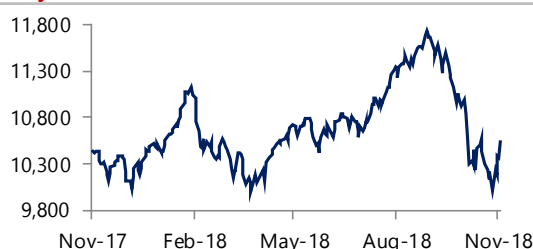


NOVEMBER 9, 2018

	7-Nov	% Chg			
		1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>					
SENSEX Index	35,238	0.7	1.8	(7.2)	
NIFTY Index	10,598	0.6	2.1	(7.5)	
NSEBANK Index	25,738	0.5	4.7	(8.2)	
NIFTY 500 Index	8,934	0.7	2.8	(8.6)	
CNXMcap Index	17,400	0.8	5.9	(10.1)	
BSESMCAP Index	14,587	1.2	4.2	(14.7)	
<b>World Indices</b>					
Dow Jones	26,191	0.0	(0.9)	2.7	
Nasdaq	7,531	(0.5)	(2.7)	(4.6)	
FTSE	7,141	0.3	(1.3)	(7.8)	
NIKKEI	22,487	1.8	(4.8)	(1.2)	
Hangseng	22,487	1.8	(4.8)	(1.2)	
Shanghai	26,228	0.3	(1.8)	(10.1)	
<b>Value traded (Rs cr)</b>					
	7-Nov	% Chg Day			
Cash BSE	404	(82.9)			
Cash NSE	3,961	(85.6)			
Derivatives	1,433,763	107.5			
<b>Net inflows (Rs cr)</b>					
	6-Nov	MTD	YTD		
FII	82	887	(41,798)		
Mutual Fund	(53)	167	112,470		
<b>Nifty Gainers &amp; Losers</b>					
7-Nov	Price (Rs)	Chg (%)	Vol (mn)		
<b>Gainers</b>					
Zee Entertainment	448	2.3	2.2		
TCS	1,933	2.2	1.4		
Yes Bank	214	2.1	26.9		
<b>Losers</b>					
Vedanta Ltd	207	(6.8)	19.8		
Cipla Ltd	531	(5.7)	16.9		
HPCL	226	(3.0)	5.8		
<b>Advances / Declines (BSE)</b>					
7-Nov	A	B	T	Total	% total
Advances	171	505	61	737	100
Declines	255	508	44	807	109
Unchanged	4	25	17	46	6
<b>Commodity</b>					
	7-Nov	% Chg			
	1 Day	1 Mth	3 Mths		
Crude (US\$/BBL)	70.7	0.0	(16.9) (2.0)		
Gold (US\$/OZ)	1,224.0	(0.2)	2.6 0.7		
Silver (US\$/OZ)	14.4	(0.9)	0.2 (6.7)		
<b>Debt / forex market</b>					
	7-Nov	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	7.8	7.8	8.0	7.8	
Re/US\$	73.0	73.1	74.1	68.9	

## Nifty



Source: Bloomberg

## News Highlights

- ▶ The Union cabinet gave its approval for privatization of the management of six airports, including those in Jaipur and Ahmedabad. (Mint)
- ▶ India lost a major trade dispute at the World Trade Organization (WTO) on Tuesday, after a dispute settlement panel largely upheld Japan's complaint that New Delhi's imposition of safeguard duty on imports of hot-rolled steel flat products during September 2015 and March 2018 violated core global trade rules. (Mint)
- ▶ As many as 50 large NBFCs have debt repayments worth ₹950bn due in November, of which, ₹700bn are commercial papers maturing. (Mint)
- ▶ **Fortis** CEO quits ahead of board makeover. Fortis board expected to meet next week to appoint IHH's representatives. (Mint)
- ▶ **Allahabad Bank** on Thursday said the government had infused Rs 30.54bn into the state-run lender. (Mint)
- ▶ **Bharti Airtel Ltd's** credit rating was placed under review for a possible downgrade by Moody's Investors Service on high debt levels and weak cash flow generation. Moody's has placed on review for downgrade the Baa3 issuer and senior unsecured rating. (Mint)
- ▶ **Manappuram** sees borrowing costs rising. Manappuram aims to reduce its gold loans as a share of total assets under management to 50% in the coming years. (Mint)
- ▶ **HDFC Bank** hikes deposit rates by up to 0.5% for various tenors signalling tightening of rates. (Mint)
- ▶ Diversified group **DCM Shriram** has contracted around 40,000 tonnes of sugar exports so far and will undertake shipments of entire 92,000 tonnes quota assigned to it by April-May next year. (BS)
- ▶ **JSW Steel** said its crude steel output grew 7.7 per cent to 1.447 million tonne during October 2018. (BS)
- ▶ State-owned gas utility **GAIL (India) Ltd** said it has purchased steel pipes worth Rs 11 billion for laying the Barauni-Guwahati gas pipeline, putting on fast track the implementation of the project that will connect the north-east with the national gas grid. (BS)
- ▶ Even if the 13 completed and incomplete projects of IL&FS are sold, the lenders — and not the Ministry of Road Transport and Highways and the **National Highways Authority of India (NHAI)** — will have the first right on the funds. (BS)
- ▶ **Tata Steel** is eyeing an installed capacity of 30 million tonnes (mt) by 2025 from the existing 18.5 mt. The company plans to achieve the capacity through brownfield expansion across its plants in Jamshedpur (Jharkhand), Kalinganagar (Jajpur district of Odisha), the newly acquired Bhushan Steel, and the Usha Martin steel facility. (BS)

## What's Inside

- ▶ **Result Update:** Berger Paints Ltd, Voltamp Ltd, Phoenix Mills Ltd, Eveready Industries Ltd, Century Plyboards

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

# BERGER PAINTS LTD (BERGER)

PRICE Rs.296

TARGET Rs.280

SELL

### Stock Details

Market cap (Rs mn)	:	291165
52-wk Hi/Lo (Rs)	:	350 / 232
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	1,131,108
Shares o/s (mn)	:	971.0

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	51,657	57,676	64,332
Growth (%)	13.5	11.7	11.5
EBITDA	8,069	9,210	10,430
EBITDA margin (%)	15.6	16.0	16.2
PAT	4,652	5,759	6,583
EPS	4.8	5.9	6.8
EPS Growth (%)	-2.3	23.8	14.3
BV (Rs/share)	22.5	26.6	31.7
Dividend/share (Rs)	1.8	1.8	1.8
ROE (%)	22.8	24.2	23.3
ROCE (%)	29.7	30.6	30.4
P/E (x)	62.6	50.5	44.2
EV/EBITDA (x)	34.1	29.9	26.6
P/BV (x)	13.3	11.3	9.5

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	75.0	75.0	75.0
FII	5.2	5.3	5.7
DII	9.3	9.1	8.5
Others	10.6	10.6	10.8

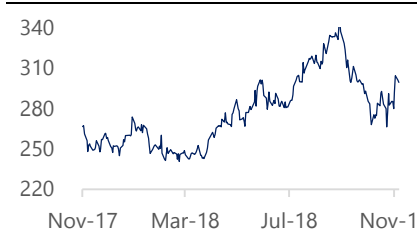
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Berger Paints	11.9	(3.2)	10.4
Nifty	2.3	(7.4)	(0.6)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Valuations ahead of performance

Strong volume growth in the decorative segment, stable volumes in the industrial segment and marginal contraction in operating margins due to raw material price inflation were the highlights of the results for Berger during Q2FY19.

### Key Highlights

- Berger reported volume growth of 15% YoY on a strong base (~15% volume growth in Q1FY19 as well), translating into revenue of Rs 14.9 bn (+16.3% YoY). The volume growth was ahead of peers Asian Paints and Kansai Nerolac implying market share gains for Berger.
- Operating margins contracted marginally to 13.9% (-160 bps YoY) despite high input cost inflation. To mitigate input cost inflation, the company has taken price hike of 1.5%/2% in Mar'18/May'18 respectively. The company has taken another price increase on October 1, which is about 2.2% and announced another hike of ~1.5% from December 1st. With these price hikes, the company expects the margins to return to normal levels from Q3FY19
- Depreciation, interest cost, other income and taxes were stable for the company during the quarter.
- Consequently, company reported strong PAT of Rs 1.17 bn (+5.2% YoY) in a weak macro environment.
- Management is confident of strong volume and sales growth and further improvement operational performance. Management expects the RM situation, demand for both decorative and industrial paints and pricing situation to return to normalcy by end of FY19.

### Quarterly Performance

(Rs mn)	Q2FY18	Q1FY19	Q2FY19	QoQ (%)	YoY (%)
<b>Net Sales</b>	<b>12817</b>	<b>14830</b>	<b>14900</b>	<b>0.5</b>	<b>16.3</b>
Raw material consumed	7315	8973	9128	1.7	24.8
Employee cost	949	978	1,048	7.2	10.4
Other expenditure	2,561	2,608	2,656	1.8	3.7
Total expenditure	10,825	12,559	12,832	2.2	18.5
<b>EBIDTA</b>	<b>1,992</b>	<b>2,271</b>	<b>2,068</b>	<b>-8.9</b>	<b>3.8</b>
EBIDTA margin	15.5	15.3	13.9		
Depreciation	306	340	336	-1.2	9.8
<b>EBIT</b>	<b>1,686</b>	<b>1,931</b>	<b>1,732</b>	<b>-10.3</b>	<b>2.7</b>
Interest	76	38	79		
Other income	101	164	120	-26.8	18.8
<b>PBT</b>	<b>1,711</b>	<b>2,057</b>	<b>1,773</b>	<b>-13.8</b>	<b>3.6</b>
Taxes	622	715	597	-16.5	-4.0
ETR %	36.4	34.8	33.7		
Share of Associates/JVs	25	8	-4		
<b>Reported PAT</b>	<b>1,114</b>	<b>1,350</b>	<b>1,172</b>	<b>-13.2</b>	<b>5.2</b>

Source: Company

### Amit Agarwal

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## Valuation and Outlook

We estimate that branded paint demand will remain robust in a country like India where per capita consumption is very low and 30% paint market is still unorganised. Management of Berger also indicated that the volume trends remain strong for the company and expect the trend to continue in medium term.

Berger's performance has been better than peers and is indicative of continued market share gains. Reduction in GST rates can drive further improvement in demand. However, macro environment remains non-conducive for business and growth. For Berger, we estimate 10% volume CAGR over FY18 – FY20E with improvement in operating margins and ROE of ~23.3% and ROCE of ~30.4% for FY20E. However, post factoring the growth prospects and post comparison with other big players, the current valuation appears stretched for Berger. Maintain estimates and SELL recommendation with an unchanged TP of 280 at 41x FY20E.

