Morning Insight

AUGUST 13, 2018

	10-Aug	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,869	(0.4)	4.5	7.4
NIFTY Index	11,430	(0.4)	4.4	6.7
NSEBANK Index	28,124	(0.7)	4.6	7.6
NIFTY 500 Index	9,724	(0.5)	3.9	3.9
CNXMcap Index	19,136	(0.5)	2.6	(1.5)
BSESMCAP Index	16,784	(0.8)	1.8	(5.9)
World Indices				
Dow Jones	25,313	(0.8)	1.2	1.9
Nasdaq	7,839	(0.7)	0.2	5.9
FTSE	7,667	(1.0)	0.1	(0.7)
NIKKEI	22,298	(1.3)	(2.9)	(3.6)
Hangseng	22,298	(1.3)	(2.9)	(3.6)
Shanghai	28,367	(0.8)	(2.2)	(10.4)

Value traded (Rs cr)	10-Aug	% Chg Day
Cash BSE	4,603	50.3
Cash NSE	33,596	(3.7)
Derivatives	553,972	(66.8)

Net inflows (Rs cr)	9-Aug	MTD	YTD
FII	414	1,055	(2,355)
Mutual Fund	15	155	72,753

Nifty Gainers & Losers 10-Aug	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Eicher Motor	28,998	5.7	0.2
BPCL	402	3.3	5.6
HPCL	286	2.0	8.0
Losers			
SBI	304	(4.1)	111.5
Gail India	363	(3.4)	8.6
Sun Pharma	554	(3.1)	6.1

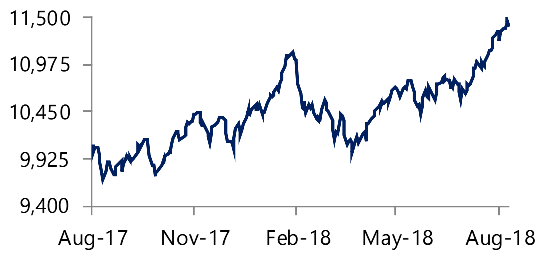
Advances / Declines (BSE)

10-Aug	A	B	T	Total	% total
Advances	115	371	58	544	100
Declines	271	743	68	1,082	199
Unchanged	1	23	10	34	6

Commodity	10-Aug	% Chg 1 Day	1 Mth	3 Mths
Crude (US$/BBL)	72.6	(0.2)	(3.6)	(5.8)
Gold (US$/OZ)	1,212	(0.1)	(2.7)	(8.3)
Silver (US$/OZ)	15.3	(0.8)	(3.4)	(8.4)

Debt / forex market	10-Aug	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.7	7.9	7.7
Re/US$	68.8	68.7	68.8	67.3

Nifty



Source: Bloomberg

News Highlights

- As per the latest flash report of the statistics and programme implementation ministry, 204 projects of railways are facing total cost overrun of Rs 1.82 trillion. The ministry monitors central sector projects with an expenditure of Rs 1.5 Bn and above. (BL)
- The automobile industry is concerned over a proposal by the government to allow imports of up to 2,500 units without the need for adapting to Indian regulations. (ET)
- **Bharat Petroleum Corp Ltd (BPCL)** has been given green nod for setting up a second generation ethanol plant in Odisha that would entail an investment of Rs 7.5 Bn (ET)
- **The Indian Hotels Company Ltd (IHCL)** has tied up with Hayre Group Ltd to open Vivanta hotel at Heathrow Airport in London. (BS)
- **PVR Ltd** has agreed to buy a 71.7% stake in SPI Cinemas Pvt. Ltd for Rs 6.3 Bn-a move that will help India's largest multiplex operator boost its presence in the lucrative south Indian market. (BL)
- **SBI** will sell two non-performing assets (NPAs) worth about Rs 2.5 Bn and has invited bids for them. In terms of the bank's revised policy on sale of financial assets in line with the regulatory guidelines. (BS)
- The **GVK**-led consortium, which is developing the Navi Mumbai International Airport, is in talks with banks to raise around Rs1.35 billion to fund its second-phase expansion plan. (BS)
- The Directorate General of Civil Aviation (DGCA) is set to conduct a financial audit of **Jet Airways (India) Ltd,** airline postponed its June quarter (Q1) results. (Mint)
- **Hindalco Industries,** plans to prepay Rs 30 Bn debt this fiscal to bring down its debt-equity ratio to about two times from the current level of three times. (BL)
- **Coal India Ltd** has pushed back its ambitious 1 billion tonne production target by at least two years owing to the existing ground realities. Although Coal India has been investing towards establishing railway connectivity with its mines and procuring rakes in order to evacuate more coal, a sharp rise in renewable energy sources is compelling the miner of the dry fuel to review its earlier production goals. (ET)
- The government has set in motion an earlier plan that will make it mandatory for Central Public Sector Enterprises (CPSEs) to monetise identified assets so that funds are mobilised for investments in green field projects where private sector interest has almost dried up. Key public sector enterprises, including **SAIL and NTPC,** will soon start selling their individual assets such as land to fund new projects. (Financial Chronicles)
- **Jet Airways** has initiated a formal stake-sale process to raise $350-400 million from global private equity firms. (ET)

What's Inside

- **Initiating Coverage:** Amber Enterprises Ltd
- **Result Update:** Engineers India Ltd, Indraprastha Gas, MRPL, Sterling Tools Ltd, MHRIL, Va Tech Wabag, Votas, VRL Logistics, MOIL,
- **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

Initiating Coverage

AMBER ENTERPRISES LTD

PRICE RS. 921 **TARGET RS.1145** **BUY**

Amber Enterprises (AEL) is the leading OEM/ODM for several room AC (RAC) brands in India, with a ~55.4% market share. Notwithstanding weather-induced minor blips, we expect Room AC OEM/ ODM (outsourcing) industry to continue to grow at a brisk pace, driven by low penetration of Room ACs (RAC), increasing preference of brand owners to outsource production and rising wages in China. Being the market leader, we see Amber as a significant beneficiary, thanks to a) its established relationship with 8 out of top 10 RAC companies, b) high level of backward integration, c) scale of manufacturing and testing facilities & d) impressive R&D capabilities. Given the strong demand dynamics of room AC industry, we expect AEL to post consolidated sales/PAT CAGR of ~22%/53% over FY18-FY20E. AEL in our view is a good play on India's growing OEM/ODM RAC market. Initiate coverage with BUY rating and target price of Rs 1145 (25x standalone FY20E EPS of Rs 42.6 + Rs 80 per share for value of subsidiaries).

Key investment argument

- **Strong growth outlook for room ACs (RACs)** - The Indian RAC market has been witnessing robust growth trend in the past five years with a CAGR of 9.4% by volumes. In the next five years, the market is expected to witness a CAGR of 12.8% reinforced by the surge in rural consumption, shorter replacement cycles, energy-efficient RACs and availability of multiple brands at various price points.

- **OEMs/ODMs to continue gaining share in RAC manufacturing -** The share of manufacturing in RACs by OEMs/ODMs has been consistently going up from 16% in FY12 to 34% in FY17 and is projected to reach 44% by FY22E. Among the major drivers include a) Brands prefer to focus on marketing and promotions while outsourcing the manufacturing part to the specialists like OEMs/ODMs and b) OEMs/ODMs offer quick design changes at a competitive cost.

- **Market leader in RAC OEM/ODM.** AEL has the capability to develop, design and manufacture models of RACs (Window, Split and Inverter) across energy ratings specified by the Bureau of Energy Efficiency. The company is one of the most prominent companies in RAC manufacturing such that it servers eight out of 10 top RAC brands in India. As a result, AEL is the market leader in the RAC OEM/ODM industry in India with a market share of 55.4% in terms of volume in Fiscal 2017. Further, the company's share of the overall RAC market in India in terms of volumes has grown from 14.7% in Fiscal 2015 to 19.1% in Fiscal 2017.

- **Plugging product gaps.** With a view to increase wallet share, AEL is 1) filling product gaps 2) entry into newer brands through components and 3) acquisitions to add competencies. It added four customers in Q4FY18 and two more additions is in the pipeline. To bolster its component offering, the company has made two acquisitions in FY18 which adds electronic PCBs into its portfolio.

