULATE

Stock Details

Market cap (Rs mn)	:	649172
52-wk Hi/Lo (Rs)	:	4200 / 3034
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	449,541
Shares o/s (mn)	:	200

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenues	322,305	353,940	393,201
Growth (%)	13.1	9.8	11.1
EBITDA	52,802	54,265	60,621
EBITDA margin (%)	16.4	15.3	15.4
Adj. Net profit	36,973	36,627	40,801
Adj. EPS (Rs)	185.1	183.4	204.3
Adj. EPS Growth (%)	9.5	(0.9)	11.4
Book value (Rs/share)	589.3	658.3	730.2
Dividend per share (Rs)	95.0	110.0	120.0
ROE (%)	33.8	29.4	29.4
ROCE (%)	46.0	41.6	41.8
P/E (x)	17.6	17.7	15.9
EV/EBITDA (x)	11.2	10.9	9.6
P/BV (x)	5.5	4.9	4.5

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	34.6	34.6	34.6
FII	39.6	42.3	42.1
DII	14.4	11.5	11.6
Others	11.4	11.5	11.6

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Hero MotoCorp	(5.7)	(11.1)	(10.3)
Nifty	6.2	6.4	5.6

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

We attended the analyst meet of Hero MotoCorp. Management discussed their upcoming new products and touched upon broader aspects of the two wheeler industry.

Key Highlights

HMC is making yet another attempt to improve its presence in the scooter segment by launching two products (of existing brands) in the 125cc category. Management highlighted that the 125cc scooter segment is a fast growing segment with 60% volume growth as buyers move up the value chain. HMC do not have presence in the 125cc scooter segment which accounts for 20% of the overall scooter volumes. Company has also renewed its focus back on the premium motorcycle segment. HMC will be targeting this segment with Xtreme 200R. On exports, the company highlighted that the scale-up is taking more time as expected initially. However, the company is working towards its ambition of expanding its presence in the export market.

Outlook and Valuation

We expect healthy volume growth for the company in FY19-FY20. Pickup in rural demand, (HMC is large player in rural areas) has led to improved demand for motorcycle. Expected good monsoon and government measures to improve farm income will likely keep rural demand healthy in the near to medium term. Further, we expect new products to add to the growth for the company. While there are certain near term headwinds to the margins, we expect the margins to improve over the medium term. We retain ACCUMULATE rating on the stock with unchanged price target of Rs3,473.

Looking to gain market share in the scooter segment

Company's market share in the domestic scooter segment declined from a peak of 19.2% in FY14 to 10.4% in 1QFY19. HMC's attempt in the past few years towards gaining market share did not yield positive result. HMC is making yet another attempt to improve its presence in the scooter segment by launching two products (of existing brands) in the 125cc category. Management highlighted that the 125cc scooter segment is a fast growing segment with 60% volume growth as buyers move up the value chain. The 125cc category now accounts for 20% of the scooter segment. Company highlighted that 125cc category in the scooter segment took less time to reach the 20% share as compared with the 125cc category in the motorcycle segment. Further, the management also stated that unlike in the 110cc scooter segment, where one product has significant market share; the 125cc category customers are willing to experiment with different products/brands. For HMC, 125cc scooter segment is a white space and its entry in this segment will increase the scooter target market by another 20% (will inch close to 100% of scooter's target market). Given new segment, we expect limited cannibalization with the 110cc segment and expect new products to generate incremental sales volume for the company.

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Re-entry into the premium motorcycle segment

HMC is a small player (1% market share) in the domestic premium motorcycle segment. While the company had 12% market share in the premium segment in FY12, the presence has been very weak since FY16. Company has now renewed its focus back on the premium motorcycle segment. HMC will be targeting this segment with Xtreme 200R. HMC is looking to disrupt the current market dynamics by positioning Xtreme 200R as higher CC product with ABS technology at a slight premium price.

Exports – working towards increasing presence

On exports, the company highlighted that the scale-up is taking more time as expected initially. However, the company is working towards its ambition of expanding its presence in the export market. HMC has plants in Bangladesh (120,000 units annual capacity) and Columbia (80,000 units annual capacity). In Bangladesh, HMC has a market share of 30% (market leader for two consecutive months). For the African market, the company is modifying its products to suit regions requirement.

Other highlights of the analyst meet

Company shared that as per a study, the top five two wheeler buying factors are mileage, strength/durability, brand, styling/design and ownership cost.

In the domestic motorcycle industry, entry segment accounts for 26% of the volumes, deluxe segment is 51% of the volume and balance 23% comes from the premium segment. HMC has 58% market share in the entry level motorcycle segment, 71% market share in the deluxe segment and 1% market share in the premium segment.

Two wheeler penetration in India is ~30-40%. In the urban areas (accounts for 60% industry volumes) penetration levels is ~40-45% and in the rural areas (accounts for 40% industry volumes) penetration levels stands at ~20-25%.