## Sales was driven by all the segments

Management indicated the sales performance of Q2FY19 could be attributed to:

**Decorative segment** - The Company reported 15% YoY volume growth in the decorative segment for Q2FY19. The decorative business constitutes around 80% of Berger's overall business and typically grows at 1.5x the GDP of the country. The current volume growth of ~15% on a strong base (~15% volume growth in Q1FY19 as well) and relatively slower growth for other players indicate market share gains for Berger. Berger is expecting healthy volume growth in the decorative segment on the back of low per-capita consumption in the country, strong urbanization trends, shortening re-painting cycles, up-trading and increased government spending in a pre-election year. We also believe that the reduction in GST on Paints (from 28% to 18%) from 27th July, 2018 to further aid volumes for the company.

**Industrial paints segment** - In Industrial paints, Berger is primarily present in Automotive coating and Industrial coating. Automotive paints constitute around 10% of the overall revenues of the company and remains strong for the company with healthy demand of automobiles in the country. Berger is empanelled with all major automobile companies in the 2 wheeler and 3 wheeler segment. While general industrial coating constitute around 8% of the overall revenues of the company. Management expects general industrial segment to do well in the pre-election year of FY19 which should boost the overall performance of the company.

## Performance of Subsidiaries

Berger Paints has a total of 7 subsidiaries and 2 associates contributing about 10% of the overall revenues. Of these 7 subsidiaries the top 3 in terms of revenue are;

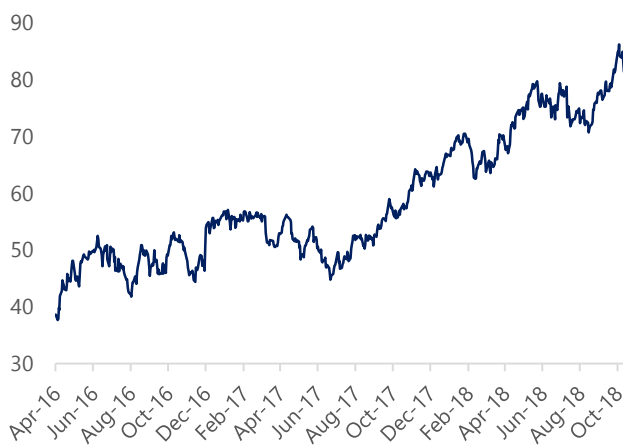
- 1) Berger Jenson and Nicholson, Nepal (~3% of overall revenues)
- 2) Bolix, Poland (~4% of overall revenues)
- 3) Saboo coatings (~1.5% of overall revenues)

Adverse currency movement and raw material price inflation led to Berger booking loss of Rs 4 mn from associates/subsidiaries.

## Raw Material and Pricing Power

Paint Industry uses two key raw material including crude derivatives and Titanium Dioxide. The Paint industry is experiencing increase in prices of raw material since the last 3 quarters. Almost ~60% of the raw material are crude derivatives and with crude at \$73/barrel (+30% YoY), prices of crude derivatives have also increased. Even prices of pigments like Titanium Dioxide, Iron oxide and Zinc oxide have increased. Even INR volatility has contributed to cost inflation for the company. To counter this Berger has resorted to price increase and cost optimization. Berger has taken a total price increase of 5.7% till date in CY18 (1.5% in Mar'18/2% in May'18/2.2% in Oct 18) and announced another hike of ~1.5% from December 1st. With these price hikes, the company expects the margins to return to normal levels from Q3FY19

**Prices of brent crude (US\$/barrel)**



Source: Bloomberg

**Prices of Titanium dioxide (US\$/MT)**



Source: Bloomberg

## Stretch valuations compelled us to Recommend SELL

We believe that Berger will continue to gain market share with aggressive expansion of its dealer network (5-10% increase each year), aggressive sales push, higher dealer margins and focus on improving geographical reach. Reduction in GST rates can drive further improvement in demand. Berger's performance has been better than peers and is indicative of continued market share gains. For Berger, we estimate 10% volume CAGR over FY18 – FY20E with improvement in operating margins and ROE of ~23.3% and ROCE of ~30.4% for FY20E. However, post factoring the growth prospects and post comparison with other big players, the current valuation appears stretched for Berger. Maintain estimates and SELL recommendation with an unchanged TP of 280 at 41x FY20E.

## Company background

Berger Paint is the second largest decorative paint company in India and third largest in domestic industrial segment. It enjoys ~19% share of organized domestic decorative market. Berger also has a presence in overseas markets, prominent ones being Nepal (where it is a significant player in decorative market) and Poland (where it is second largest player in external insulation finishing system). Berger also has two JVs where Berger has 49% stake – a) Berger Becker Coatings Pvt Ltd catering to coil coatings – JV with Becker Industriefarg, Sweden which is a leading coil and special coatings player in Europe, and b) BNB Coatings India Ltd for manufacture of coatings for plastic substrates – JV with Nippon Bee Chemicals Co Ltd of Japan.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>45,524</b>	<b>51,657</b>	<b>57,676</b>	<b>64,332</b>
% change YoY	-1.8	13.5	11.7	11.5
Raw material cost	26,259	29,858	33,199	36,923
Employee cost	2,492	2,833	3,150	3,504
Other expenses	9,584	10,897	12,117	13,476
Total Operating expd	38,335	43,588	48,466	53,902
<b>EBITDA</b>	<b>7,189</b>	<b>8,069</b>	<b>9,210</b>	<b>10,430</b>
Depreciation	1,081	1,243	1,200	1,200
<b>EBIT</b>	<b>6,108</b>	<b>6,826</b>	<b>8,010</b>	<b>9,230</b>
Other income	1,088	459	500	500
Interest expense	162	200	200	225
<b>Profit before tax</b>	<b>7,034</b>	<b>7,085</b>	<b>8,310</b>	<b>9,505</b>
Tax	2,295	2,440	2,576	2,947
ETR (%)	32.6	34.4	31.0	31.0
Profit after tax	4,739	4,645	5,734	6,558
Minorities & Associates	23	7	25	25
<b>Net income</b>	<b>4,762</b>	<b>4,652</b>	<b>5,759</b>	<b>6,583</b>
% change YoY	41.0	2.0	24.5	13.9
Shares outstanding (m)	970	970	970	970
<b>EPS</b>	<b>4.9</b>	<b>4.8</b>	<b>5.9</b>	<b>6.8</b>

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	4,762	4,652	5,759	6,583
Non Cash items	1,311	1,487	1,458	1,495
Change in working capital	119	(889)	(873)	(965)
<b>Cash flow from operations</b>	<b>6,192</b>	<b>5,250</b>	<b>6,344</b>	<b>7,113</b>
Capex	(2,500)	(2,500)	(2,000)	(2,000)
Investments	(798)	(94)	-	-
<b>Cash flow from investments</b>	<b>(3,298)</b>	<b>(2,594)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Equity issuance	-	-	0	-
Debt raised	918	(174)	(207)	(186)
Dividend Paid	(2,003)	(2,004)	(2,004)	(2,005)
Miscellaneous items	-	-	-	-
<b>Cash flow from financing</b>	<b>(1,086)</b>	<b>(2,178)</b>	<b>(2,210)</b>	<b>(2,191)</b>
Net cash flow	1,808	478	2,134	2,922
Opening cash	1,841	3,649	4,128	6,261
<b>Closing cash</b>	<b>3,649</b>	<b>4,128</b>	<b>6,261</b>	<b>9,184</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	3,649	4,128	6,261	9,184
Debtors	5,645	6,405	7,152	7,977
Inventory	8,650	9,815	10,958	12,223
Other current assets	1,730	1,963	2,192	2,445
<i>Total current assets</i>	<i>16,024</i>	<i>18,183</i>	<i>20,302</i>	<i>22,645</i>
LT investments	906	1,000	1,000	1,000
Net fixed assets	12,017	13,274	14,074	14,874
<b>Total assets</b>	<b>32,597</b>	<b>36,585</b>	<b>41,637</b>	<b>47,702</b>
Creditors	5,918	6,715	7,498	8,363
Provisions	1,229	1,395	1,557	1,737
Loans and advances	2,276	2,583	2,884	3,217
<i>Total current liabilities</i>	<i>9,423</i>	<i>10,693</i>	<i>11,939</i>	<i>13,317</i>
LT debt	4,239	4,065	3,859	3,673
Equity Capital	970	970	970	970
Reserves	17,964	20,857	24,870	29,743
<i>Networth</i>	<i>18,935</i>	<i>21,827</i>	<i>25,840</i>	<i>30,713</i>
<b>Total liabilities</b>	<b>32,597</b>	<b>36,585</b>	<b>41,637</b>	<b>47,702</b>
BVPS (Rs)	19.5	22.5	26.6	31.7

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	15.8	15.6	16.0	16.2
EBIT margin (%)	13.4	13.2	13.9	14.3
Net profit margin (%)	10.5	9.0	10.0	10.2
ROE (%)	27.3	22.8	24.2	23.3
ROCE (%)	33.9	29.7	30.6	30.4
DPS	1.8	1.8	1.8	1.8
Dividend payout (%)	42.1	43.1	34.8	30.5
Working capital turnover (days)	53.4	49.8	50.2	50.2
Debt Equity (x)	0.2	0.2	0.1	0.1
PER (x)	61.1	62.6	50.5	44.2
P/C (x)	47.9	47.4	40.3	36.0
Dividend yield (%)	0.6	0.6	0.6	0.6
P/B (x)	15.4	13.3	11.3	9.5
EV/Sales (x)	6.4	5.6	5.0	4.5
EV/ EBITDA (x)	35.1	34.1	29.9	26.6

Source: Company, Kotak Securities – Private Client Research

## Result Update

## VOLTAMP LTD

### Stock Details

Market cap (Rs mn)	:	8974
52-wk Hi/Lo (Rs)	:	1280 / 731
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	7,586
Shares o/s (mn)	:	10

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	6,390	7,029	7,732
Growth (%)	4.6	10.0	10.0
EBITDA	660	753	840
EBITDA margin (%)	10.3	10.7	10.9
PAT	735	684	785
EPS	72.7	67.7	77.7
EPS Growth (%)	4.3	-6.9	14.7
BV (Rs/share)	614.0	664.2	724.3
Dividend/share (Rs)	15.0	15.0	15.0
ROE (%)	12.7	10.6	11.2
ROCE (%)	12.7	10.5	11.1
P/E (x)	12.2	13.1	11.4
EV/EBITDA (x)	7.9	6.3	5.2
P/BV (x)	1.5	1.4	1.2

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	47.5	47.5	47.5
FII	15.6	15.6	16.3
DII	19.8	20.1	18.9
Others	17.0	16.8	17.4

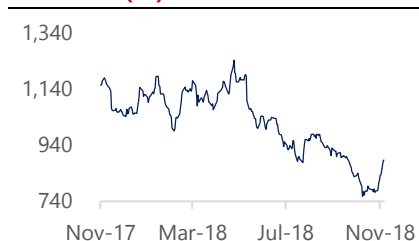
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Voltamp Ltd	9.0	(9.5)	(24.4)
Nifty	2.4	(7.2)	(0.5)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Sanjeev Zarbade

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PRICE Rs.887

TARGET Rs.1320

BUY

Voltamp reported good set of numbers for the quarter. Revenue and EBITDA topped our estimates. Despite sharply lower other income, profits exceeded our estimates.