Stock Details

Market cap (Rs mn)	:	28972
52-wk Hi/Lo (Rs)	:	1329 / 880
Face Value (Rs)	:	10
3M Avg. daily volume	:	25,001
Shares o/s (m)	:	31

Source: Bloomberg

Financial Summary - Consolidated

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	21,281	26,342	31,577
Growth (%)	29.4	23.8	19.9
EBITDA	1,835	2,110	2,700
EBITDA margin (%)	8.6	8.0	8.6
PAT	623	1,052	1,459
EPS	19.8	33.5	46.5
EPS Growth (%)	123.3	68.8	38.7
BV (Rs/share)	284	318	364
Dividend/share (Rs)	0	0	0
ROE (%)	9.9	11.1	13.6
ROCE (%)	16.0	15.1	18.4
P/E (x)	46.3	27.4	19.8
EV/EBITDA (x)	15.6	13.3	10.1
P/BV (x)	3.2	2.9	2.5

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Jan-18
Promoters	44.0	44.0	44.0
FII	10.8	2.9	2.9
DII	7.9	8.0	8.0
Others	37.3	45.2	45.2

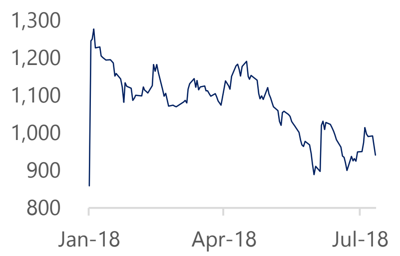
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Amber Enterprises	(9.2)	(20.0)	(22.8)
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Valuation and Rating

AEL is trading at 27.4x and 19.8x on the basis of FY19E and FY20E respectively. We see the company as an very good play on India's fast-growing RAC industry. AEL enjoys the highest two year earnings cagr among peer group. ROCE has been moderate due to capex in past years in building capacities, which are yet to be optimally utilized. With sustained demand trends and modest capex, we see asset turnover to rise in coming years leading to enhanced ROE/ROCE. We value the stock at 24.6x Consol EPS of FY20E, 17% discount to our target multiple of 30x ascribed to Voltas and Blue Star.

Risks and Concerns

- Majority of AEL's revenue is derived from top 10 customers (92.5% in FY17). The loss of, or a significant reduction in purchases by, such customers could adversely affect business of the company.
- Any slowdown in the RAC industry may adversely impact AEL's business, results of operations, financial condition and cash flows.
- AEL does not have firm commitment agreements with customers. Should they choose to not source their requirements, its business and results of operations may be adversely affected.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**16,444**	**21,281**	**26,342**	**31,577**
% change yoy	51.0	29.4	23.8	19.9
EBITDA	**1,286**	**1,835**	**2,110**	**2,700**
% change yoy	(44.2)	42.7	15.0	28.0
Depreciation	397	490	592	648
EBIT	**889**	**1,345**	**1,519**	**2,053**
% change yoy	(61.4)	51.4	12.9	35.2
Net Interest	**583**	**538**	**116**	**78**
Other Income	79	87	100	110
Earnings Before Tax	384	894	1,503	2,085
% change yoy	(83.3)	132.8	68.1	38.7
Tax	104.9	271.0	450.8	625.4
as % of EBT	27.3	30.3	30.0	30.0
Net Income adj	**279**	**623**	**1,052**	**1,459**
% change yoy	15.8	123.3	68.8	38.7
Exceptional items	0.0	0.0	0.0	0.0
Reported Net Income	**279**	**623**	**1,052**	**1,459**
Shares outstanding (m)	31.4	31.4	31.4	31.4
EPS (Rs)	8.9	19.8	33.5	46.5
DPS (Rs)	1.6	0.0	0.0	0.0
CEPS	19.2	33.5	45.2	57.9

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	352	1,339	1,564	2,313
Accounts receivable	3,101	3,786	4,467	5,271
Stocks	2,685	3,956	4,669	5,509
Loans and Advances	140	283	283	283
Others	233	276	276	276
Current Assets	6,511	9,640	11,259	13,652
LT investments	108	144	144	144
Net fixed assets	4,629	5,629	5,637	5,890
Intangible assets	1,059	1,674	1,674	1,674
Deferred tax assets	2	-	-	-
CWIP	93	95	95	95
Other non current assets	105	104	104	104
Total Assets	**12,507**	**17,285**	**18,913**	**21,558**
Payables	4,979	6,874	7,906	9,091
Provisions	31	9	9	9
Current liabilities	5,010	6,884	7,915	9,100
LT debt	3,741	1,055	600	600
Other liabilities	129	419	419	419
Equity & reserves	3,627	8,928	9,979	11,439
Total Liabilities	**12,507**	**17,285**	**18,913**	**21,558**
BVPS (Rs)	115.5	284.3	317.8	364.3

Source: Company, Kotak Securities – Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
PBDIT	1,286	1,835	2,110	2,700
Tax and adjustments	358	(1,640)	(451)	(625)
Cash flow from operations	1,643	195	1,659	2,075
Net Change in Working Capital	(443)	(104)	(362)	(459)
Net Cash from Operations	**1,200**	**92**	**1,297**	**1,616**
Capital Expenditure	(820)	(734)	(600)	(900)
Cash from investing	(127)	80	100	110
Net Cash from Investing	**(946)**	**(654)**	**(500)**	**(790)**
Interest paid	(583)	(538)	(116)	(78)
Issue of Shares	500	4,776	-	-
Dividends Paid	(60)	-	-	-
Debt Raised	57	(2,689)	(455)	-
Net cash from financing	**(87)**	**1,549**	**(571)**	**(78)**
Net change in cash	167	986	226	748
Free cash flow	380	(643)	697	716
Cash at end	**352**	**1,339**	**1,564**	**2,313**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	7.8	8.6	8.0	8.6
EBIT margin (%)	5.4	6.3	5.8	6.5
Net profit margin (%)	1.7	2.9	4.0	4.6
Adjusted EPS growth (%)	15.8	123.3	68.8	38.7
Receivables (days)	68.4	63.7	67.5	65.5
Inventory (days)	57.6	62.2	65.9	64.0
Sales / Net Fixed Assets (x)	3.6	3.8	4.7	5.4
ROE (%)	8.9	9.9	11.1	13.6
ROCE (%)	17.4	16.0	15.1	18.4
EV/ Sales	2.0	1.3	1.1	0.9
EV/EBITDA	25.2	15.6	13.3	10.1
Price to earnings (P/E)	103.6	46.4	27.5	19.8
Price to book value (P/B)	8.0	3.2	2.9	2.5
Price to cash earnings	47.9	27.5	20.4	15.9

Source: Company, Kotak Securities – Private Client Research

Result Update

ENGINEERS INDIA LTD (EIL)

PRICE RS.126 **TARGET RS.187** **BUY**

EIL Q1FY19 result slightly missed our estimates on poor execution in PMC division. Order inflows remain tepid in the quarter; current order backlog reported at Rs 72.3 Bn imply three year of revenue visibility.

Key Highlights

- Revenue grew 52.7% y/y, reported at Rs 5.7 Bn in Q1FY19 driven by the LSTK (Lumpsum turnkey projects) division. This led to sharp contraction in EIL reported EBITDA margin to 15.1% vis-à-vis 21.8% in Q1FY18.
- In Q1FY19, PMC division reported sales at Rs 3.2 Bn (flat y/y). EBIT margin for the segment reported at 27.9% (consistent with management guidance) vis-à-vis 28% in Q1FY18. LSTP division revenues grew substantially to Rs 2.5 Bn in Q1FY19 vis-à-vis Rs 509 mn in Q1FY18.

Valuation & Outlook

We reiterate our long term positive view on EIL; our investment thesis is predicated upon 1) increased awarding of large ticket domestic hydrocarbon PMC orders and 2) sustainability in company's margin profile driven by higher proportion of PMC orders in FY20. We maintain our earnings estimate and maintain 'BUY' rating on EIL's stock with unchanged target price of Rs 187. Delays in the awarding of key orders can pose threat to our earnings estimate.