HMC is working on the electric vehicle segment through its Centre of Innovation and Technology (CIT) and its investment in Ather Energy. HMC is developing its own product in the electric vehicle segment; however the management did not share the launch timeline. Ather Energy has launched its product in Bangalore and has received good response in the pre-order. Going ahead, Ather Energy will extend its offerings to few more cities.

In the two wheeler segment, first time buyer’s accounts for 51% of industry volume, replacement segment is 27% of industry volumes and 22% volumes comes from multiple two-wheeler owners. Two wheeler replacement cycle is down from ~7 years in 2001 to 4.5-5 years now.

In the domestic two wheeler industry, 36% of two wheelers sold are financed. Financed vehicle sales are higher in the urban areas as compared to rural areas (~20-25% sales in rural areas are financed). Management expects that higher access to finance options and lower cost of finance can give boost to demand.

On the aggressive strategy adopted by competition in the entry level motorcycle segment, the management says that currently the company is not looking to respond to the competition pricing action.

Outlook and Valuation

HMC reported low sales volume growth between FY12-FY17. However, in FY18 the volume grew by 14%. We expect healthy volume growth for the company in FY19-FY20. Pickup in rural demand, (HMC is large player in rural areas) has led to improved demand for motorcycle. Expected good monsoon and government measures to improve farm income will likely keep rural demand healthy in the near to medium term. Further, we expect new products too to add to the growth for the company. While there are certain near term headwinds to the margins, we expect the margins to improve over the medium term. We retain ACCUMULATE rating on the stock with unchanged price target of Rs3,473. We have valued the stock at a PE of 17x on FY20E earnings.

Risk

Price war in the two wheeler segment remains key risk to volume and margin assumption.

Company background

HMC is the largest two wheeler player in India. In 2001, the company became the largest two-wheeler manufacturing company in India and globally in terms of unit volume sales in a calendar year. HMC is the market leader in the domestic motorcycle segment with 50% market share (overall two wheeler domestic market share is ~37%). In FY17, the company surpassed 70 million units in cumulative sales since its inception. HMC's extensive sales and service network, comprising of authorised dealerships, service & parts outlets, and dealer-appointed outlets, spans over 6,000 customer touch points across the country. Company's manufacturing plants are located at Gurugram, Dharuhera, Haridwar, Neemrana and Vadodara.

Financials: Stanalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**285,005**	**322,305**	**353,940**	**393,201**
% change YoY	(0.3)	13.1	9.8	11.1
EBITDA	**46,348**	**52,802**	**54,265**	**60,621**
% change YoY	4.2	13.9	2.8	11.7
Depreciation	4,927	5,556	6,050	6,570
EBIT	**41,421**	**47,246**	**48,215**	**54,051**
% change YoY	3.4	14.1	2.1	12.1
Net interest	61	63	70	70
Other Income	5,224	5,258	5,718	6,020
Exceptional income/(loss)	0	0	0	0
Profit before tax	**46,585**	**52,441**	**53,863**	**60,001**
% change YoY	6.0	12.6	2.7	11.4
Tax	12,813	15,468	17,236	19,200
as % of PBT	27.5	29.5	32.0	32.0
Profit after tax	**33,771**	**36,973**	**36,627**	**40,801**
Adjusted PAT	33,771	36,973	36,627	40,801
% change YoY	7.8	9.5	-0.9	11.4
Shares outstanding (m)	200	200	200	200
Adjusted EPS (Rs)	**169.1**	**185.1**	**183.4**	**204.3**
DPS (Rs)	85.0	95.0	110.0	120.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	46,776	57,325	59,131	68,575
Accounts receivable	15,619	15,202	17,455	19,391
Inventories	6,563	8,236	9,269	10,270
Loans and Adv & Others	15,889	17,556	19,280	21,160
Current assets	84,846	98,318	105,135	119,397
LT investments	13,490	19,341	21,341	23,341
Net fixed assets	48,606	49,729	59,496	62,926
Total assets	**146,943**	**167,388**	**185,972**	**205,663**
Payables	32,473	33,188	36,849	40,936
Other liabilities	8,071	9,647	10,612	11,673
Current Liabilities	40,543	42,835	47,460	52,609
Provisions	1,143	1,747	1,922	2,114
Deferred Tax Liability	4,143	5,117	5,117	5,117
Debt	0	0	0	0
Equity	399	399	399	399
Reserves	100,714	117,289	131,073	145,424
Total liabilities	**146,943**	**167,388**	**185,972**	**205,663**
BVPS (Rs)	506	589	658	730