### Key Highlights

- From our discussion with the management, it sounded optimistic on the current business scenario and is witnessing higher number of orders in the market than in earlier quarters, which is a positive.
- The company is fairly confident of doing Rs 7.0 bn plus revenue in FY19.

### Valuation and Outlook

Voltamp is currently trading at 13x and 11x FY19E and FY20E earnings respectively. Valuations are attractive compared to peers and more so considering that management remains prudent and has been able to preserve quality of balance sheet even through years of industry distress. Voltamp remains one of the best stocks to play future upturn in industrial demand. Maintain BUY with unchanged target price of Rs 1320.

### Q2FY19 Results

(Rs mn)	Q2 FY19	Q2 FY18	YoY (%)	Q1FY19	QoQ (%)
<b>Net Sales</b>	<b>1890</b>	<b>1289</b>	<b>46.6</b>	<b>1659</b>	<b>13.9</b>
Consumption of Raw Materials	1501	1008	48.9	1304	15.1
Staff Cost	66	55	20.9	66	0.8
Other Expenditure	133	141	-5.8	124	6.6
Operating Expenditures	1699	1203	41.3	1494	13.7
<b>PBDIT</b>	<b>191</b>	<b>86</b>	<b>121.7</b>	<b>165</b>	<b>15.6</b>
Depreciation	16	15	10.8	15	12.3
Other Income	61	137	-55.3	67	-9.5
<b>EBIT</b>	<b>235</b>	<b>208</b>	<b>13.3</b>	<b>218</b>	<b>8.1</b>
Interest & Finance Charges	1.3	1.2	8.5	1.5	-12.4
Profit / (Loss) before tax	234	207	13.3	216	8.2
Tax provision	80	54	48.4	66	22.0
Profit / (Loss) after tax	154	153	0.9	151	2.2
<b>EPS (Rs)</b>	<b>15.3</b>	<b>15.1</b>		<b>14.9</b>	
EBITDA (%)	10.1	6.7		9.9	
Raw material cost to sales (%)	79.4	78.2		78.6	
Other exp to sales (%)	7.0	10.9		7.5	47.4
Tax rate (%)	34.1	26.1		30.3	

Source: Company

### Reported Vs Estimated performance

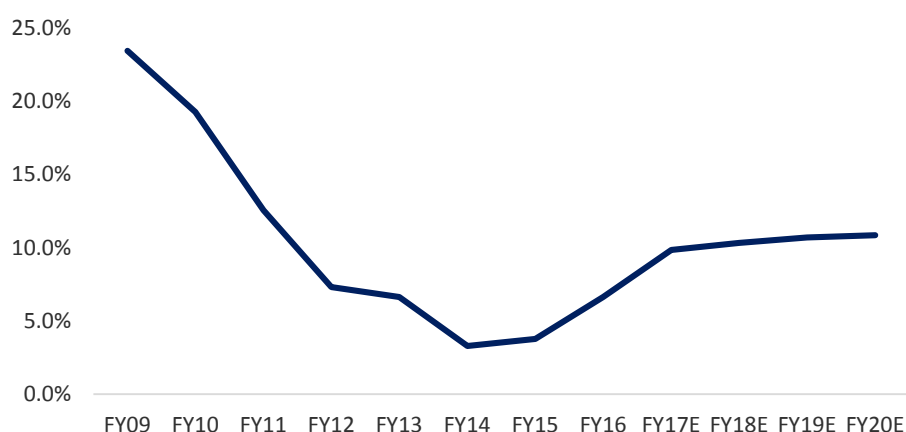
Rs mn	Reported	Estimated
Revenue	1890	1800
EBITDA %	10.1%	10.0%
PAT	154	159

Source: Kotak Securities – Private Client Research

## Result Highlights

- Net sales rose 47% y-o-y during the quarter to Rs 1.9 bn.
- Sale of transformers in terms of MVA stood at 2506 MVA as compared to 2400 MVA in the corresponding quarter of the previous fiscal.
- Revenue growth was strong in the quarter, which could be partly attributed to improved order book position, general improvement in industrial activity and increase in commodity prices in copper and steel.
- Gross margins contracted to 20.6% in the quarter, a contraction of 120 bps on a y-o-y basis, which is mainly attributed to commodity cost pressures coupled with sustained competitive intensity thus restricting product price increases.
- Decline in "other expenditure", offset the commodity cost pressures, thereby leading to EBITDA margin gain of 340 bps on a y-o-y basis.
- Although the company has notched good margin gains in the second quarter, we note that the pricing pressure continues unabated in the transformer industry due to weak demand from the Power sector coupled with excess capacity in the transformer manufacturing industry.

## EBITDA margin (%)



Source: Company

The decline in "Other income" by 55% y-o-y could be mainly due

- to "Mark to Market" loss on equity/quoted investments (loss of Rs 24.3 mn in Q2FY19)
- Write back of past period provisioning towards doubtful debt was lower by Rs.26.5 mn compared to 30.09.2017.
- Limited profit booking opportunities due to volatile market conditions (Rs 56.1 mn).

## Order book

Order book at the end of October 2018 stands at ~ Rs 4.25 bn. The management is fairly positive on the level of order book, which gives it a good revenue visibility for the remainder of the fiscal.

## Industry Outlook

- Although the overall industrial activity remains tepid, demand for the transformers from the solar power sector has enabled the company to mitigate the downtrend. However, dropping prices of solar power tariffs is driving solar power developers to negotiate aggressively with equipment suppliers.
- Over all, CAPEX by corporates, both private and public sectors, has been much lower than desirable levels. This has caused transformer industry's capacity utilization to remain at sub-optimum level, thereby restricting any improvement in price realization quoted by manufacturers.
- The management has been sounding cautious on the demand outlook though lately it has noted some improvement in enquiry levels. However, these enquiries are taking a long time to fructify into firm orders.
- The outlook for transformer demand from the Wind power sector has improved going into FY19 as the "Solar Energy Corporation of India" and distribution utilities in Gujarat, Maharashtra and Tamil Nadu have issued bids for wind-power capacity of 7.5 GW over the past 14 months.
- On a net basis, the management is witnessing higher demand for transformers than in earlier quarters. However, it noted that several large transformer makers like Crompton Greaves are struggling to fill capacity and are lifting orders even at low margins.

## Management outlook

From our discussion with the management, it sounded optimistic on the current business scenario and is witnessing higher number of orders in the market than in earlier quarters, which is a positive.

Steep decline in INR against US dollar is an area of major concern, the management indicated. With large portion of order booking at fixed prices and about 62% of material in value terms are of import origin, forex fluctuation can impact margins.

This was the case in the month of October, wherein the company had to take a hit on account of sharp drop in INR, which increased the cost of imported commodities like Copper and also that of materials like CRGO, prices of which move in line with import prices. Yet, the management is hopeful that it should be able to recoup this loss in the remaining months of the fiscal.

The company is fairly confident of doing Rs 7.0 bn revenue in FY19.

## Balance Sheet Highlights

- Cash and Investment stands at ~ Rs 3.7 bn, 40% of the company's market cap.
- As of Sep 2018, receivables have declined in absolute terms to Rs 1.2 bn as compared to Rs 1.44 bn in March 2018.

## Valuation and Outlook

Voltamp is currently trading at 13x and 11x FY19E and FY20E earnings respectively. Valuations are attractive compared to peers and more so considering that management remains prudent and has been able to preserve quality of balance sheet even through years of industry distress. Voltamp remains one of the best stocks to play future upturn in industrial demand. Maintain BUY with unchanged target price of Rs 1320.



### **Company background**

Voltamp Transformers Ltd was established in the year 1963 by Mr. Lalitkumar H. Patel along with Mr. Babubhai H. Patel and Mr. Navinchandra R. Patel to manufacture transformers in Baroda city. The main promoter is, Mr Kunjalbhai Patel (VC and MD) and is a technocrat. Voltamp has a manufacturing capacity of 13000 MVA capable of making transformers upto 160 MVA, 220 KV, class for many applications covering most segments of users including industrial, utility and buildings. The company caters to cater to a wide spectrum of transformer users in various industries like: petrochemical, oil refining, cement, paper and pulp, pharmaceuticals, automobiles, steel, power plant, building, metro rail applications, mining and minerals and many others.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>6,109</b>	<b>6,390</b>	<b>7,029</b>	<b>7,732</b>
% change yoy	8.5	4.6	10.0	10.0
<b>EBITDA</b>	<b>602</b>	<b>660</b>	<b>753</b>	<b>840</b>
% change yoy	60.8	9.6	14.1	11.5
Depreciation	58	60	70	78
<b>EBIT</b>	<b>944</b>	<b>1,007</b>	<b>933</b>	<b>1,062</b>
% change yoy	58.0	6.7	(7.3)	13.8
Net Interest	5	6	5	5
Earnings Before Tax	939	1,001	928	1,057
% change yoy	58.3	6.6	(7.3)	13.9
Provisions and amortisations	-	-	-	-
Tax	235	267	244	273
as % of EBT	25.0	26.6	26.3	25.8
Net Income adj	704	735	684	785
% change yoy	60.1	4.3	(6.9)	14.7
Preference dividend	0.0	0.0	0.0	0.0
Adjusted Net income for equity	704	735	684	785
Shares outstanding (m)	10.1	10.1	10.1	10.1
EPS (Rs)	69.7	72.7	67.7	77.7
DPS (Rs)	15.0	15.0	15.0	15.0
CEPS	75.5	78.7	74.7	85.4