Quarterly financials

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Revenues	**5733**	**3754**	**52.7**	**5097**	**12.5**
Employee expenses	1847	1938	(4.7)	1856	(0.5)
Sub-Contract Payments	777	298	161.0	1135	(31.5)
Constrction Material	1586	135	1078.9	505	214.0
Other expenses	660	566	16.6	1027	(35.7)
Total Expenses	4870	2936	65.8	4522	7.7
EBITDA	**864**	**817**	**5.7**	**575**	**50.3**
Other income	522	456	14.4	479	9.0
Depreciation	55	60	(7.6)	58	(4.3)
EBIT	**1331**	**1214**	**9.6**	**996**	**33.6**
Net Interest	2	0		4	
PBT	**1329**	**1213**	**9.5**	**993**	**33.9**
Total tax	462	400	15.6	304	52.2
PAT	**867**	**814**	**6.5**	**689**	**25.8**
EPS (Rs)	**1.3**	**1.2**	**6.5**	**1.0**	**25.8**
EBITDA (%)	15.1	21.8		11.3	33.6
Tax Rate (%)	34.8	32.9		30.6	13.7

Source: Company

Result Highlights

Revenue grew 52.7% y/y, reported at Rs 5.7 Bn in Q1FY19 driven by the LSTK (Lumpsum turnkey projects) division. This led to sharp contraction in EIL reported EBITDA margin to 15.1% vis-à-vis 21.8% in Q1FY18. We highlight that LSTK is a high volume/ low margin business for the company.

In Q1FY19, PMC division reported sales at Rs 3.2 Bn (flat y/y). EBIT margin for the segment reported at 27.9% vis-à-vis 28% (consistent with management guidance) in Q1FY18. Within PMC division, domestic and overseas business accounted to

Stock Details

Market cap (Rs mn)	:	79652
52-wk Hi/Lo (Rs)	:	206 / 118
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	1,972,984
Shares o/s (mn)	:	632

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	17,876	25,247	28,081
Growth (%)	23.4	41.2	11.2
EBITDA	4,131	5,554	6,739
EBITDA margin (%)	23.1	22.0	24.0
PAT	3,779	4,837	5,636
EPS	5.6	7.2	8.4
EPS Growth (%)	16.3	28.0	16.5
BV (Rs/share)	34	36	40
Dividend/share (Rs)	4.0	3.7	4.3
ROE (%)	15.0	20.5	22.0
ROCE (%)	14.9	20.3	21.9
P/E (x)	24.4	19.1	16.4
EV/EBITDA (x)	16.3	12.2	10.0
P/BV (x)	4.1	3.8	3.5

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	52.0	52.0	52.0
FII	4.3	5.6	5.9
DII	27.3	19.2	18.3
Others	16.4	23.2	23.9

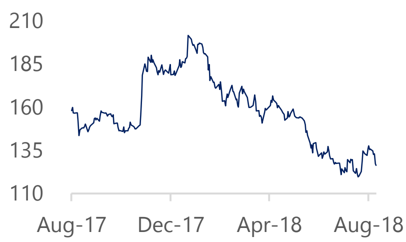
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Engineers India	(2.9)	(18.1)	(25.1)
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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revenues of Rs 2.8 Bn and c. Rs 433 mn respectively. LSTP division revenues grew substantially to Rs 2.5 Bn in Q1FY19 vis-à-vis Rs 509 mn in Q1FY18.

EBIT margin in LSTK division stood at c.5.9% (quarterly aberration, we do not read much into the y/y margin contraction) in the quarter. Other income reported at Rs 522 mn in the quarter against Rs 456 mn in Q1FY18.

Segment Results

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Consultancy & Engineering projects	3223	3245	(0.7)	3372	(4.4)
Lumpsum Turnkey Projects	2510	509	393.3	1725	45.5
Consultancy & Engineering projects					
Consultancy & Engineering projects	900	909	(1.0)	896	0.4
Lumpsum Turnkey Projects	147	39	281.6	121	21.7
Segment Margins %					
Consultancy & Engineering projects	27.9	28.0		26.6	
Lumpsum Turnkey Projects	5.9	7.6		7.0	

Source: Company

EIL's order backlog, reported at Rs 72.3 Bn at the end of Q1FY19 (declines 10% y/y). Currently, PMC order book stands close to Rs 38.6 Bn (53.4% of total order book) and turnkey orders stands at Rs 33.6 Bn. In the quarter, order inflows remained weak, reported at Rs 832 mn, entirely in the consulting division.

Salient Order secured

Quarterly Salient Orders Secured

Q1 FY : 18-19

	Project scope	Client	Contract Value (Rs. Million)	Award Date	Completion Date
CONSULTANCY – NRL	EPCM Services for the Indo-Bangla Friendship Pipeline (IBFPL) Project in Bangladesh	Numaligarh Refinery Limited (NRL)	199	Q1, FY18 -19	Q3, FY 20-21
CONSULTANCY – APL	LEPCM FOR 500TPD Methanol 200TPD Acetic Acid Plantat Namrup (Change Order)	Assam Petrochemicals Ltd	100	Q1, FY18 -19 (Change Order Award Date)	Q1, FY 18-19
CONSULTANCY – DANGOTE	PMC & EPCM Services for Dangote Refinery Project (Change Order No. 7)	Dangote Oil Refining Company Limited	250	Q1, FY18 -19 (Change Order Award Date)	Q3, FY 20-21

Source: Company

Potential orders from the following Hydrocarbon expansion plans over FY19-20

Project	Client	Scope	Estimated Consultancy Jobs (Rs bn)
Bina refinery expansion	BPCL	Expansion from 6 mn MT to 7.8 mn MT	1 to 1.25
Bina refinery expansion	BPCL	9 mn MT Grassroot expansion	9 to 10
Kochi propylene derivatives	BPCL	Propylene derivatives	2.5 to 5
Bhatinda Expansion	HPCL	a) Low cost initial expansion. b) Doubling of capacity. c) Petrochemical integration.	4 to 4.5
Numaligarh Expansion	BPCL		Na
Barmer Refinery	HPCL	Greenfield refinery with petrochemical plant	25
Barauni Refinery	IOC	Expansion by 6 mn MT and petrochemical integration	Na
West Coast refinery	IOC	BPCL, HPCL, IOC	30

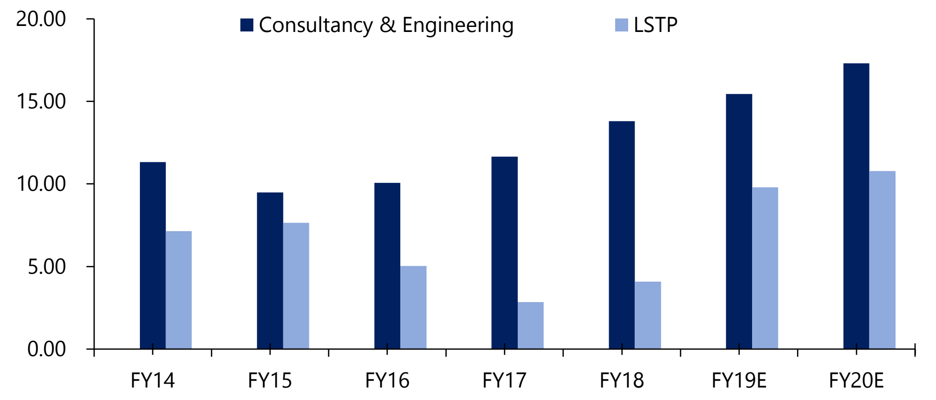
Source: Company, Kotak Securities – Private Client Research

Business Outlook: financials likely to show growth in FY19/FY20 led by improved ordering/execution in domestic hydrocarbon orders

We believe that order inflows in domestic market shall be driven by brownfield expansion of several small sized refineries (with capacities less than 3 mmtpa) over FY19-20. In greenfield projects, management sounded almost certain of winning HPCL Barmer refinery (expected refinery cost is Rs 410 Bn) project in FY19. West Coast refinery (40 mn tonnes project; value Rs 1.4 trillion, PMC scope could be 5-7% of total cost) could get awarded over FY20. Currently land acquisition process is going on for this project.

We project revenue growth at 25.3 % CAGR between FY18-20 from Rs 17.8 Bn in FY18 to Rs 28 Bn in FY20. Within the revenue streams, we expect consultancy & engineering business to grow at 12% CAGR in the same period from Rs 13.7 Bn in FY18 to Rs 17.3 Bn in FY20. Lumpsum turnkey project segment (LSTP) is expected to grow substantially at 62% CAGR between FY18-20 from Rs 4 Bn in FY18 to Rs 10.7 Bn in FY20.

Segment revenue (Rs bn)



Source: Company, Kotak Securities – Private Client Research

We believe that EBITDA margin would contract in FY19 driven by increased proportion of LSTK orders but this does not speak adverse about EILs profitability. Note that LSTK order are awarded (or won) on open book estimate basis and company's margins remain secured as contract terms includes price variation clause. Further, we expect EBITDA margins to normalize (rather expand) in FYFY20 on back of PMC orders. We build EBITDA margin at 22% and 24% in FY19 and FY20 respectively.