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	41,421	47,246	48,215	54,051
Depreciation	4,927	5,556	6,050	6,570
Change in working capital	3,343	(540)	374	1,150
Chg in other net current asset	1,821	514	(585)	(627)
Operating cash flow	51,512	52,775	54,054	61,144
Interest	(61)	(63)	(70)	(70)
Tax	(10,895)	(14,495)	(17,236)	(19,200)
Other Income	5,224	5,258	5,718	6,020
EO income	-	-	-	-
Others	(55)	64	-	-
CF from operations	**45,726**	**43,540**	**42,466**	**47,894**
Capex	(11,636)	(6,679)	(15,816)	(10,000)
(Inc)/dec in investments	(13,088)	(16,354)	(4,089)	(12,000)
CF from investments	**(24,725)**	**(23,032)**	**(19,905)**	**(22,000)**
Proceeds from issue of equities	0	0	-	-
Proceeds from share premium	23	52	-	-
Dividends	(20,970)	(20,512)	(22,843)	(26,450)
CF from financing	**(20,947)**	**(20,461)**	**(22,843)**	**(26,450)**
Opening cash	1,314	1,367	1,413	1,131
Closing cash	1,367	1,413	1,131	575

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	16.3	16.4	15.3	15.4
EBIT margin (%)	14.5	14.7	13.6	13.7
Adj. net profit margin (%)	11.8	11.5	10.3	10.4
Working capital days				
Inventory (days)	9	8	9	9
Receivable (days)	18	17	18	18
Payable (days)	38	37	38	38
Ratios				
Debt/equity ratio (x)	0.0	0.0	0.0	0.0
ROE (%)	35.7	33.8	29.4	29.4
ROCE (%)	47.6	46.0	41.6	41.8
Valuations				
EV/ Sales	2.1	1.8	1.7	1.5
EV/EBITDA	13.0	11.2	10.9	9.6
Price to earnings (P/E)	19.2	17.6	17.7	15.9
Price to book value (P/B)	6.4	5.5	4.9	4.5

Source: Company, Kotak Securities – Private Client Research

Sector Update

Stock Details

BSE Oil Ind Mkt cap (Rs mn)	:	5,430,120
52-wk Hi/Lo (Rs)	:	16727 / 13232
No.of members	:	10
BSE OIL Index Value		15,206
O&G weightage in Sensex		10.5

Source: Bloomberg

Comparison

	3M	6M	1Y	2Y
RIL	23	31	44	0
GAIL	20	11	43	12
IGL	14	7	31	70
SENSEX	7	7	16	36
NIFTY	7	8	15	43
GUJS	14	4	7	58
MAHGL	12	2	(2)	
BSEOIL	7	(1)	8	4
OINL	(8)	(5)	17	(4)
PLNG	6	(5)	12	22
ONGC	(8)	(12)	4	4
BPCL	6	(13)	(15)	49
IOCL	4	(13)	(8)	(4)
HPCL	0	(18)	(23)	56
CPCL	4	(18)	(19)	(55)
MRPL	(17)	(25)	(28)	(29)
ABAN	(31)	(41)	(36)	35

Source: Company, Kotak Securities - PCG

Price Performance (%)

(%)	1M	3M	6M
BSE Oil and Gas Sector	11.0	6.8	(1.4)
Nifty	5.5	7.0	8.2

Source: Bloomberg

BSE Oil and Gas Index chart

Source: Bloomberg

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NATURAL GAS SECTOR UPDATE

GO GREEN

India's gas consumption growth stayed strong supported by higher LNG demand. RLNG's gas consumption mix rose 690 bps yoy to 48% in June'18. On the flip side, India's gas production declined 3% yoy due to decline in gas production by both public and Private/Joint Ventures (JVs) gas producers.

Higher RLNG consumption is positive for PLNG. CGD gas consumption growth is positive for IGL and MGL. Falling gas supply from Oil India/private players is negative for domestic upstream companies.

Monthly readings on natural gas production, availability and consumption in India