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	602	660	753	840
Tax and adjustments	(108)	33	(244)	(273)
Cash flow from operations	494	694	509	568
Net Change in Working Capital	127	(125)	(1)	(229)
<b>Net Cash from Operations</b>	<b>622</b>	<b>569</b>	<b>508</b>	<b>338</b>
Capital Expenditure	(58)	(126)	(100)	(100)
Cash from investing	(349)	(296)	250	300
<b>Net Cash from Investing</b>	<b>(406)</b>	<b>(422)</b>	<b>150</b>	<b>200</b>
Interest paid	(5)	(6)	(5)	(5)
Issue of Shares	-	-	-	-
Dividends Paid	(152)	(177)	(177)	(177)
Debt Raised	-	-	-	-
<b>Net cash from financing</b>	<b>(157)</b>	<b>(183)</b>	<b>(182)</b>	<b>(182)</b>
Net change in cash	58	(36)	476	356
Free cash flow	564	443	408	238
cash at end	42	83	559	914

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	42	83	559	914
Accounts receivable	1,538	1,446	1,348	1,483
Stocks	825	970	1,021	1,123
Loans and Advances	85	97	114	135
Others	-	-	-	-
<b>Current Assets</b>	<b>2,490</b>	<b>2,595</b>	<b>3,041</b>	<b>3,655</b>
LT investments	2,945	3,647	3,647	3,647
Net fixed assets	372	422	452	474
Deferred tax assets	22	-	-	-
CWIP	23	38	38	38
<b>Total Assets</b>	<b>5,851</b>	<b>6,703</b>	<b>7,179</b>	<b>7,814</b>
Payables	330	349	312	333
Others	146	65	72	79
<b>Current liabilities</b>	<b>476</b>	<b>414</b>	<b>384</b>	<b>412</b>
LT debt	-	-	-	-
Other liabilities	-	84	84	84
Equity & reserves	5,375	6,201	6,708	7,315
<b>Total Liabilities</b>	<b>5,851</b>	<b>6,703</b>	<b>7,179</b>	<b>7,814</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	9.9	10.3	10.7	10.9
EBIT margin (%)	15.5	15.8	13.3	13.7
Net profit margin (%)	11.5	11.5	9.7	10.1
Adjusted EPS growth (%)	60.1	4.3	-6.9	14.7
Receivables (days)	91.9	82.6	70.0	70.0
Inventory (days)	49.3	55.4	53.0	53.0
Sales / Net Fixed Assets (x)	16.4	15.1	15.5	16.3
ROE (%)	14.0	12.7	10.6	11.2
ROCE (%)	14.0	12.7	10.5	11.1
EV/ Sales (x)	1.0	0.8	0.7	0.6
EV/EBITDA (x)	9.9	7.9	6.3	5.2
Price to earnings (P/E)	12.7	12.2	13.1	11.4
Price to book value (P/B)	1.7	1.5	1.4	1.2
Price to cash earnings (P/CE)	11.7	11.3	11.9	10.4

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	92774
52-wk Hi/Lo (Rs)	:	732 / 479
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	129,018
Shares o/s (mn)	:	153

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	16,198	17,755	18,684
Growth (%)	-11.0	9.6	5.2
EBITDA	7,774	8,645	9,254
EBITDA margin (%)	48.0	48.7	49.5
Net profit	2,422	2,746	3,149
EPS (Rs)	15.8	17.9	20.6
Growth (%)	27.0	13.4	14.7
BVPS (Rs)	186.2	201.0	218.4
DPS (Rs)	2.6	2.6	2.6
ROE (%)	9.6	9.3	9.8
ROCE (%)	8.9	8.8	9.5
P/E (x)	38.3	33.6	29.3
EV/EBITDA (x)	16.1	14.4	13.4
P/BV (x)	3.2	3.0	2.8

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	62.8	62.8	62.8
FII	27.9	29.2	29.8
DII	4.2	3.7	2.8
Others	5.1	4.4	4.6

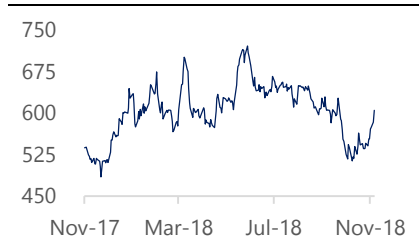
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
The Phoenix Mills	12.6	(6.2)	(3.5)
Nifty	2.4	(7.2)	(0.5)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## THE PHOENIX MILLS LTD

PRICE Rs.601

TARGET Rs.707

BUY

Phoenix Mills Ltd's results were ahead of our estimates led by improvement in consumption and rental revenues. Rental growth was driven by the strong operational performance of Market City malls – PMC Pune & PMC Mumbai as well as High Street Phoenix & Palladium. Commercial and hospitality segment also registered 5%/6% YoY growth respectively led by improvement in rentals and ARR. Growth going ahead is likely to be led by improvement in rentals as well as uptick in residential segment revenue booking.

### Key highlights

- Retail segment revenues are likely to witness healthy improvement going forward with rental renegotiations and consumption improvement. Residential segment revenues are likely to improve with improvement in market activity in its key regions.
- Average interest rate of debt has come down YoY with refinancing as well as rating improvements but sequentially it has now started to move up.
- Company's retail portfolio expansion of 5 new malls is progressing well and is on track to increase its retail portfolio size to 11-12 mn sq ft by FY23.

### Valuation and outlook

At current price of Rs 601, stock is trading at 33.6x and 29.3x P/E and 14.4x and 13.4x EV/EBITDA on FY19/20 consolidated estimates respectively. We continue to remain positive on the company and maintain our price target of Rs 707 on FY20 estimates. Maintain BUY.

### Consolidated financial highlights

Rs mn	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
<b>Net Sales</b>	<b>4047</b>	<b>3706</b>	<b>9.2</b>	<b>4132</b>	<b>-2.0</b>
Total Expenditure	2066	1922	7.5	2178	-5.2
<b>EBITDA</b>	<b>1982</b>	<b>1785</b>	<b>11.0</b>	<b>1953</b>	<b>1.5</b>
EBITDA (%)	49.0	48.2		47.3	
Depreciation	506	510		499	
<b>EBIT</b>	<b>1475</b>	<b>1275</b>	<b>15.8</b>	<b>1455</b>	<b>1.4</b>
Interest	917	857		846	
EBT(exc other income)	558	418	33.6	609	-8.3
Other Income	183	149		170	
<b>PBT</b>	<b>741</b>	<b>567</b>	<b>30.6</b>	<b>779</b>	<b>-4.9</b>
Exceptional item	0	0		0	
PBT after exc item	741	567	30.6	779	-4.9
Tax	179	267		235	
Tax (%)	24.1	47.1		30.2	
<b>PAT</b>	<b>562</b>	<b>300</b>	<b>87.3</b>	<b>543</b>	<b>3.5</b>
Minority interest	46	5		48	
Share of profit of associates	104	123		103	
<b>Net profit</b>	<b>621</b>	<b>418</b>	<b>48.6</b>	<b>597</b>	<b>3.9</b>
Other comprehensive income	200	442		292	
Total income	820	860	-4.6	890	-7.8
Equity Capital	306	306		306	
Face Value (In Rs)	2	2		2	
<b>EPS (Rs)</b>	<b>4</b>	<b>2.7</b>	<b>48.6</b>	<b>3.9</b>	<b>3.9</b>

Source: Company

## Revenue in line with our estimates

High Street Phoenix: During Q2FY19, High Street Phoenix has registered 18% YoY improvement in rental income while average trading density was flat YoY at Rs 2729 per sq ft per month. Current average rentals improved 8% YoY and stand at nearly Rs 378 per sq ft per month (vs Rs 351 per sq ft per month during Q2FY18) as the new lease deals have significantly higher minimum guarantee than the current mall average. Positive impact of North Sky zone and new F&B outlets has started contributing towards improvement in rental income.

## Market cities

- **Chennai market city:** For the quarter, Chennai market city revenues grew by 6% YoY and were led by 10% YoY improvement in rental income. Rentals per sq ft were up by 7% YoY at Rs 136 per sq ft per month. Consumption was up 6% for Q2FY19 as category changes in the retail mix had a positive impact on the rental income of the company. However, these revenues are not included in the consolidated financials.
- **Bengaluru market city** revenues have witnessed an increase of 9% YoY with 11% YoY improvement in rental income. Trading density was flat but consumption has moved up by 5% YoY after getting impacted during Q1FY19 due to state elections and commencement of metro construction near the property. Rentals per sq ft for Bengaluru market city were up by 3% YoY at Rs 118 per sq ft per month.
- **Kurla market city:** Kurla market city has continued with strong performance during Q2FY19. Consumption (up 27% YoY) and trading density (up 24% YoY) have witnessed a healthy improvement for Kurla market city and rentals have also witnessed an improvement of 8% YoY. Company is confident about further improvement in rental income from Kurla market city going forward.
- **Pune market city:** Pune market city has seen 4% improvement in revenues led by 16% improvement in rental income. Trading density is up by 13% YoY and rentals per sq ft for Pune market city were up by 11% YoY.

**Renewals expected going forward:** Out of the total lease renewals, nearly 60% of High Street Phoenix and Palladium in Mumbai and PMC Pune and 51% of PMC Mumbai are likely to come for renewals between FY19-21. High Street Phoenix and Palladium has 19%/25%/16% renewals expected in FY19/20/21 respectively. Pune market city is likely to see 17%/19%/24% lease renewals during Fy19/20/21 respectively while Kurla market city is likely to see 11%/8%/32% lease renewals during Fy19/20/21 respectively. Bangalore market city lease renewals for nearly 3%/6%/27% of the area are likely to come during FY19/FY20/21 respectively while for Chennai market city, lease renewals of 5%/2%/18% are likely to come during FY19/20/21 respectively. These renewals are likely to aid rental growth for the company.

**Commercial and residential portfolio:** For One-Bangalore West, it commenced hand over for flats for Towers 1-5. For Chennai (Crest), construction has been completed for Tower A,B,C and Occupancy certificate has been received. Commercial portfolio comprises of Phoenix House, Art Guild, Phoenix Paragon Plaza, Centrium with 85% of available area leased out to Tier 1 clients. Company plans to add to the existing commercial portfolio on account of future development of additional available FSI at Pune, Bangalore, Chennai. Current leasable area stands at 1.16 mn sq ft.

**Hotels portfolio** – Q2FY19 room occupancy at St Regis, Mumbai stood at 76% at an ARR of Rs. 11405 while room occupancy at Courtyard by Marriott, Agra stood at 65% at an ARR of Rs 3811. Company plans to consolidate ownership at Courtyard by Marriott, Agra and merge asset with Palladium Construction to optimize taxation structure, reduce debt and improve operating efficiencies.