Valuation and recommendation

We maintain our earnings estimate and maintain 'BUY' rating on EIL's stock with unchanged target price of Rs 187. Delays in the awarding of key orders can pose threat to our earnings estimate.

Valuation Table

	Rs mn (FY20)
Core PAT	4,412
PER (x)	23
Net Cash	24816
Target valuation	126297
Target Valuation (Target Price) per share (Rs)	**187**

Source: Kotak Securities – Private Client Research

Company background

Engineers India Ltd (EIL) is a leading global engineering consultancy and EPC company. Established in 1965, EIL provides engineering consultancy and EPC services principally focused on the oil & gas and petrochemical industries. The Company has also diversified into sectors like infrastructure, water and waste management, solar & nuclear power and fertilizers to leverage its strong technical competencies and track record.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**14,486**	**17,876**	**25,247**	**28,081**
% change yoy	(4.1)	23.4	41.2	11.2
EBITDA	**3,022**	**4,131**	**5,554**	**6,739**
% change yoy	53.3	36.7	34.5	21.3
Depreciation	225	238	236	245
EBIT	**2,797**	**3,892**	**5,318**	**6,494**
% change yoy	62.3	39.2	36.6	22.1
Net Interest	32	6	6	6
Other Income	2236.6	1795	1800	1800
Earnings Before Tax	5,002	5,682	7,113	8,289
% change yoy	16.5	13.6	25.2	16.5
Tax	1,751	1,902	2,276	2,652
as % of EBT	35.0	32.0	32.0	32.0
Extraordinary Income	0	0	0	0
Recurring PAT	**3,250**	**3,779**	**4,837**	**5,636**
% change yoy	10.0	16.3	28.0	16.5
EPS (Rs)	4.8	5.6	7.2	8.4
DPS (Rs)	3.0	4.0	3.7	4.3
CEPS	5.2	6.0	7.5	8.7

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	23,105	24,816	24,091	25,969
Accounts receivable	3,831	5,449	6,364	7,078
Loans & advances	108	103	111	118
Other current assets	4,454	4,940	7,747	8,617
Current Assets	8,392	10,493	14,221	15,813
Net fixed assets	2,231	2,204	2,354	2,504
Investments	5,695	2,728	2,728	2,728
Other non-current assets	3763	4062	2790	2791
Total Assets	**43,186**	**44,303**	**46,184**	**49,805**
Debt	-	-	-	-
Equity & reserves	27,760	22,679	24,500	26,639
Other liabilities	211	224	224	224
Current Liabilities	15,216	21,400	21,460	22,942
Total Liabilities	**43,186**	**44,303**	**46,184**	**49,805**
BVPS	41.2	33.7	36.4	39.5

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	5,002	5,682	7,113	8,289
Depreciation	225	238	236	245
Current liabilities incl provisions	2,071	6,185	60	1,482
Increase in inventory	10	-	-	-
Increase in sundry Debtors	(67)	(1,619)	(914)	(714)
Increase in advances	14	4	(7)	(8)
Other Current Assets	(121)	(487)	(2,807)	(870)
Tax Paid	(1,751)	(1,902)	(2,276)	(2,652)
Other Adjustments	(801)	891	0	0
Net cash from operations	**4,582**	**8,992**	**1,404**	**5,771**
Purchase of fixed Assets	(55)	(212)	(386)	(395)
Net investments	(4,943)	2,967	-	-
Other investment activities	(655)	(285)	1272	(1)
Net cash from investing	**(5,652)**	**2,470**	**886**	**(396)**
Change in Borrowings	0	0	0	0
Dividend Paid	(2,438)	(3,251)	(3,015)	(3,497)
Issue of common equity	-	(6,500)	-	-
Net Cash from financing act	**(2,438)**	**(9,751)**	**(3,015)**	**(3,497)**
Net Cash Flow	(3,509)	1,711	(725)	1,878
Cash at the end of year	23,105	24,816	24,091	25,969

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	20.9	23.1	22.0	24.0
EBIT margin (%)	19.3	21.8	21.1	23.1
Net profit margin (%)	22.4	21.1	19.2	20.1
Adjusted EPS growth (%)	10.0	16.3	28.0	16.5
Receivables (days)	96.5	111.3	92.0	92.0
Sales / Net Fixed Assets (x)	6.1	7.2	9.8	10.5
Debt/ equity ratio	-	-	-	-
ROE (%)	11.6	15.0	20.5	22.0
ROCE (%)	11.6	14.9	20.3	21.9
EV/ Sales	4.7	3.8	2.7	2.4
EV/EBITDA	22.3	16.3	12.2	10.0
Price to earnings (P/E)	28.4	24.4	19.1	16.4
Price to book value (P/B)	3.3	4.1	3.8	3.5
Price to cash earnings	26.6	23.0	18.2	15.7

Source: Company, Kotak Securities – Private Client Research

Result Update

INDRAPRASTHA GAS LTD (IGL)

PRICE RS.299 **TARGET RS.257** **SELL**

Despite higher gas sales volume and price hike undertaken IGL has reported flat PAT growth sequentially. Gross margin declined due to higher raw material cost. Weak rupee and elevated gas prices remains the key headwinds.

Key Highlights

- IGL's PAT is lower than our estimates. PAT stood at Rs.1.8 bn (vs our estimate of Rs.1.9 bn) up 1% qoq and 9% yoy thereby translating into quarterly EPS of Rs.2.5 and CEPS of Rs.3.2. IGL has 50% stake in CUGL and MNGL each. The combined profit is Rs.380 mn. (IGL Share is Rs.190 mn).
- IGL bagged a licence to retail CNG and PNG to households in Meerut, Muzaffarnagar and Shamli districts of Uttar Pradesh.

Valuation & outlook

We expect IGL to book CNG gas volume of ~1112 mn Kgs and PNG volume of 527 mmscm in FY19E and CNG gas volume of ~1201 mn Kgs and PNG volume of 580 mmscm in FY20E. We expect an EPS of Rs.12.1 for FY19E and an EPS of Rs.14.1 for FY20E. Based on our estimates, the stock at current market price is trading at 13.3x EV/EBIDTA and 21.3x P/E on FY20E earnings. We believe that stock is expensively valued at current price and hence we maintain SELL rating on IGL with DCF based revised price target of Rs.257 (earlier Rs.235) reflecting price hike undertaken in Q1FY19.

Quarterly performance table

Particulars (Rs mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Net Sales	**14,224**	**13,378**	**11,495**	**23.7**	**6.3**
Less: Raw Material	7,421	6,772	5,485	35.3	9.6
Less: Excise	1,350	1,238	1,118	20.7	9.1
Gross Margin	10.80	11.6	10.96	-1.4	-6.8
Gross Margin (%)	38.4	41.0	42.5	(4.2)	(2.6)
Salaries, Wages & Bonus	311	277	251	23.9	12.4
Other Mfg. Expenses	2,195	2,180	1,866	17.6	0.7
EBIDTA	**2,951**	**2,914**	**2,773**	**6.4**	**1.3**
EBIDTA Margin (%)	20.7	21.5	24.1	(3.4)	(0.7)
Add: Other Income	262	267	179	46.8	(1.8)
Less: Depreciation	473	470	439	7.7	0.5
EBIT	**2,740**	**2,711**	**2,513**	**9.0**	**1.1**
Less: Interest	6	6	4	55.6	(8.2)
PBT	**2,735**	**2,705**	**2,509.3**	**9.0**	**1.1**
Less: Tax	976	957	897	8.8	1.9
PAT	**1,759**	**1,747**	**1,613**	**9.1**	**0.7**
PAT (%)	12.4	12.9	14.0	(1.7)	(0.5)
EPS	**2.5**	**2.50**	**2.3**	**9.1**	**0.7**

Source: Company

Stock Details

Market cap (Rs mn)	:	183890
52-wk Hi/Lo (Rs)	:	345 / 232
Face Value (Rs)	:	2
3M Avg. daily volume	:	2,847,823
Shares o/s (m)	:	700

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	50,530	59,866	67,940
Growth (%)	20.1	18.5	13.5
EBITDA	11,144	12,745	14,794
EBITDA margin (%)	22.1	21.3	21.8
PAT	7,218	8,451	9,847
EPS	10.3	12.1	14.1
EPS Growth (%)	19.0	17.1	16.5
BV (Rs/share)	52	61	72
Dividend/share (Rs)	2.0	2.5	3.1
ROE (%)	21.2	20.8	20.6
ROCE (%)	21.2	20.8	20.6
P/E (x)	29.0	24.8	21.3
EV/EBITDA (x)	17.7	15.5	13.3
P/BV (x)	5.7	4.9	4.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	45.0	45.0	45.0
FII	20.1	24.8	25.3
DII	17.7	13.6	13.5
Others	12.2	16.6	16.3