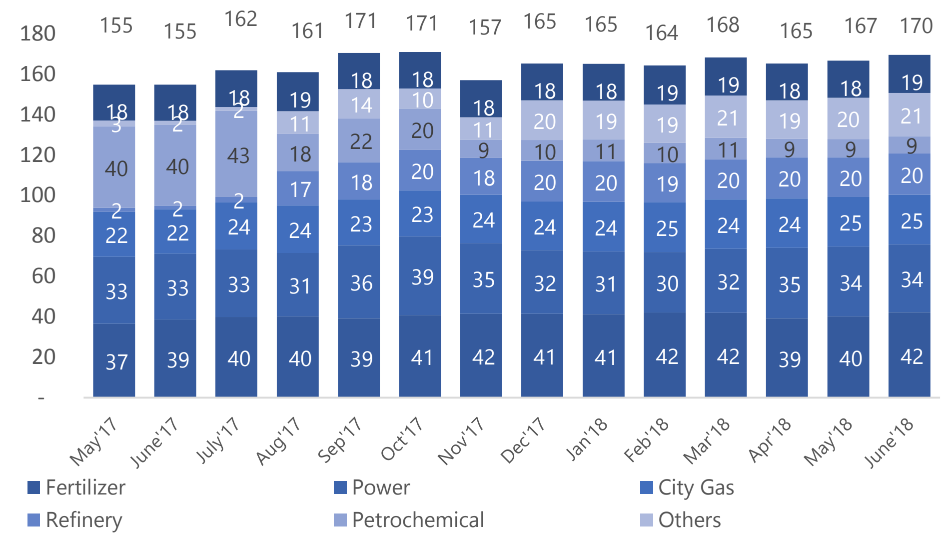
- **India's total gas consumption**: In June'18, India's gas consumption increased by 9.6% yoy to 170 mmscmd due to strong gas demand from all the sectors except petrochemical.
- **RLNG consumption**: Notable growth is witnessed in total RLNG consumption. In June'18, RLNG demand increased by 28% yoy to 82 mmscmd supported by double digit growth from both fertilizer (29% yoy) and power (74% yoy) sector growth. CGD sector imported gas demand also increased by 9% yoy.
- The contribution of RLNG in India's total gas consumption mix rose to 48% in June'18 vs 41.4% in June'17, reflecting rising gas demand. We expect this rising trend to continue in the medium to long term due to better cost economics relative to liquid fuel, continuously rising RLNG supply, and rising demand from industrial and commercial segment.
- **RLNG import**: India's LNG import jumped by 34% yoy in June'18 with the fall in international RLNG and lower domestic gas supply
- **Domestic gas supply**: India's gas production was marginally down by 3% yoy to 89 mmscmd in June'18 impacted by a decline in Oil India's production to 7.3 mmscmd (–7.2% yoy), ONGC's output declined marginally to 65 mmscmd (-1% yoy) and production from private players/JVs continued to decline and stands at 16.8 mmscmd (–7.2% yoy).
- **India's total Gas consumption mix**: Major consuming sectors are fertilizer (25%), power (20%), CGD (14%), refinery (12%), petrochemicals (5%) sector and balance by others.
- India's natural-gas demand currently stands at 8% of the global per-capita average which is expected to get a boost from the government's plan to revitalize more than 10,000 kilometers of gas-pipeline projects by offering viability-gap funding" to stalled projects. This should help more than double gas transmission capacity to 962 mmscmd.
- Top Picks: MGL (TP Rs.1030) & Petronet LNG (TP Rs.267)

India's gas story in charts……

India's total gas consumption and sectorial mix

India's gas consumption increased by 9.6% yoy supported by all the industries except petchem

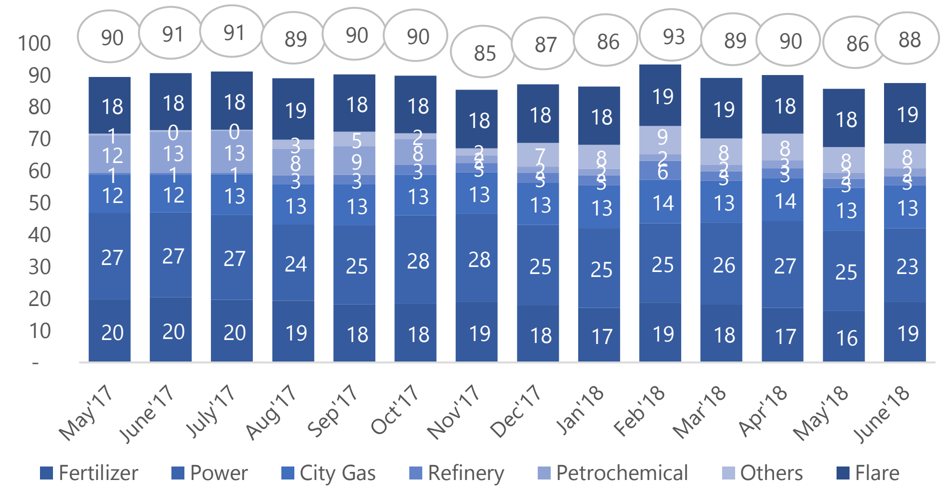
India's total gas consumption – Industry wise (mmscmd)



Source: PPAC and Kotak Securities – Private Client Research

Domestic gas consumption declined by 3% yoy led by meaningful decline in gas consumption in power and fertilizer segment