**Portfolio under development** - The total under development retail leasable portfolio has moved up to 4.6mn sq ft. Along with the development potential of 4.6mn sq ft, these assets have an additional leasable potential of 3.3-3.4 mn sq ft to be developed over long term. Company envisages Rs 45 bn of capex to be spent to develop these assets over next 3-4 years – out of which, it has already spent Rs 20 bn on land acquisition cost and remaining Rs 25 bn is to be spent over 3-4 years with a mix of debt of Rs 22 bn and equity of Rs 3 bn. Once these assets become operational, it expects a total rental income of Rs 5.6 bn on stabilization of these assets.

### Portfolio under development

MALL PORTFOLIO (4.60 MSF)		
Phoenix MarketCity Wakad	Pune	1.0
Phoenix MarketCity Hebbal	Bengaluru	1.0
Phoenix MarketCity	Indore	1.1
Phoenix MarketCity	Lucknow	0.9
Phoenix Mall	Ahmedabad	0.6

OFFICE PORTFOLIO ( 1.12 MSF)		
Phoenix MarketCity, Pune (Viman Nagar)	Pune	0.7
Phoenix MarketCity	Chennai	0.42

Source: Company

### Status of under-development portfolio

Project	Partnership / owned	Remarks
Wakad Pune	ISML – alliance with CPPIB (PML stake: 51%)	Construction expected to commence in Q4FY19. Update on Approvals: Environment clearance (EC) is currently in final stage; Consent To Establish (subject to EC approval) has already been obtained.
Hebbal Bengaluru		Construction expected to commence in Q4FY19. Update on Approvals: Environment clearance & BDA approval already in place. Await BBMP approval to commence construction.
Indore		Construction expected to commence in Q4FY19 Update on Approvals: Revalidation of previous approvals in process
Lucknow	100% owned	Construction is in progress, all requisite approvals are current & in place and the mall is expected to commence operations in H2 FY20
Thaltej Ahmedabad	50:50 alliance with BSafal group	Construction expected to commence in Q4FY19 Currently under design development and approval process.

Source: Company

For office portfolio, Fountain Head Pune – 74% of Leasable area of 0.16 mn sq ft has been leased and revenue generation is expected to commence from Q4FY19 from Tower 1. For Tower 2 and 3, construction is likely to commence from Q4FY19.

### Net profit performance ahead of our estimates

Operating margins improved on YoY basis but were impacted by fit outs going on at HSP which led to lower CAM charges. Average interest rate of debt has come down YoY with refinancing as well as rating improvements but sequentially it has now started to move up. Consolidated debt moved up sequentially at Rs 45.15bn with Rs 42.48 bn coming from operational portfolio and Rs 2.6 bn from under-development portfolio.

We maintain our estimates and expect net profits to grow at a CAGR of 14.5% between FY18-20.

### Valuation and recommendation

At current price of Rs 601, stock is trading at 33.6x and 29.3x P/E and 14.4x and 13.4x EV/EBITDA on FY19/20 consolidated estimates respectively. We continue to remain positive on the company and maintain our price target of Rs 707 on FY20 estimates. Maintain BUY.

#### Sum of the parts valuation (FY20E)

	Phnx Stake (%)	Area (mn sq ft)	Value (Rs mn)	Per share
<b>High Street Phoenix</b>	<b>100%</b>	<b>0.9</b>	<b>56,039</b>	<b>367</b>
<b>Phase IV @ HSP</b>	<b>100%</b>	<b>0.25</b>	<b>7,000</b>	<b>46</b>
<b>Market cities</b>				
Pune	100.00%	1.19	7,517	49
Kurla	100.00%	1.11	3,597	24
Bangalore(East)	100.0%	0.98	10,339	68
Chennai	50.00%	1	6,680	44
Bangalore(W)-Residential	100%	1.8	3,562	23
<b>CPPIB</b>	<b>51%</b>	<b>1x</b>	<b>16,620</b>	<b>55</b>
<b>Phoenix United</b>	<b>100%</b>		<b>1,203</b>	<b>8</b>
<b>Hospitality</b>	<b>73%</b>		<b>3,716</b>	<b>24</b>
<b>Total</b>				<b>707</b>

Source: Kotak Securities – Private Client Research

### Company background

Phoenix mills is a key developer and manager of prime retail-led assets in city centers, with a gross portfolio of 17.5 million sq. ft spread over 100+ acres of prime land in key gateway cities of India. It has 8 Malls spread over 6 mn ft in 6 major cities along with commercial centres in Mumbai with rent generating leasable area of 1.16 mn sq ft. Residential projects under development have 3.72 mn sq ft of saleable area. It also has 2 Hotel (588 Keys) managed by renowned global operators in its portfolio.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>18,246</b>	<b>16,198</b>	<b>17,755</b>	<b>18,684</b>
% change YoY	3.0	(11.2)	9.6	5.2
<b>EBITDA</b>	<b>8,469</b>	<b>7,774</b>	<b>8,645</b>	<b>9,254</b>
% change YoY	8.0	(8.2)	11.2	7.0
Other Income	472	556	556	556
Depreciation	1,953	1,983	2,258	2,370
<b>EBIT</b>	<b>6,988</b>	<b>6,347</b>	<b>6,943</b>	<b>7,440</b>
% change YoY	9.0	(9.2)	9.4	7.2
Net interest	4,230	3,476	3,650	3,601
Extra ord exp	-	-	-	-
Profit before tax	2,758	2,871	3,294	3,839
% change YoY	74.0	4.1	14.7	16.6
Tax	858	758	856	998
as % of PBT	31.1	26.4	26.0	26.0
<b>Profit after tax</b>	<b>1,900</b>	<b>2,113</b>	<b>2,437</b>	<b>2,841</b>
Minority interest & associates	(10)	(308)	(308)	(308)
Adjusted Net income	1,910	2,422	2,746	3,149
% change YoY	128.0	26.8	13.4	14.7
Shares outstanding (m)	153.1	153.1	153.1	153.1
<b>EPS (reported) (Rs)</b>	<b>12.5</b>	<b>15.8</b>	<b>17.9</b>	<b>20.6</b>
CEPS (Rs)	25.2	28.8	32.7	36.0
DPS (Rs)	2.4	2.6	2.6	2.6

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	6,997	6,656	7,252	7,749
Depreciation	1,953	1,983	2,258	2,370
Change in working capital	5,309	2,891	(2,116)	(368)
Chgs in other net current assets (721)	6,052	478	-	-
Operating cash flow	13,539	17,581	7,873	9,751
Interest	(4,230)	(3,476)	(3,650)	(3,601)
Tax	(858)	(758)	(856)	(998)
<b>Cash flow from operations</b>	<b>8,451</b>	<b>13,347</b>	<b>3,366</b>	<b>5,152</b>
Capex	(3,181)	(15,027)	(2,500)	(4,500)
(Inc)/decrease in investments	(2,920)	(3,931)	2,700	2,700
<b>Cash flow from investments (6,101) (18,958) 200 (1,800)</b>				
Proceeds from issue of equity	0	-	-	-
Increase/(decrease) in debt	(2,894)	5,689	(2,700)	(3,500)
Proceeds from share premium	131	-	-	-
Dividends	(405.2)	(442.3)	(479.4)	(479.4)
<b>Cash flow from financing (3,168) 5,247 (3,179) (3,979)</b>				
Opening cash	1,631	812	449	836
<b>Closing cash</b>	<b>812</b>	<b>449</b>	<b>836</b>	<b>208</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	812	449	836	208
Accounts receivable	1,470	1,292	1,514	1,593
Inventories	9,455	6,615	8,807	9,269
Loans and Adv & Others	3,671	3,730	3,794	3,817
Current assets	15,408	12,086	14,950	14,887
Other non current assets	1,127	1,997	1,997	1,997
LT investments	5,260	9,191	6,491	3,791
Net fixed assets	48,656	61,700	61,942	64,072
<b>Total assets</b>	<b>70,452</b>	<b>84,973</b>	<b>85,380</b>	<b>84,746</b>
Payables	3,449	3,381	3,743	3,939
Others	1,926	1,396	1,396	1,396
Current liabilities	5,375	4,777	5,139	5,335
Provisions	843	1,101	1,580	1,580
LT debt	36,669	42,359	39,659	36,159
Min. int and def tax liabilities	5,693	8,219	8,219	8,219
Equity	306	306	306	306
Reserves	21,566	28,211	30,477	33,147
<b>Total liabilities</b>	<b>70,452</b>	<b>84,973</b>	<b>85,380</b>	<b>84,746</b>
BVPS (Rs)	143	186	201	218

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	46.4	48.0	48.7	49.5
EBIT margin (%)	38.3	39.2	39.1	39.8
Net profit margin (%)	10.5	15.0	15.5	16.9
Receivables (days)	42.6	31.1	31.1	31.1
Inventory (days)	227.0	181.1	181.1	181.1
Sales/assets(x)	0.4	0.3	0.3	0.3
Interest coverage (x)	1.7	1.8	1.9	2.1
Debt/equity ratio(x)	1.8	1.6	1.4	1.2
ROE (%)	9.1	9.6	9.3	9.8
ROCE (%)	10.6	8.9	8.8	9.5
EV/ Sales (x)	6.8	7.7	7.0	6.7
EV/EBITDA (x)	14.5	16.1	14.4	13.4
Price to earnings (x)	48.5	38.1	33.6	29.3
Price to book value (x)	4.2	3.2	3.0	2.8
Price to Cash Earnings (x)	24.0	21.0	18.4	16.7

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	14043
52-wk Hi/Lo (Rs)	:	465 / 176
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	138,185
Shares o/s (mn)	:	72.7

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	14,563	15,316	16,943
Growth (%)	7.5	5.2	10.6
EBITDA	1,053	1,378	1,694
EBITDA margin (%)	7.2	9.0	10.0
PAT	546	720	1,032
EPS (Rs)	7.5	9.9	14.2
Growth (%)	-41.7	31.8	43.3
BV (Rs/share)	47	55	68
Dividend/share (Rs)	1.5	1.5	1.5
ROE (%)	17.2	19.3	23.0
ROCE (%)	12.5	13.7	13.0
P/E (x)	25.1	19.1	13.3
EV/EBITDA (x)	14.8	11.3	9.2
P/BV (x)	4.0	3.4	2.8

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	44.4	44.0	44.0
FII	14.2	16.2	17.1
DII	19.5	14.6	15.1
Others	21.7	25.2	23.8

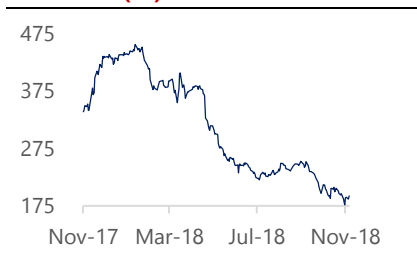
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Eveready Ind	(4.8)	(22.4)	(35.7)
Nifty	1.9	(7.7)	(1.0)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Ruchir Khare

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## EVEREADY INDUSTRIES INDIA LTD (EIL)

PRICE Rs.189

TARGET Rs.310

BUY

EIIL Q2FY19 PAT outperformed our estimates, company posted operating margin higher than our estimate driven by lower employee cost. Q2FY19 revenue estimate was largely in line with our estimates. We believe that most of the challenges are close to get sorted and situation across verticals have largely stabilized now signaling bottoming out of margins.