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Indraprastha Gas	14.0	14.1	3.5
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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Quarterly result analysis – Q1FY19

- **Net Revenue:** Net revenue stands at Rs. 14.2 bn, 6% sequentially and 24% yoy basis. Combined gas sales volume has increased 13% yoy to 505 mmscm (+5% qoq). Blended average realization has increased by 9% yoy to Rs. 28.2/scm (-0.5% qoq) due to increase in average sales price of CNG and PNG by 10%.
- **Sales Volume:** IGL sold 273 mn kg of CNG thereby registering a growth of 10% yoy and 6% qoq basis. IGL sold 129 mmscm of PNG in Q1FY19 showing growth of 18% yoy and 4% qoq.
- **Segment wise revenue analysis:** CNG segment registered revenue of Rs.10.8 bn, 5% qoq and 19% qoq supported by higher CNG volumes. Similarly, PNG segment has registered revenue of Rs. 3.4 bn resulting in a revenue growth of 34% yoy and 4% sequentially supported by both better realizations and higher gas volumes.
- **Raw Material Cost:** The raw material cost has increased 10% qoq to Rs.7.4 bn (35% yoy) mainly on account of rise in domestic gas prices, RLNG prices and weak rupee. In order to meet the rising domestic demand of natural gas, IGL not only sources KG-D6 gas and Administered price mechanism (APM) gas but also sources higher priced long-term RLNG as well as spot RLNG. We would like to highlight here that the price of gas supplied by RIL and ONGC is fixed by government in US dollar terms. Hence any rupee depreciation increases the cost for IGL and vice-a-versa.
- **Employee expenses:** The staff cost (as a percentage of sales) remains flat qoq/yoy basis to 2.2%. In absolute terms, employee cost has increased 12% qoq and 24% yoy to Rs.311 mn.
- **Other expenses:** Other expense has increased by 18% yoy and 1% qoq (base effect) to Rs. 2.2 bn. Increase in operating expenses in Q4FY18 is mainly due to i) Non availability of input tax credit of GST and ii) Impact due to increase in minimum wages by Delhi Govt. wef March'2017.
- **Operating profit:** In absolute terms, EBIDTA stands higher at Rs.2.95 bn up 1.3% qoq and 6.4% yoy. Increase in operating profit is mainly due to higher volumes. Another important factor to monitor is EBIDTA per unit of sales. The same has decreased 4% qoq to Rs.5.84/scm (-6% yoy).
- **Operating Margins:** In Q1FY19, the EBIDTA margin stood at 20.7%, which is down 100 bps qoq and 340 bps yoy due to higher raw material and operating cost.
- **Other income** of the company decreased 2% qoq to Rs.262 mn (+47% yoy).
- **Non-cash charges:** The depreciation cost has increased marginally 1% qoq to Rs.473 mn (8% yoy).
- **PBT** is at Rs.2.74 bn up 1% on a sequential basis mainly on account of higher operating profit.
- **PAT** for Q1FY19 is at Rs.1.76 bn up 1% qoq and 9% yoy thereby translating into Q1FY19 EPS of Rs.2.51 and CEPS of Rs.3.2. IGL has 50% stake in CUGL and MNGL each. The combined profit of both the entities for Q1FY19 is Rs.380 mn. (IGL Share is Rs.190 mn).

Maintain SELL

We expect IGL to book CNG gas volume of ~1112 mn Kgs and PNG volume of 527 mmscm in FY19E and CNG gas volume of ~1201 mn Kgs and PNG volume of 580 mmscm in FY20E. We expect an EPS of Rs.12.1 for FY19E and an EPS of Rs.14.1 for FY20E. Based on our estimates, the stock at current market price is trading at 13.3x EV/EBIDTA and 21.3x P/E on FY20E earnings. We believe that stock is expensively valued at current price and hence we maintain SELL rating on IGL with DCF based revised price target of Rs.257 (earlier Rs.235) reflecting price hike undertaken in Q1FY19.

Key risks remain in terms of:

1) Cost and time run in project execution
2) Any major regulation by PNGRB on marketing margin
3) Weaker CNG demand growth as competition from falling diesel prices will impact sales volume.

Company background

Indraprastha Gas (IGL) is a City Gas Distribution company with rights to distribute CNG and PNG in Delhi and its adjoining areas. IGL was incorporated in 1998 as a JV between GAIL and Bharat Petroleum Corp. (BPCL). The government of Delhi owns another 5% stake. The company later took over the Delhi gas distribution project from GAIL. At present, IGL's gas distribution network spans over Delhi, Noida and Greater Noida, and Ghaziabad. The company supplies compressed natural gas (CNG) to the auto sector, piped natural gas (PNG) to households and commercial establishments, and R-LNG (re-gasified LNG) to industrial establishments.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**42,060**	**50,530**	**59,866**	**67,940**
% change YoY	3.8	20.1	18.5	13.5
EBITDA	**9,637**	**11,144**	**12,745**	**14,794**
% change YoY	24.9	15.6	14.4	16.1
Other Income	1,085	1,645	1,879	2,019
Depreciation	1,671	1,813	1,898	1,988
EBIT	**9,051**	**10,977**	**12,726**	**14,825**
% change YoY	40.6	21.3	15.9	16.5
Net interest	12	17	17	17
Profit before tax	**9,039**	**10,960**	**12,709**	**14,808**
% change YoY	42.4	21.2	16.0	16.5
Tax	2,976	3,742	4,257	4,961
as % of PBT	32.9	34.1	33.5	33.5
Profit after tax	**6,063**	**7,218**	**8,451**	**9,847**
Minority interest	0	0	0	0
Share of profit of associates	0	0	0	0
Net income	**6,063**	**7,218**	**8,451**	**9,847**
% change YoY	45.7	19.0	17.1	16.5
Shares outstanding (m)	140	700	700	700
EPS (reported) (Rs)	**8.7**	**10.3**	**12.1**	**14.1**
CEPS (Rs)	11.0	12.9	14.8	16.9
DPS (Rs)	1.9	2.0	2.5	3.1

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	6,086	5,580	13,353	21,055
Accounts receivable	2,014	2,261	2,533	2,874
Inventories	517	524	524	524
Loans and Adv & Others	785	1,259	1,274	1,288
Current assets	9,402	9,624	17,683	25,741
Misc exp.	0	0	0	0
LT investments	7,839	13,160	13,160	13,160
Net fixed assets	24,689	28,181	29,181	30,181
Total assets	**41,930**	**50,965**	**60,024**	**69,081**
Payables	2,740	3,386	4,049	4,560
Others	6,490	8,376	10,342	11,528
Current liabilities	9,230	11,762	14,391	16,088
Provisions	560	137	163	185
LT debt	0	0	0	0
Min. int and def tax liabilities	2,024	2,596	2,596	2,596
Equity	1,400	1,400	1,400	1,400
Reserves	28,717	35,070	41,474	48,813
Total liabilities	**41,930**	**50,965**	**60,024**	**69,081**
BVPS (Rs)	43.0	52.1	61.2	71.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	9,051	10,977	12,726	14,825
Depreciation	1,671	1,813	1,898	1,988
Change in working capital	3,123	2,303	2,368	1,364
Chgs in other net current assets				
Operating cash flow	13,845	15,093	16,992	18,177
Interest	(12)	(17)	(17)	(17)
Tax	(2,976)	(3,742)	(4,257)	(4,961)
CF from operations	**10,857**	**11,334**	**12,717**	**13,199**
Capex	(3,315)	(5,304)	(2,898)	(2,988)
(Inc)/dec in investments	(5,248)	(5,321)	-	-
CF from investments	**(8,563)**	**(10,625)**	**(2,898)**	**(2,988)**
Others	1,473	773	-	(0)
Inc/(dec) in debt	-	-	-	-
Proceeds from share premium	-	-	-	-
Dividends	(2,219)	(1,988)	(2,047)	(2,509)
CF from financing	**(746)**	**(1,214)**	**(2,047)**	**(2,509)**
Opening cash	4,538	6,086	5,580	13,353
Closing cash	6,086	5,580	13,353	21,055