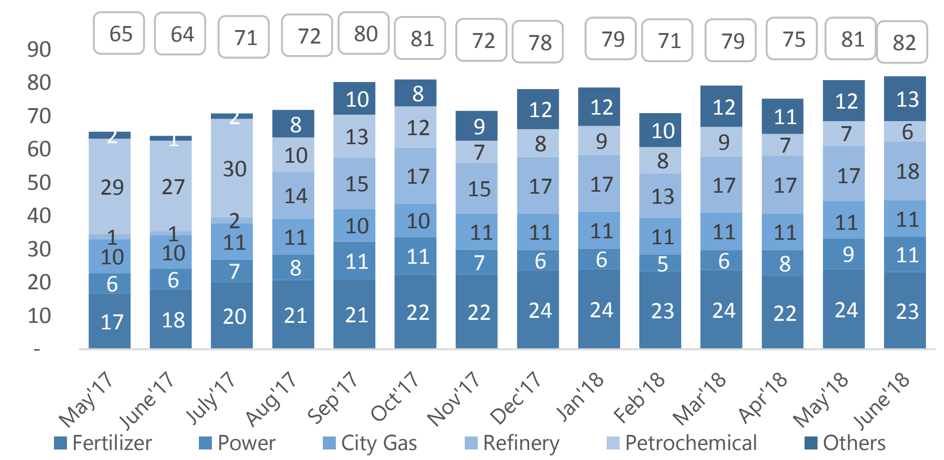
India's domestic gas consumption – Industry wise (mmscmd)



Source: PPAC and Kotak Securities – Private Client Research. Note: Upstream companies use some quantity of gas for their own use as internal consumption while some quantity of gas is flared as a part of technical requirement.

RLNG consumption grew by notable 28% yoy. Strong LNG demand witnessed from CGD, Power and Fertilizer sectors.

Imported RLNG consumption in India – Industry wise (mmscmd)

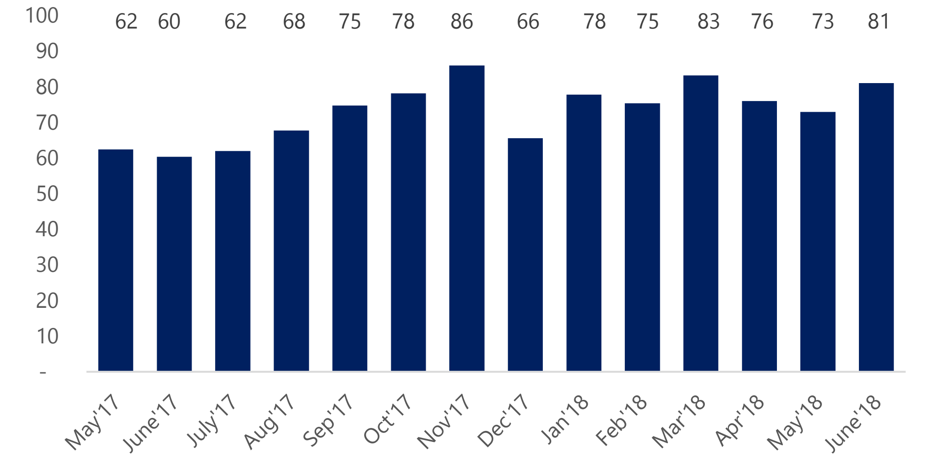


Source: PPAC and Kotak Securities – Private Client Research

India's LNG import jumped by 34% yoy in June'18 with the fall in international RLNG and lower domestic gas supply

India's RLNG demand is expected to double in next four to five years, as per GAIL's chairman

India's LNG imports (mmscmd)



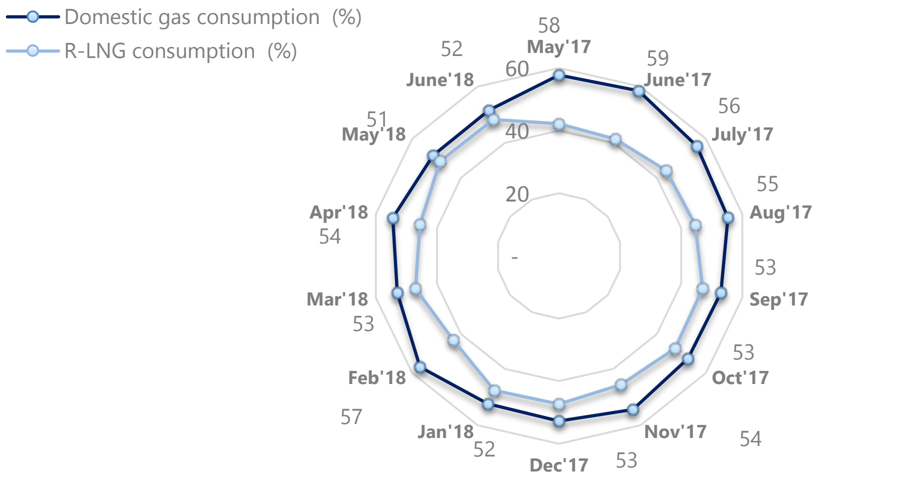
Source: PPAC and Kotak Securities – Private Client Research.

Note: RLNG is imported by PLNG, GAIL, GSPC, HLPL, RIL, IOCL, Torrent Power & BPCL

India's RLNG consumption mix increased to 48.4% in June'18 v/s 41.4% in June'17.