### Key Highlights

- EIIL reported revenue decline of 3.7% y/y, reported at Rs 3.8 Bn in Q2FY19 due to marginally weaker sales in lighting/battery segments.
- On normalized basis, company has maintained operating margins on y/y basis.

### Valuation & outlook

Broadly maintain FY19/20 forecasts (tweak FY20 margin to build higher distribution cost) and DCF assumptions, we recommend 'BUY' with revised target price of Rs 310 (Rs 322 earlier).

### Quarterly performance

Rs mn	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
<b>Income from Operations</b>	<b>3835</b>	<b>3983</b>	<b>(3.7)</b>	<b>3833</b>	<b>0.0</b>
Decrease/ (Increase) in stock	146	465		(59)	
Material consumed	1401	1327	5.6	1331	5.3
Purchase of traded goods	856	698		1110	(22.9)
Employee expenses	361	420	(13.9)	424	(14.8)
Other expenses	659	602	9.5	679	(2.9)
Total Expenses	3424	3511	(2.5)	3485	(1.8)
<b>EBITDA</b>	<b>412</b>	<b>471</b>	<b>(12.7)</b>	<b>348</b>	<b>nm</b>
Other income	93	128	(27.8)	37	150.0
Depreciation	56	48	18.3	53	6.8
<b>EBIT</b>	<b>448</b>	<b>552</b>	<b>(18.9)</b>	<b>333</b>	<b>34.6</b>
Finance cost	127	71	79.6	97	
Exceptional Items	0	1		0	
<b>PBT</b>	<b>321</b>	<b>481</b>	<b>(33.3)</b>	<b>236</b>	<b>36.0</b>
Total tax	74	118	(37.1)	52	41.2
PAT	247	364	(32.1)	184	34.5
Adjusted PAT	247	364	(32.1)	184	34.5
<b>Adj. EPS (Rs)</b>	<b>3.4</b>	<b>5.0</b>	<b>(32.1)</b>	<b>2.5</b>	<b>34.5</b>
EBITDA (%)	10.7	11.8		9.1	
Tax Rate (%)	23.1	24.4		22.2	
RM/Sales	62.7	62.5		62.1	

Source: Company, Kotak-PCG Research

### Result Highlights

#### Core business shows stability in 1HFY19; consumer appliances business is expected to drive future growth for the company

EIIL reported revenue decline of 3.7% y/y, reported at Rs 3.8 Bn in Q2FY19 due to marginally weaker sales in lighting/battery segments. Battery business reported slight y/y drop in sales in Q2FY19 (on the high base of Q2FY18 driven by GST implementation); however management sounded confident that the import of



cheap Chinese batteries should get obviated by implementation of BIS standards. We believe that the margins too have bottomed out in the battery segment and EIL would likely benefit from soft Zinc prices going ahead.

Management highlighted that the benign zinc prices have had a positive impact of c. Rs 200 mn which has been undermined to the extent of Rs 50 mn by the INR depreciation in the quarter. We note that the Zinc prices have softened in the recent past and if the trend continues then there could be a positive impact of 100-120 bps at EBITDA level going ahead.

**Flashlight business** was flat y/y on the high base of Q2FY19. We believe that this should be viewed in light of substantial re-stocking in Q2FY18 in trade channels post GST implementation in July 2017. We note that the flashlight business is dominated by the unorganized sector. Being the market leader in the organized space, EIL could potentially benefit immensely going ahead, as more and more such unorganized players come under GST net.

**Lighting division** reported muted sales growth due to 1/ continuous fall in the LED bulb prices, 2/ high base of Q2FY18 and 3/ supply related issues from one of the company's suppliers, affecting luminaire sales in the quarter. However, management sounded confident about sales/margin improvement in the lighting business driven by luminaire and professional lighting business.

**Appliances business** reported robust sales growth at Rs 264 mn in Q2FY19 vis-à-vis Rs 200 mn in Q2FY18. EIL reported EBITDA loss of Rs 58 mn in the appliances segment (slightly higher than our estimate, however we expect this to reverse in 2HFY19). We note that the consumer appliances segment is still in the built-up phase and expansion/promotion related costs continues to outgrow revenues. Management has guided for reducing losses in consumer appliances business by Rs 70-80 mn in FY19. The distribution base has been constantly growing taking company's reach to over 15000 outlets currently. Management believes that the consumer appliances business has the potential to grow revenues to c. Rs 3 Bn (with 10% EBITDA margin) in the next three to four years and expects to break-even in FY20.

**Operating margin** contracted to 10.7% in Q2FY19 vis-à-vis 11.8% in Q2FY18. However we note that Q2FY18 reported financials includes a one time benefit of Rs 69 mn on account of GST credit which is not available in Q2FY19. On normalized basis, company has maintained operating margin on y/y basis.

**EBITDA margin** was also aided by c.14% y/y reduction in employee expenses, (reported at Rs 361.2 mn in the quarter) on account of savings ascertained by closure of its Chennai plant and moved to Assam plant. The Chennai plant closure would likely result in the annualized savings of c. Rs 150 mn going ahead. Battery business reported sales of c.4 Bn (flat y/y) in 1HFY19 and EBITDA margin expanded to 17% from 13.2% on y/y basis.

**Advertising expense** came down to c.3.5% of sales in Q2FY19 against c. 5% of sales in Q1FY19. Management stated that the higher promotional expense are in line with the factors necessitated to upscale new categories-appliances and lighting. Management expect advertising expenses to be maintained at c.4%-4.5% of sales in subsequent quarters.

**Finance cost** increased by 79% y/y to Rs 127 mn in the quarter due to 1/ increased working capital requirement in the quarter and 2/ increased borrowings which in turn is utilized for investment in ICDs on which EIL earns interest (resulting in subsequent increase in other income). Tax expense reported at Rs 74 mn (23% of PBT) vis-à-vis Rs 118 mn (24.4% of PBT) in Q2FY18 resulted in the PAT of Rs 247 mn in the quarter.

**EIIL is set to enter the FMCG space in JV with Indonesia based Universal Wellbeing Pte. Ltd; it also eyes opportunity in confectionary market in the fruit chew segment with its 'Jollies' brand**

In FY18, EIIL had announced entering into 30% JV with Indonesia based Universal Wellbeing Pte. Ltd to enter into FMCC market. Universal Wellbeing Pte. Ltd (UWL) is one of the leaders in the FMCG market in South East Asia with active presence in several countries. It develops, manufactures and sells a wide variety of products in household and personal care.

As per management, EIIL has strategized to distribute UWL products in India leveraging on its vast distribution network. EIIL distribution network consists of over 4000 dealers providing access to 3.5 mn outlets (including grocery stores).

EIIL had also entered into the confectionary market in the fruit chew segment with its 'Jollies' brand. As per management, fruit chew market has been less cluttered and is pegged at Rs 4-5 Bn and has been growing at 17-18% per year. Competitive landscape includes players like ITC (Candyman and Mint-o brands) Falero and Alpenliebe (brand Juzt Jelly).

As per management, fruit chew is a high gross margin business (similar to other business areas of the company) and could potentially clock Rs 350 mn in FY19 and further grow to Rs 1 Bn by FY20. EIIL aims at attaining pan India reach of Jollies in 2HFY19.

**CCI imposed penalty on EIIL along with other key industry players for colluding to fix prices of zinc-carbon dry cells; we view this as a clear and present threat to the company**

EIIL stock price suffered a significant drop in last one month following the announcement from the CCI (Competition Commission of India) to impose penalty (in Sou Moto case) on Eveready, Nippo (Indo-National and Association of Indian Dry Cell Manufacturers (AIDCM) for colluding to fix prices of zinc-carbon dry cell batteries in India.

CCI notice alleged that the anti-competitive practices were being carried out from 2008 till August 23, 2016, the date of search and seizure operations by the Director General of CCI.

The quantum of penalty has been fixed at Rs 1.72 Bn (c.2x of FY17 reported PAT) for EIIL which in our view, could have a sizable negative impact on company's balance sheet.

EIIL has appealed and got a stay order on this order from NCLAT (National Company Law Appellate). It has made a deposit of 10% of the penalty amount with NCLAT and awaits further directions in this regards.

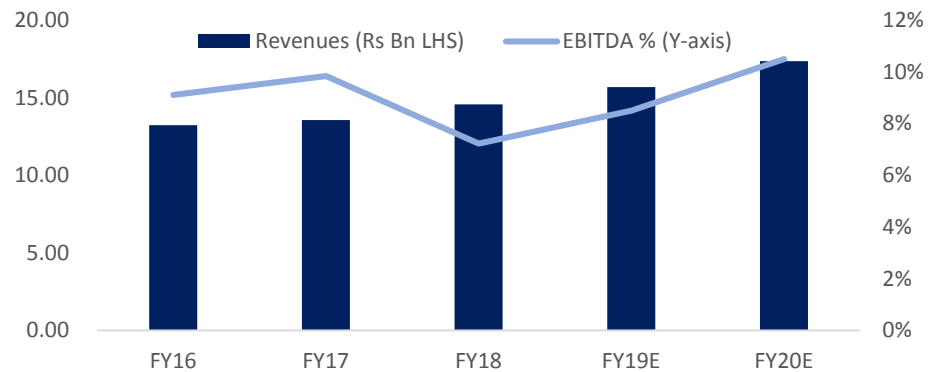
**We maintain FY19/20 estimates; expect costs overheads to normalize from 2HFY19 onwards**

Following our interaction with the management, we broadly maintain our FY19/FY20 earnings estimate. We project revenue growth at 7.8% CAGR between FY18-20 from Rs.14.5 Bn in FY18 to Rs 16.9 Bn in FY20E largely driven by the consumer appliance segmented supported by deeper penetration and lower base.