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	22.9	22.1	21.3	21.8
EBIT margin (%)	21.5	21.7	21.3	21.8
Net profit margin (%)	14.4	14.3	14.1	14.5
Receivables (days)	19.2	15.4	15.4	15.4
Inventory (days)	6.3	5.4	4.5	4.0
Sales/gross assets(x)	1.5	1.5	1.5	1.4
Interest coverage (x)	NM	NM	NM	NM
Debt/equity ratio(x)	-	-	-	-
ROE (%)	21.7	21.2	20.8	20.6
ROCE (%)	21.8	21.2	20.8	20.6
EV/ Sales	4.7	3.9	3.3	2.9
EV/EBITDA	20.5	17.7	15.5	13.3
Price to earnings (P/E)	34.5	29.0	24.8	21.3
Price to book value (P/B)	6.9	5.7	4.9	4.2

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	183890
52-wk Hi/Lo (Rs)	:	147 / 73
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	1,669,642
Shares o/s (mn)	:	1753

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	490,550	597,545	614,659
Growth (%)	12.1%	21.8%	2.9%
EBITDA	45,020	46,045	48,209
EBITDA margin (%)	9.2	7.7	7.8
PAT	17,736	19,854	21,642
EPS	10.1	11.3	12.3
EPS Growth (%)	(46.1)	11.9	9.0
BV (Rs/share)	58.4	66.7	75.3
Dividend/share (Rs)	3.0	2.9	3.4
ROE (%)	17.7	17.8	16.9
ROCE (%)	12.0	13.4	13.6
P/E (x)	8.2	7.3	6.7
EV/EBITDA (x)	5.4	5.1	4.6
P/BV (x)	1.4	1.2	1.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	88.6	88.6	88.6
FII	1.6	1.5	1.3
DII	3.1	3.0	3.4
Others	6.7	6.9	6.7

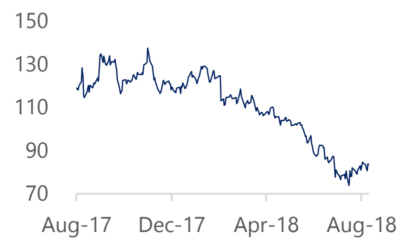
Source: Company

Price Performance (%)

(%)	1M	3M	6M
MRPL	6.2	(20.5)	(29.4)
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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MRPL

PRICE RS.83 TARGET RS.106 BUY

MRPL has reported significantly higher refining margins, beating benchmark Singapore refining margins, presumably due to higher inventory gains resulting from rise in crude oil price. However, lower crude throughput impacted the operating performance. In the medium to long term, the key factors to watch are GRMs, rupee movement against US dollar, and petroleum product demand. Further, investors are waiting for an announcement of swap ratio for merger of MRPL with HPCL.

Key Highlights

- MRPL reported lower than expected performance. MRPL reported a PAT of Rs. 3.6 bn in Q1FY19, lower 33% qoq due to lower sales volumes and higher forex losses. MRPL reported lower crude throughput of 3.85 mmt, -11% qoq and -3% yoy resulting in lower capacity utilization (103%).
- It reported significantly higher GRMs of US$8.28/bbl in Q1FY19 as against US$4.74/bbl in Q1FY18 and US$8.28/bbl in Q4FY18. Comparably, Benchmark Singapore refining margin stood at US$5.4/bbl in Q1FY19.

Valuation & outlook

Going ahead, we expect MRPL's profitability to improve on account of i). Improved product mix, ii). Better refining margins iii). Economies of scale, iv). Forward integration - Polypropylene plant and v). Various tax benefits. We expect MRPL to report an EPS of Rs.11.33/share in FY19E and an EPS of Rs.12.3 in FY20E supported by weaker INR/USD, higher GMRs but partly mitigated by lower crude throughput. At current price, the stock is trading at 6.7x P/E and 1.1x P/B multiples on FY20E earnings. We maintain BUY on MRPL with a revised price target of Rs.106 (earlier Rs.132), valuing it at 5.5x FY20E EV/EBIDTA (earlier at 6.0x, discount to its peers). We expect stock to remain in focus on the news flow of merger with HPCL, we opine.

Quarterly performance table

Particulars (Rs mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Sales	**165,827**	**187,531**	**144,946**	**14**	**(12)**
Incr/(Decr) in stock	15,465	(7,552)	6,853		
Total Expenditure	173,161	169,535	145,972	19	2
EBIDTA	**8,131**	**10,444**	**5,827**	**40**	**(22)**
Depreciation	1,704	1,617	1,637	4	5
EBIT	**6,427**	**8,827**	**4,190**	**53**	**(27)**
Other income	558	771	204	173	(28)
Interest-net	1,106	1,118	1,074	3	(1)
PBT	**5,879**	**8,479**	**3,320**	**77**	**(31)**
Extra ordinary Exp/(Inc)	262				
Tax	1,998	3,058	980	104	(35)
PAT	**3,620**	**5,421**	**2,340**	**55**	**(33)**
EPS (Rs)	**2.1**	**3.1**	**1.3**	**54.7**	**(33)**

Source: Company

Key Developments

- **Marketing initiatives:** The Company has increased its market presence by way of direct marketing of its products Petcoke, Sulphur and Polypropylene. The company is increasing the product grades of Polypropylene to enhance

Polypropylene (PP) market share and thereby fetch higher margins. In Feb'18, it has exported its first cargo of PP.

- **New expansion plans in place – Growth is a process:** MRPL has set-up the next milestone and is planning to enhance its refining capacity to 25 mmtpa (19% higher than targeted) as against an earlier target of 21 mmtpa and current capacity of 15.5 mmtpa. Additionally, the company is planning to scale up its petrochemical capacity to boost its margins. The Company will invest Rs.110 bn in this expansion. We like the sharpened focus of the company on the growth strategy. The expansion is seen as a major margin driver as it will help the company to process cheaper, heavier crudes into high-value products like diesel, liquefied petroleum gas and propylene.

- **MRPL is venturing into RLNG business:** MRPL has signed a memorandum of understanding (MOU) with new Mangalore Port Trust to study the feasibility of setting up an LNG re-gasification terminal at Mangalore. We believe this is at a preliminary stage and will have a long gestation period. However, if materializes then it will help MRPL to lower its refinery operating cost by replacing costlier liquid fuel with cheaper LNG.

- **Re-commencing retail outlets:** The Company has commissioned COCO (company owned and company operated) retail outlet in Mangalore in Feb'18 and also commissioned its first ever dealer owned dealer operated retail outlet at Mandya in March'18. In Karnataka, this is the sixth RO for MRPL. MRPL has drawn up plans for opening over 100 retail outlets which will improve its overall margins due to addition of marketing margins. The company is in the process of obtaining statutory approvals. MRPL has also taken over retail outlet of ONGC set up near the refinery unit and has now become a part of MRPL retail outlet map.

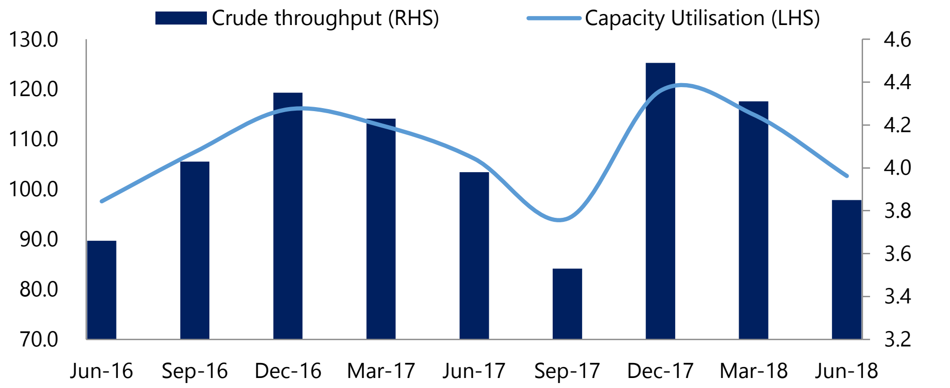
- **Auto fuel up-gradation:** MRPL is in the process of upgrading its facilities to produce BS-VI grade MS& HSD by April 2020 in-line with the Supreme Court directive and Auto fuel upgradation policy of Govt of India.

Quarterly result analysis – Q1FY19

- **Revenue growth:** Despite strong GRMs, MRPL's net revenue decreased 12% qoq to Rs.166 bn (+14% yoy) led by meaningful decline in crude throughput. Average realization stood higher at US$ 95/bbl, 18% yoy and 7% qoq due to higher product prices.