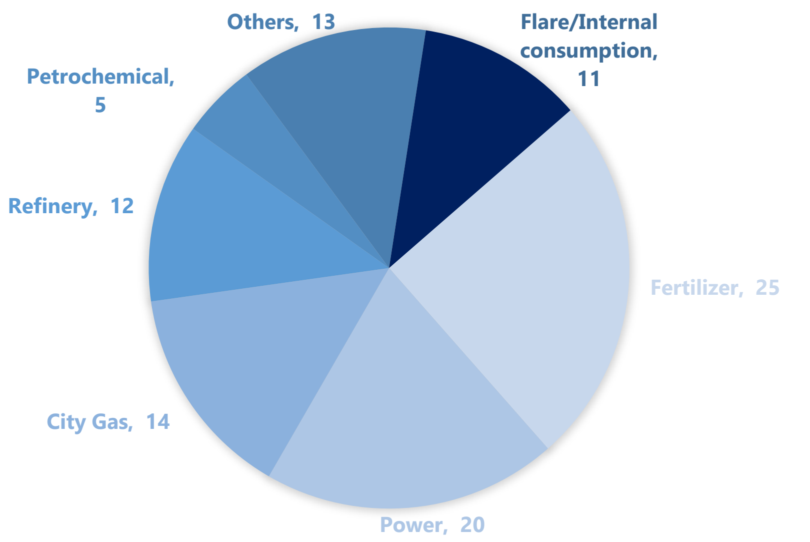
New regasification capacity is boosting India's consumption of imported gas. In long term, we expect meaningful jump in RLNG consumption in India.

Imported vs Domestic natural gas consumption mix (%)



Source: PPAC and Kotak Securities – Private Client Research. Note: Includes gas flared and internally consumed.

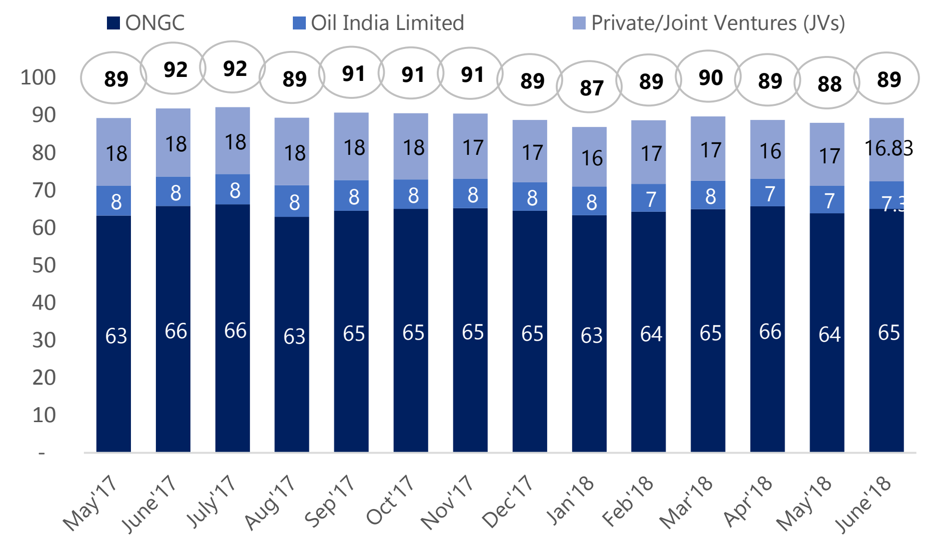
India's total natural gas consumption mix (%)



Source: PPAC and Kotak Securities – Private Client Research

Pressure on domestic gas supply yoy basis continues due to lower supply from both public and private companies

India's total gas production – (mmscmd)

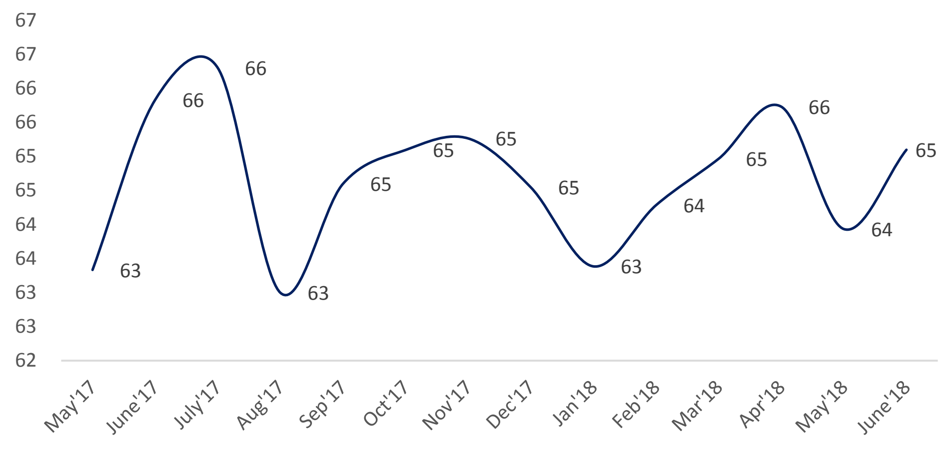


Source: PPAC and Kotak Securities – Private Client Research

ONGC is the highest domestic gas producer.