We expect EBITDA margin to start recovering in 2HFY19 due to increased volumes in the core business and normalization in costs overheads in the appliances/confectionary business. However tweak FY20 EBITDA margin

downwards to build higher distribution cost in the consumer business. Overall, in our projections, we build EBITDA margin at 9% and 10% in FY19E and FY20E respectively.

#### Revenues (Rs bn) / EBITDA (%)



Source: Company, Kotak Securities – Private Client Research

We note that the company owns certain non-strategic real estate assets, spread all across India which it can look to monetize and cover any such unforeseen liability (related to CCI). This would also aid reduction in company borrowings going ahead.

#### Valuation and recommendation

Broadly maintain FY19/20 forecasts (tweak FY20 margin estimate to build higher distribution cost) and DCF assumptions, we recommend 'BUY' with revised target price of Rs 310 (Rs 322 earlier).

#### Company background

Eveready Industries India Ltd (EIIIL) is market leader in Indian batteries industry, commanding c.55% market share in batteries and holding c.75% market share in India's organized flashlight market. EIIIL became part of the Williamson Magor Group in 1993. Founded in 1869, the Williamson Magor Group, gradually progressed to become the world's largest tea producer (McLeod Russel India Limited) and diversified into consumer goods, engineering and construction, emerging as a multi-business enterprise with a turnover of Rs. 50 Bn. The Group is headquartered in Kolkata and has expanded its operations worldwide through its subsidiaries. Mr. Amritanshu K. Khaitan, has been the Managing Director of Eveready Industries India Limited since May 5, 2014. Under his leadership, company has undergone incessant transition in terms of diversifying itself into other segments like small home appliances and lighting businesses.

EIIIL activities are spreads mainly across five areas-1/Batteries 2/ Flashlights, 3/ Lighting & electrical products, 4/ Small home appliances and 5/ Packet tea.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>13,552</b>	<b>14,563</b>	<b>15,316</b>	<b>16,943</b>
% change yoy	2.4	7.5	5.2	10.6
<b>EBITDA</b>	<b>1,333</b>	<b>1,053</b>	<b>1,378</b>	<b>1,694</b>
% change yoy	10.6	(21.0)	30.9	22.9
Depreciation	149	193	200	230
<b>EBIT</b>	<b>1,184</b>	<b>860</b>	<b>1,178</b>	<b>1,464</b>
% change yoy	11.3	(27.3)	37.0	24.3
Net Interest	232	287	438	359
Earnings Before Tax	1,047	771	960	1,376
% change yoy	24.7	(26.4)	24.6	43.3
Tax	111	225	240	344
as % of EBT	10.6	29.1	25.0	25.0
XO Items	0	0	0	0
<b>Recurring PAT</b>	<b>936</b>	<b>546</b>	<b>720</b>	<b>1,032</b>
% change yoy	68.4	(41.7)	31.8	43.3
Shares outstanding (m)	72.7	72.7	72.7	72.7
<b>EPS (Rs)</b>	<b>12.9</b>	<b>7.5</b>	<b>9.9</b>	<b>14.2</b>
DPS (Rs)	1.0	1.5	1.5	1.5
CEPS	14.9	10.2	12.7	17.4

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	1,047	771	960	1,376
Depreciation	149	193	200	230
Current liabilities incl provisions	242	1,436	(789)	(0)
inc in inventory	(469)	(158)	(121)	(446)
inc in sundry Debtors	(133)	(368)	(53)	(134)
inc in advances	289	(822)	-	-
Tax Paid	(111)	(225)	(240)	(344)
Other Adjustments	(178)	(531)	262	(89)
<b>Net cash from operations</b>	<b>836</b>	<b>297</b>	<b>219</b>	<b>592</b>
Purchase of fixed Assets	(1,271)	(413)	(400)	(430)
Net investments	-	-	-	-
Other investment activities	238	42	(1500)	0
<b>Net cash from investing</b>	<b>(1,033)</b>	<b>(371)</b>	<b>(1,900)</b>	<b>(430)</b>
Change in Borrowings	289	216	2,096	-
Dividend Paid	(88)	(131)	(131)	(131)
<b>Net Cash from financing</b>	<b>201</b>	<b>85</b>	<b>1,965</b>	<b>(131)</b>
<b>Cash at the end of year</b>	<b>31</b>	<b>41</b>	<b>325</b>	<b>356</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	31	41	325	356
Accounts receivable	839	1,206	1,259	1,393
Loans & advances	74	896	896	896
Inventories	2,843	3,001	3,122	3,568
Other current assets	409	1,101	839	928
<b>Current Assets</b>	<b>4,165</b>	<b>6,204</b>	<b>6,116</b>	<b>6,785</b>
Investments	27	27	1,527	1,527
Net fixed assets	3,312	3,532	3,732	3,932
Other non-current assets	521	500	500	500
<b>Total Assets</b>	<b>8,056</b>	<b>10,304</b>	<b>12,199</b>	<b>13,100</b>
Debt	1,672	1,888	3,984	3,984
Equity & reserves	2,895	3,443	4,032	4,933
Other non-current liabilities	117	166	166	166
Current Liabilities	3,372	4,808	4,018	4,018
<b>Total Liabilities</b>	<b>8,056</b>	<b>10,304</b>	<b>12,200</b>	<b>13,101</b>
BVPS (Rs)	40	47	55	68

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	9.8	7.2	9.0	10.0
EBIT margin (%)	8.7	5.9	7.7	8.6
Net profit margin (%)	6.9	3.8	4.7	6.1
Adjusted EPS growth (%)	68.4	(41.7)	31.8	43.3
Receivables (days)	22.6	30.2	30.0	30.0
Inventory (days)	123.9	121.2	120.0	125.0
Sales / Net Fixed Assets (x)	4.9	4.3	4.2	4.4
Interest coverage (x)	5.1	3.0	2.7	4.1
Debt/ equity ratio	0.6	0.5	1.0	0.8
ROE (%)	37.8	17.2	19.3	23.0
ROCE (%)	26.1	12.5	13.7	13.0
EV/ Sales	1.1	1.1	1.0	0.9
EV/EBITDA	11.7	14.8	11.3	9.2
Price to earnings (P/E)	14.7	25.1	19.1	13.3
Price to book value (P/B)	4.7	4.0	3.4	2.8
Price to cash earnings	12.7	18.6	14.9	10.9

Source: Company, Kotak Securities – Private Client Research

## Result Update

# CENTURY PLYBOARDS LTD

### Stock Details

Market cap (Rs mn)	:	38092
52-wk Hi/Lo (Rs)	:	364 / 150
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	321,639
Shares o/s (mn)	:	222

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	19,672	22,628	26,735
Growth (%)	15.0	15.0	18.1
EBITDA	3,061	3,462	4,197
EBITDA margin (%)	15.6	15.3	15.7
Net profit	1,561	1,794	2,243
EPS (Rs)	7.0	8.1	10.1
Growth (%)	(6.0)	14.9	25.0
BVPS (Rs)	37.7	44.5	53.4
DPS (Rs)	1.0	1.0	1.0
ROE (%)	20.2	19.6	20.6
ROCE (%)	16.5	18.7	21.9
P/E (x)	24.4	21.2	17.0
EV/EBITDA (x)	14.0	12.3	10.0
P/BV (x)	4.5	3.8	3.2

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	72.3	72.0	72.0
FII	10.0	11.4	11.2
DII	5.2	3.8	4.9
Others	12.6	12.8	12.0

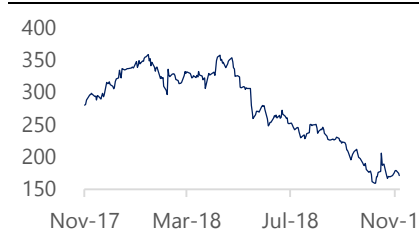
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Century Plyboards	6.0	(29.4)	(44.2)
Nifty	2.1	(7.5)	(0.8)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Teena Virmani

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PRICE Rs.175

TARGET Rs.232

BUY

Century Plyboard results were lower than our estimates. Growth in revenues was largely led by volume gains in plywood while laminate division volumes declined on YoY basis. MDF plant volumes also declined sequentially due to pricing pressures. MDF plant had commissioned during Q3FY18 and is likely to witness improved capacity utilization going forward. The volume gain in plywood segment was offset to some extent by volume decline and pricing pressure in commercial veneer. Pricing and margin pressure continued in MDF during Q2FY19 also owing to increased competition. We believe that growth going ahead is likely to be led by volume gains in each segment.

### Key highlights

Revenue growth of 18.9% YoY was marginally below our estimates and margins have declined due to pressure on MDF realization and sharp decline in MDF division margins as well as forex losses. Interest costs are higher due to some proportion of forex loss being treated as borrowing cost. This led to net profits coming below our estimates.

### Valuation and outlook

At Rs 175, stock is currently trading at 21.2x/17x P/E and 12.3x/10x EV/EBITDA on FY19/20 estimates. We revise our estimates to factor in lower revenues and margins in MDF. We also revise our valuation multiple downwards to factor in continued challenges in MDF pricing as well as slower than expected compliance towards e-way implementation. We arrive at a revised price target of Rs 232 based on 23x FY20 estimated earnings (as against Rs 323 based on 27 x FY20 estimated earnings earlier). We continue to maintain BUY recommendation on Century Plyboards as we believe that with increase compliance towards e-way bill implementation, volumes in plywood and laminate are likely to witness improvement.