- **Crude throughput:** MRPL reported lower crude throughput of 3.85 mmt, -11% qoq and -3% yoy resulting in lower capacity utilization (103%).

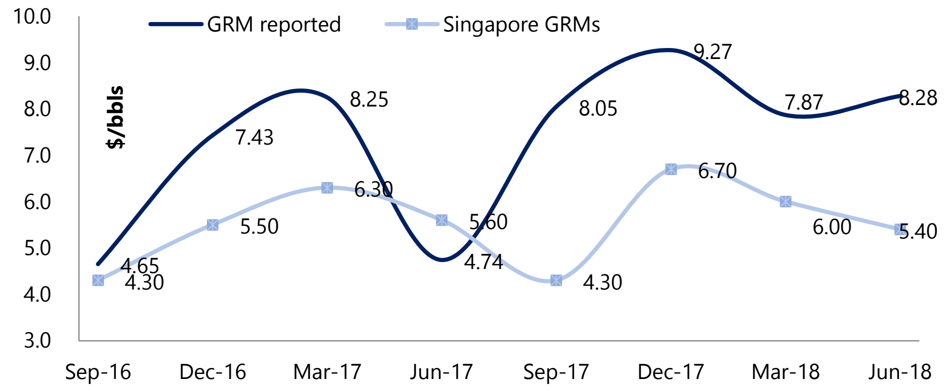
MRPL's crude throughput (mn mt) and capacity utilization (%)



Source: Company

- **Refining margins:** Presumably, due to higher inventory gains, MRPL reported significantly higher GRMs of US$8.28/bbl in Q1FY19 as against US$4.74/bbl in Q1FY18 and US$8.28/bbl in Q4FY18. Comparably, Benchmark Singapore refining margin stood at US$5.4/bbl in Q1FY19.

MRPL's GRMs v/s Benchmark Singapore GRMs (US$/bbl)



Source: Company. Note: MRPL's reported GRMs includes inventory gain/loss.

- **Raw material cost including purchases of finished goods:** Higher crude oil prices resulted in higher raw material cost for MRPL. RM cost increased 3% qoq to Rs.128 bn (16% yoy) despite lower crude throughput. In Q1FY19, Crude oil price increased by 9% qoq to US$ 67.2/bbl. Raw material cost to sales ratio (%) has increased 250 bps to 73.6%.
- **Employee cost:** Staff cost has decreased 27% qoq to Rs.938 mn (-2% yoy). Employee cost to sales ratio (%) has decreased 20 bps to 0.5%. We believe staff cost is within acceptable range.
- **Other expenses:** MRPL's other expenditure increased 289% qoq (partly base effect) to Rs.4.6 bn (-11% yoy). Operating cost per unit has increased substantially to US$2.91/bbl due to lower crude throughput.
- **Operating profit:** Higher raw material cost, higher operating cost and lower crude throughput resulted in lower EBIDTA profit of Rs.8 bn in Q1FY19, -22% qoq.
- **Interest cost:** MRPL's interest cost has decreased to Rs.1.1 bn, down 1% qoq. Gross debt as on 31st March'18 stands at Rs.107.4 bn.
- **Depreciation:** In Q1FY19, depreciation cost increased 4% yoy to Rs. 1.7 bn (5% qoq).
- **Other income:** MRPL's other income stands at Rs.558 mn in Q1FY19, decreased 28% qoq and 173% yoy mainly on account of lower dividend/interest income.
- **Exceptional loss:** The exceptional item of Rs. 261.8 mn in Q1FY19 is on account of estimated cost of purchase of Renewable Energy Certificate (REC) from Indian Energy Exchange (IEX), as per the direction received from Karnataka Electricity Regulatory Commission, for meeting Renewable Energy Purchase Obligation (RPO) from FY16 to FY18 based on company's captive consumption. The exceptional item for FY17-18 is on account of sharing of terminal charges collected from Oil marketing companies on cross country dispatch retrospectively from FY04 amounting to Rs.258.9 mn.
- **Profit before tax (PBT):** MRPL's PBT decreased significantly 31% qoq to Rs.5.8 bn (+77% yoy) due to lower operating performance and lower other income.

- **PAT:** The Company has reported lower net profit of Rs.3.6 bn (-33% qoq) mainly due to lower crude throughput, higher operating cost and lower other income.

Maintain BUY

Going ahead, we expect MRPL's profitability to improve on account of i). Improved product mix, ii). Better refining margins iii). Economies of scale, iv). Forward integration - Polypropylene plant and v). Various tax benefits. We expect MRPL to report an EPS of Rs.11.33/share in FY19E and an EPS of Rs.12.3 in FY20E supported by weaker INR/USD, higher GMRs but partly mitigated by lower crude throughput. At current price, the stock is trading at 6.7x P/E and 1.1x P/B multiples on FY20E earnings. We maintain BUY on MRPL with a revised price target of Rs.106 (earlier Rs.132), valuing it at 5.5x FY20E EV/EBIDTA (earlier at 6.0x, discount to its peers). We expect stock to remain in focus on the news flow of merger with HPCL, we opine.

Valuation

Particulars Unit FY20E	Unit	
EBIDTA	**Rs.. mn**	**48,209**
Multiple EV/EBIDTA	x	5.5
EV		265,150
Less: Net debt		78,525
M.cap		**186,625**
Fair Value / Share (Rs.)		106
CMP		83
Upside/ (Downside) (%)		**28.3**

Source: Kotak Securities - Private Client Research

Key Risk and Concerns:

- Wide fluctuations in crude, forex and product prices can impact the margins.
- If global supply exceeds demand then margins can be under pressure.
- Any delay in executing the project can significantly impact the valuations.

Company background

Mangalore Refinery and Petrochemicals Ltd. (Mini-Ratna status) is a pure play crude oil refiner with strong promoter backing of ONGC (India's biggest government owned exploration Company). MRPL has transformed itself into a large and complex refinery with phase-III capacity expansion and has emerged into a much stronger player in the industry.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**437,548**	**490,550**	**597,545**	**614,659**
% change YoY	10.1	12.1	21.8	2.9
EBITDA	**49,770**	**45,020**	**46,045**	**48,209**
% change YoY	188.6	(9.5)	2.3	4.7
Other Income	20,269	2,480	2,477	2,739
Depreciation	9,841	9,661	10,245	10,619
EBIT	**60,198**	**37,839**	**38,278**	**40,329**
% change YoY		(37.1)	1.2	5.4
Net interest	9,659	9,127	9,081	8,028
Profit before tax	**50,538**	**28,713**	**29,197**	**32,301**
% change YoY		(43.2)	1.7	10.6
Tax	17,606	10,977	9,343	10,659
as % of PBT	34.8	38.2	32.0	33.0
Profit after tax	**32,932**	**17,736**	**19,854**	**21,642**
Minority interest	0	0	0	0
Share of profit of associates	0	0	0	0
Net income	**32,932**	**17,736**	**19,854**	**21,642**
% change YoY	NM	(46.1)	11.9	9.0
Shares outstanding (m)	1,753	1,753	1,753	1,753
EPS (reported) (Rs)	**18.8**	**10.1**	**11.3**	**12.3**
CEPS (Rs)	24.4	15.6	17.2	18.4
DPS (Rs)	6.0	3.0	2.9	3.4

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	21,438	8,330	5,495	5,490
Accounts receivable	26,190	25,768	31,388	32,838
Inventories	44,140	52,404	65,484	67,360
Loans and Adv & Others	20,145	23,710	23,852	23,854
Current assets	111,913	110,211	126,220	129,543
Misc exp.	0	0	0	0
LT investments	419	384	384	384
Net fixed assets	208,383	208,910	209,438	209,965
Total assets	**320,715**	**319,506**	**336,042**	**339,892**
Payables	60,445	47,926	56,976	55,354
Others	4,739	51,270	57,745	57,967
Current liabilities	65,184	99,196	114,721	113,320
Provisions	31,866	4,536	4,046	4,533
LT debt	132,596	107,403	94,391	84,015
Min. int and def tax liabilities	-3,953	6,038	6,038	6,038
Equity	17,527	17,527	17,527	17,527
Reserves	77,496	84,808	99,320	114,459
Total liabilities	**320,715**	**319,506**	**336,042**	**339,892**
BVPS (Rs)	54.2	58.4	66.7	75.3