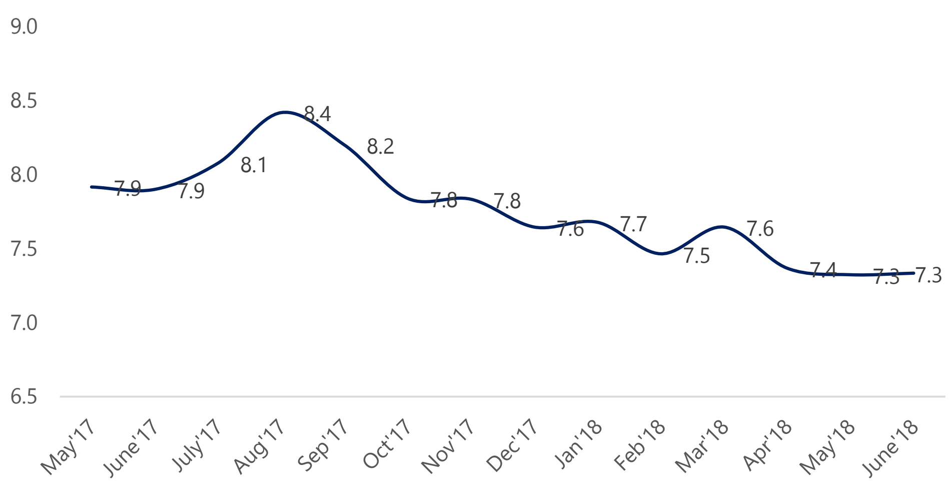
ONGC's gas supply stands lower by 1% yoy

ONGC's gas production from domestic fields (mmscmd)



Source: PPAC and Kotak Securities – Private Client Research

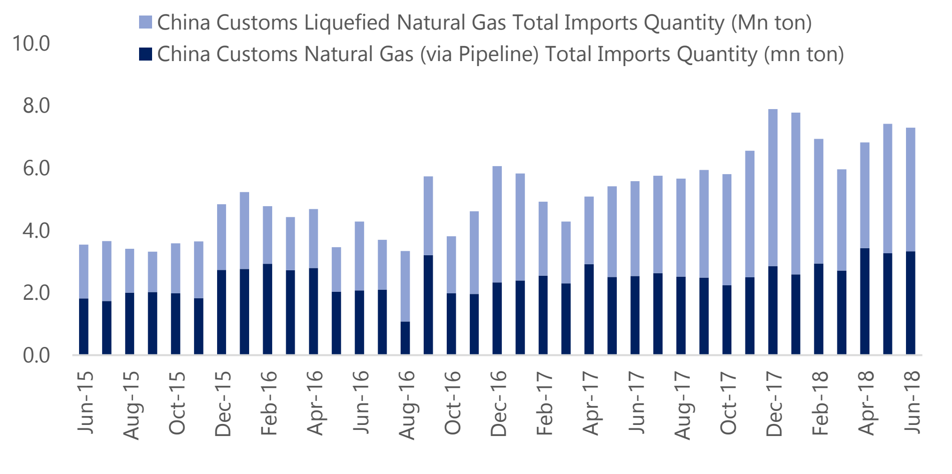
Oil India monthly gas production (MMSCMD)



Source: PPAC and Kotak Securities – Private Client Research

China's LNG imports soared on clean energy policies (Mton)

China Customs Liquefied Natural Gas Total Imports Quantity



Source: Bloomberg and Kotak Securities – Private Client Research

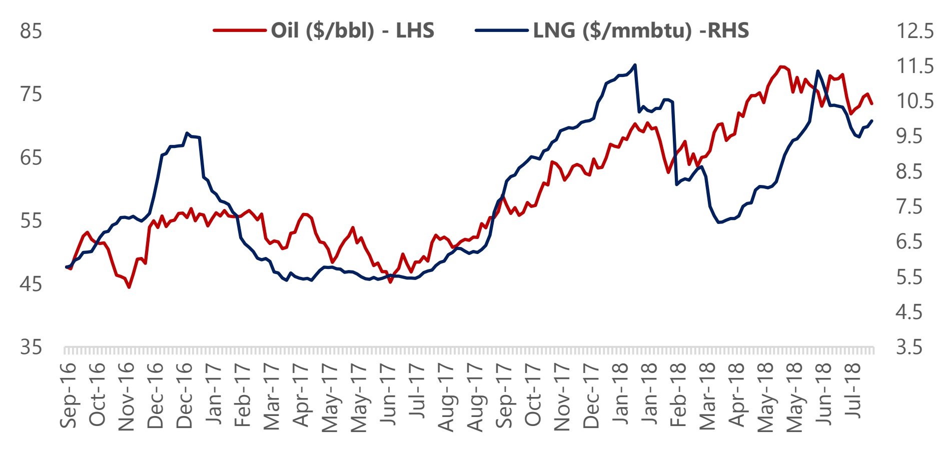
The world's biggest energy-consuming region is focusing on the fossil fuel with the fastest growing demand this week with natural gas conferences in China and Singapore.