### Financial highlights

(Rs mn)	Q2FY19	Q2FY18	YoY	Q1FY19	QoQ
<b>Net Sales</b>	<b>5644.4</b>	<b>4745.5</b>	<b>18.9%</b>	<b>5372.5</b>	<b>5.1%</b>
Total Expenditure	4902.1	4005.1	22.4%	4507.1	8.8%
<b>EBITDA</b>	<b>742.3</b>	<b>740.4</b>	<b>0.3%</b>	<b>865.4</b>	<b>-14.2%</b>
EBITDA margins %	13.2%	15.6%		16.1%	
Depreciation	112.6	138.2		108.3	
<b>EBIT</b>	<b>629.7</b>	<b>602.2</b>	<b>4.6%</b>	<b>757.1</b>	<b>-16.8%</b>
Interest	155.0	79.2		134.5	
EBT (Exc other income)	474.7	523.0	-9.2%	622.6	-23.8%
Other operating income	10.0	6.2		5.8	
Other Income	0.0	0.0		0	
<b>EBT</b>	<b>484.7</b>	<b>529.2</b>	<b>-8.4%</b>	<b>628.4</b>	<b>-22.9%</b>
Tax	106.5	127.8		174.7	
Tax (%)	22.0%	24.2%		27.8%	
Profit After Tax	378.2	401.3	-5.8%	453.7	-16.6%
Other comprehensive inc/(loss)	0.4	-1.6		-1.3	
<b>Net profit</b>	<b>378.6</b>	<b>399.8</b>		<b>452.4</b>	
Equity Capital	222.53	222.53		222.53	
Face Value (In Rs)	1	1		1	
<b>EPS (Rs)</b>	<b>1.7</b>	<b>1.8</b>	<b>-5.3%</b>	<b>2.0</b>	<b>-16.3%</b>

Source: Company

### **Revenue growth impact by increased competition in MDF**

Revenue growth of 18.9% YoY was marginally below our estimates. Growth in revenues was largely led by volume gains in plywood while laminate division volumes declined on YoY basis. MDF plant volumes also declined sequentially due to logistical bottlenecks as well as pricing pressures. Plywood realizations have started improving on a sequential basis as company has taken price hikes in May 2018. For Q2FY19, plywood volumes were up by 13% YoY and realization has improved by 2% YoY. Laminate volumes for Q2FY19 were down by 4% while realizations were up by 4% YoY. MDF volumes were down by 12% QoQ (since plant was commissioned in Q3FY18 itself) while realization is down by 6% QoQ.

**Plywood** division volumes have improved by 13% YoY and is in line with the management's guidance of 14-15% growth for full year FY19. Company had taken price hikes during Q2FY19 which is reflected in improved realization by 2% YoY for plywood. However, commercial veneer volumes and realizations declined sharply during the quarter. Company had introduced a new range which caters to the category between premium and Sainik brand and is going to continue to target the mid-segment which is currently driving the volumes. Going ahead also, company expect plywood volumes to grow by 14-15% for FY19 largely in the mid and lower segment category.

**Laminate division** volumes have shown healthy growth sequentially but declined on yearly basis. Company expects volumes to grow going forward with incremental volumes from new expansion. Going ahead, company expects 10-15% growth in laminate volumes with commissioning of additional lines.

**MDF** - MDF plant had commenced commercial production from Q3FY18 and during Q2FY19 company sold 23006 CBM (down 12% QoQ) at an average realization of Rs 21294 per CBM. MDF realizations are continuously under pressure due to commissioning of capacities from various players. Company has mentioned that due to increased competition, it had reduced prices by 3-4% sequentially during Q2FY19. which is reflected in lower realization and lower margins during H1FY19. Going ahead, we expect the capacity utilization to move up (as it moved up to 90% in October as against 57% in Q2FY19) while company has maintained the margin guidance of 15%. In last 1-1.5 years, the MDF capacity in the industry has more than doubled which makes it very difficult for producers to hike prices going forward.

We revise our estimates to factor in lower than expected performance of MDF division and expect overall revenues to grow at a CAGR of 16.5% between FY18-20.

### **Operating margins impacted by pricing pressure and forex losses**

Operating margins declined to 13.2% for Q2FY19 as compared to 15.6% in Q2FY18. Margin decline was witnessed across all divisions. Margin decline in plywood division is led by steep fall in commercial veneer realization as commercial veneer supplies are coming from Solomon island which have lower realizations. Laminate division margins declined sequentially as well as on yearly basis due to higher raw material cost such as melamine, phenol, paper which is not fully passed on. Going forward, laminate margins should improve as per the management.

MDF margins dropped sharply and stood at 6% during the quarter due to continued pressure on realizations. Realizations of the company for the quarter stood at Rs 22618 per CBM. MDF margins were impacted due to price cuts taken by competition. Company expects margins to improve to 15% in the MDF segment led by improvement in capacity utilization. We however lower our

estimates for MDF margins and expect margins of 12%/15% for FY19/FY20 respectively.

Forex losses on unhedged borrowings also impacted margins during the quarter. Out of the total forex loss of Rs 108.2 mn, Rs 28.6 mn is taken from EBITDA while Rs 79.6 mn is treated as borrowing cost. Now the entire borrowing is fully hedged and no more forex losses are expected.

We revise our estimates to factor in lower margins in MDF and expect margins of 15.3%/15.7 % by FY19/20 respectively. (earlier assumption of 16%/15.9% by FY19/20 respectively)

### **Net profit performance impacted by lower margins and forex losses**

Net profit performance was lower than our estimates due to lower than expected margins and forex losses. Tax rate is in line with management's guidance. For the full year, company expects the tax rate to be around MAT ie 21-22%. Company has an exposure of Rs 2.09 bn in various currencies including ECB, buyers credit, working capital and due to rupee depreciation during the quarter, forex loss stood at Rs 108.2 mn. Out of this, Rs 79.6 mn has been treated as borrowing cost while remaining Rs 28.6 mn is taken off from EBITDA. Company is continuously trying to reduce the exposure to reduce forex losses and has fully hedged its borrowings.

We tweak our estimates to factor in lower MDF margins and expect net profits to grow at a CAGR of 20% between FY18-20. (earlier expectation of CAGR of 30% between FY18-20)

### **Valuation and outlook**

At Rs 175, stock is currently trading at 21.2x/17x P/E and 12.3x/10x EV/EBITDA on FY19/20 estimates. We revise our estimates to factor in lower revenues and margins in MDF. We also revise our valuation multiple downwards to factor in continued challenges in MDF pricing as well as slower than expected compliance towards e-way implementation. We arrive at a revised price target of Rs 232 based on 23x FY20 estimated earnings (as against Rs 323 based on 27 x FY20 estimated earnings earlier). We continue to maintain BUY recommendation on Century Plyboards as we believe that with increase compliance towards e-way bill implementation, volumes in plywood and laminate are likely to witness improvement.

### **Company background**

Century plyboards is a leading player in plywood and laminate segment. In order to cater to varied customer preferences, companies have widened their product portfolio with multiple products at various price points. Century ply has expanded its laminate capacity and has entered into MDF and particle board recently. Company is also engaged in the container freight station (CFS) at Kolkata Port and also ventured into the readymade furniture market in 2013.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>17,825</b>	<b>19,672</b>	<b>22,628</b>	<b>26,735</b>
% change YoY	8.0	10.4	15.0	18.1
<b>EBITDA</b>	<b>2,920</b>	<b>3,061</b>	<b>3,462</b>	<b>4,197</b>
% change YoY	6.0	4.8	13.1	21.2
Other Income	227	67	25	25
Depreciation	524	810	649	674
<b>EBIT</b>	<b>2,623</b>	<b>2,317</b>	<b>2,838</b>	<b>3,548</b>
% change YoY	7.0	(11.7)	22.5	25.0
Net interest	286	327	531	468
Profit before tax	2,337	1,990	2,307	3,080
% change YoY	18.0	(14.8)	15.9	33.5
Tax	481	424	508	832
as % of PBT	20.6	21.3	22.0	27.0
Profit after tax	1,856	1,567	1,800	2,249
Other adj	(20)	(6)	(6)	(6)
<b>Net income</b>	<b>1,836</b>	<b>1,561</b>	<b>1,794</b>	<b>2,243</b>
% change YoY	9.0	(15.0)	14.9	25.0
Shares outstanding (m)	222.5	222.5	222.5	222.5
<b>EPS (reported) (Rs)</b>	<b>8.3</b>	<b>7.0</b>	<b>8.1</b>	<b>10.1</b>
CEPS (Rs)	10.6	10.7	11.0	13.1
DPS (Rs)	-	1.0	1.0	1.0

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	2,604	2,311	2,832	3,542
Depreciation	524	810	649	674
Change in working capital	(389)	129	(517)	(695)
Chgs in other net current assets	237	(347)	253	-
Operating cash flow	2,975	2,903	3,217	3,522
Interest	(286)	(327)	(531)	(468)
Tax	(481)	(424)	(508)	(832)
<b>Cash flow from operations</b>	<b>2,208</b>	<b>2,153</b>	<b>2,178</b>	<b>2,223</b>
Capex	(2,955)	(2,092)	(1,500)	(1,000)
(Inc)/decrease in investments	(464)	(0)	(0)	(0)
<b>Cash flow from investments (3,419)</b>	<b>(2,092)</b>	<b>(1,500)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	1,560	(434)	(300)	(1,100)
Proceeds from share premium	-	-	-	-
Dividends	-	-	(267.9)	(267.9)
<b>Cash flow from financing</b>	<b>1,560</b>	<b>(434)</b>	<b>(568)</b>	<b>(1,368)</b>
Opening cash	190	538	165	276
<b>Closing cash</b>	<b>539</b>	<b>165</b>	<b>275</b>	<b>130</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	538	165	276	130
Accounts receivable	3,353	3,145	3,410	4,029
Inventories	2,638	3,382	3,462	4,091
Loans and Adv & Others	2,478	2,166	2,400	2,365
Current assets	9,007	8,858	9,548	10,614
Other non current assets	241	157	157	157
LT investments	960	960	961	961
Net fixed assets	5,336	6,618	7,468	7,794
<b>Total assets</b>	<b>15,545</b>	<b>16,593</b>	<b>18,133</b>	<b>19,526</b>
Payables	1,411	1,764	1,826	2,344
Others	381	285	285	285
Current liabilities	1,791	2,049	2,111	2,629
Provisions	185	15	268	268
LT debt	6,482	6,048	5,748	4,648
Min. int and def tax liabilities	-	101	101	101
Equity	223	223	223	223
Reserves	6,864	8,157	9,683	11,658
<b>Total liabilities</b>	<b>15,545</b>	<b>16,593</b>	<b>18,133</b>	<b>19,526</b>
BVPS (Rs)	31.8	37.7	44.5	53.4

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	16.4	15.6	15.3	15.7
EBIT margin (%)	14.7	11.8	12.5	13.3
Net profit margin (%)	10.3	7.9	7.9	8.4
Receivables (days)	63.7	60.3	55.0	55.0
Inventory (days)	55.2	55.9	55.9	55.9
Sales/assets (x)	3.3	3.0	3.0	3.4
Interest coverage (x)	9.2	7.1	5.3	7.6
Debt/equity ratio(x)	0.9	0.8	0.6	0.5
ROE (%)	29.8	20.2	19.6	20.6
ROCE (%)	22.1	16.5	18.7	21.9
EV/ Sales (x)	2.4	2.2	1.9	1.6
EV/EBITDA (x)	14.7	14.0	12.3	10.0
Price to earnings (x)	20.7	24.4	21.2	17.0
Price to book value (x)	5.4	4.5	3.8	3.2
Price to Cash Earnings (x)	16.1	16.0	15.6	13.0

Source: Company, Kotak Securities – Private Client Research



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