Henry Hub Natural Gas Futures Price (US$/mmbtu)

Source: Bloomberg and Kotak Securities – Private Client Research

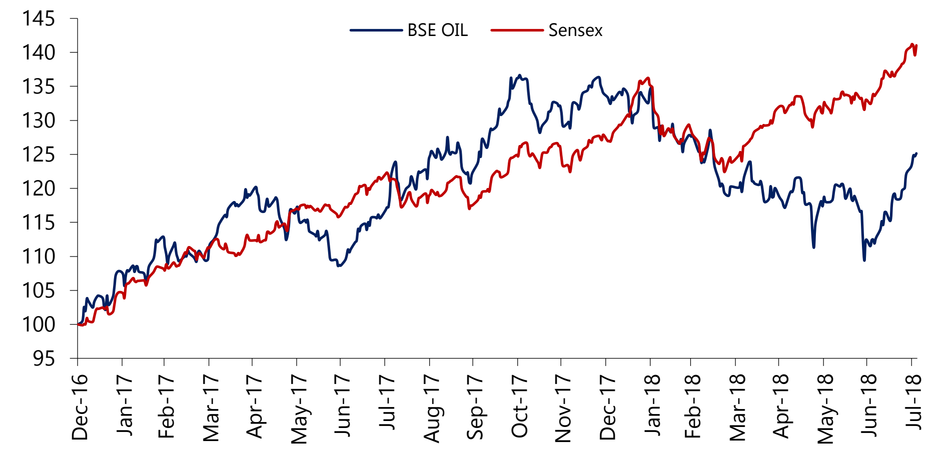
Singapore SGX LNG Index Group (SLInG) is a spot price index for Asian LNG.

Singapore SGX LNG and Oil price



Source: Bloomberg and Kotak Securities – Private Client Research

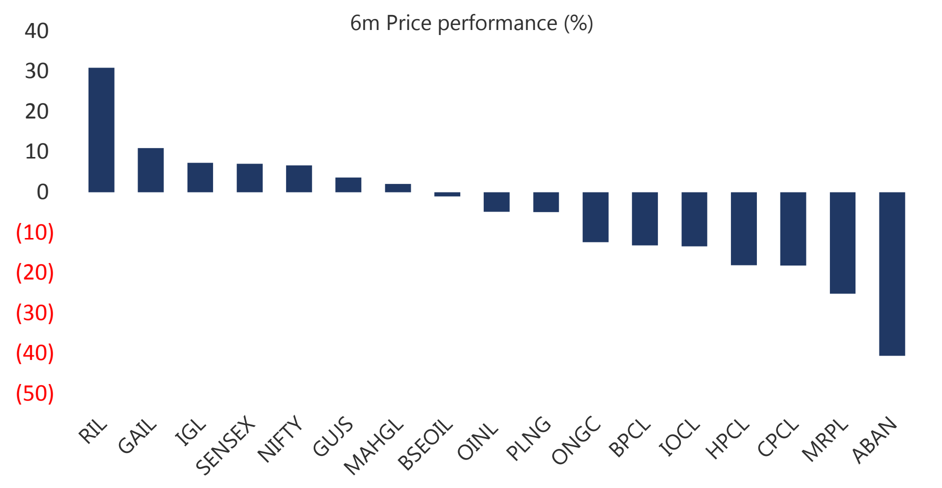
Oil and Gas stock price performance



Source: Bloomberg

During the last six months, Nifty has given a return of 8% however, BSE Oil and Gas Index has given a negative return of 1%. In the oil and gas sector, RIL has given highest return during the last six months. Among CGD players, IGL/GAIL has given a positive return of 7% and 11%, respectively.

6M Price performance of oil and gas companies (%)



Source: Bloomberg

Forthcoming Events

Forthcoming events

Date	Event
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
8-Aug	Bluestar, BPCL, Cipla, Gabriel, Greenply Ind, Lupin, NMDC, Phoenix Ltd, Supreme Ind, Thermax earnings expected
9-Aug	Aegis Logistics, AIA Engineering, Cummins India, Eicher Motor, Engineers India, Insecticides Jindal Steel, MRF, MT Educare, Wabag earnings expected

Source: www.bseindia.com

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	-	We advise investor to subscribe to the IPO.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM

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