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	60,198	37,839	38,278	40,329
Depreciation	9,841	9,661	10,245	10,619
Change in working capital	(174,772)	7,530	(3,807)	(4,242)
Chgs in other net current assets	-	-	-	-
Operating cash flow	(104,734)	55,030	44,715	46,707
Interest	(9,659)	(9,127)	(9,081)	(8,028)
Tax	(17,606)	(10,977)	(9,343)	(10,659)
CF from operations	**(131,999)**	**34,926**	**26,292**	**28,019**
Capex	6,360	(10,188)	(10,772)	(11,146)
(Inc)/dec in investments	(414)	34	-	-
CF from investments	**5,947**	**(10,154)**	**(10,772)**	**(11,146)**
Others	4,429	43	977	(289)
Increase/(decrease) in debt	4,496	(25,193)	(13,012)	(10,376)
Proceeds from share premium	-	-	-	-
Dividends	(28)	(12,731)	(6,318)	(6,213)
CF from financing	**8,897**	**(37,881)**	**(18,354)**	**(16,878)**
Opening cash	138,594	21,438	8,330	5,495
Closing cash	21,438	8,330	5,495	5,490

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	11.4	9.2	7.7	7.8
EBIT margin (%)	13.8	7.7	6.4	6.6
Net profit margin (%)	7.5	3.6	3.3	3.5
Receivables (days)	22	19	19	20
Inventory (days)	37	39	40	40
Sales/gross assets(x)	2.0	2.2	2.8	2.8
Interest coverage (x)	4.1	3.9	3.9	4.7
Debt/equity ratio(x)	1.4	1.2	0.9	0.7
ROE (%)	20.0	17.7	17.8	16.9
ROCE (%)	19.7	12.0	13.4	13.6
EV/ Sales	0.6	0.5	0.4	0.4
EV/EBITDA	5.2	5.4	5.1	4.6
Price to earnings (P/E)	4.4	8.2	7.3	6.7

Source: Company, Kotak Securities – Private Client Research

Result Update

STERLING TOOLS LTD (STL)

PRICE RS.385 **TARGET RS.418** **ACCUMULATE**

In 1QFY19, STL reported strong growth in revenue, EBITDA and PAT. Strong volume growth across segments in the automobile sector translated into robust performance for STL. Company reported results ahead of our estimate on account of higher than expected growth in revenues.

Stock Details

Market cap (Rs mn)	:	13765
52-wk Hi/Lo (Rs)	:	478 / 223
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	9,227
Shares o/s (mn)	:	36

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	4,529	5,129	5,822
Growth (%)	21.1	13.3	13.5
EBITDA	907	1,044	1,205
EBITDA margin (%)	20.0	20.3	20.7
Net profit (adjusted)	487	581	685
Adjusted EPS (Rs)	13.5	16.1	19.0
Growth (%)	34.1	19.4	17.9
Book value (Rs/share)	68.9	82.7	99.3
Dividend per share (Rs)	2.0	2.0	2.0
ROE (%)	23.6	21.3	20.9
ROCE (%)	31.0	29.7	29.9
P/E (x)	28.5	23.9	20.3
EV/EBITDA (x)	15.0	12.9	10.8
P/BV (x)	5.6	4.7	3.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	65.3	65.3	65.3
FII	0.0	0.0	0.0
DII	6.1	5.6	5.2
Others	28.6	29.0	29.4

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Sterling Tools	9.3	(4.5)	(5.3)
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Key result highlights

STL's revenue in 1QFY19 came in at Rs1,313mn, 34% growth over 1QFY18. High production growth across segments (mainly commercial vehicle segment) led to high revenue growth in the quarter. EBITDA grew by 26% YoY and higher input cost and other expenses led to EBITDA margin declining YoY. Net profit increased from Rs96mn in 1QFY18 to Rs140mn in 1QFY19.

Outlook and Valuation

STL's majority revenues come from selling fasteners to the auto OEM segment. In 1QFY19, the production remained significantly higher in certain segments (commercial vehicle and tractor) due to high demand and/or low base. While we expect the overall auto segment to witness growth, we believe that growth rate will moderate for certain segments witnessing high growth in 1QFY19. On the back of growing demand for automobiles, we expect healthy revenue and earnings growth for STL. We retain ACCUMULATE rating on the stock with an unchanged price target of Rs418.

Quarterly performance

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenues	**1,313**	**979**	**34.1**	**1,312**	**0.1**
Total expenditure	1,060	778	36.3	1,106	(4.1)
RM consumed	538	381	41.1	514	4.7
Employee cost	93	88	5.6	82	12.5
Power & Fuel Charges	88	76	16.8	94	(5.5)
Other expenses	341	233	46.2	416	(17.9)
EBITDA	**252**	**201**	**25.6**	**206**	**22.3**
EBITDA margin (%)	19.2	20.5	-	15.7	-
Depreciation	46	43	5.8	42	7.4
Interest cost	7	10	(30.0)	10	(24)
Other Income	19	3	474.3	15	21.2
Exceptional gain / (loss)					
PBT	**218**	**151**	**44.8**	**170**	**28.5**
PBT margins (%)	16.6	15.4		12.9	
Tax	78	55	42.2	52	50.5
Tax rate (%)	35.7	36.3	-	30.4	-
Reported PAT	**140**	**96**	**46.2**	**118**	**18.9**
PAT margins (%)	10.7	9.8	-	9.0	-
EPS (Rs)	**3.9**	**2.7**	**46.2**	**3.3**	**18.9**

Source: Company

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Result Highlights

Revenue in the quarter increased from Rs979mn in 1QFY18 to Rs1,313mn in 1QFY19, growth of 34%. Increase in revenue came on the back robust demand translating into higher growth. On a YoY basis, strong demand led to two wheeler and passenger vehicle production growing by 15% and 11% respectively. Low base and high demand led to 68% YoY increase in commercial vehicle production. Good monsoon is fueling growth for the third consecutive year for the tractor segment (domestic sales growth was 27% YoY). In comparison with 4QFY18, growth remained flat as higher production in the two wheeler and the tractor segment was offset by de-growth in commercial vehicle and passenger vehicle segment.

EBITDA in the quarter grew by 26% YoY to Rs252mn. EBITDA margin contracted from 20.5% in 1QFY18 to 19.2% in 1QFY19 on account of commodity cost pressure and higher other expenses. Given commodity cost inflation, gross margin was down by 210bps YoY and 180bps QoQ to 59%. On a YoY basis, other expenses came in higher than expected on lower 1QFY18 base.

Interest cost declined on the back of reduction in debt. Other income was higher YoY due to increase in investible cash surplus. PAT in the quarter stood at Rs140mn, 46% and 19% growth YoY and QoQ respectively. Reported PAT came in ahead of our estimate of Rs124mn.

Outlook and Valuation

In 1QFY19, production growth remained strong across segments, but was particularly high in the commercial vehicle and tractor segment, due to high demand and also supported by low base. Going ahead, we highlight that base effect normalizes and thereby expect growth in the commercial and tractor segment to moderate. In 1QFY19, the two wheeler and passenger vehicle production growth was 15% and %11 respectively and we broadly expect similar growth for these segments in FY19. Given revised new norms for axle, there is some demand uncertainty for the commercial vehicle segment, but Ashok Leyland is looking at ~15% growth in FY19 and much higher growth in FY20. Tractor companies expect ~12-15% demand growth in FY19.

STL's gross margin tends to suffer in the event of rising commodity price scenario. Accordingly, the company's gross margin declined in FY18 and the trend continued in 1QFY19. . While the company has cost pass through with its customers; the same happens with a lag of 3-12 months. Thereby, in the near term, rising commodity prices could dampen margins but we expect the impact to normalize over the medium term. From a slightly longer term, we expect STL to benefit from higher share of special fasteners in the revenue mix.

We retain ACCUMULATE rating on the stock with an unchanged price target of Rs418. We value the stock at PE of 22x FY20E earnings.

Key Risk

Slowdown in automobile demand – STL's sales is largely dependent on OEM's. Any slowdown in sales will impact STL's financial performance,

Raw material cost increase – STL has cost pass through clause with its customers but negotiation time-frame varies between 3 months to 12 months. Thereby in an event of increasing raw material price, the pass through will likely to happen with a lag, thereby impacting margins and earnings in the intermediate term.

Company background

STL is one of the leading suppliers of fasteners to the domestic automobile manufacturers. Company manufactures high tensile cold forged fasteners across all the segments in the automobile space. Apart from the domestic OEM's, company also supplies its products in the domestic aftermarket and also export it to Europe. Company's domestic clients includes Honda Motorcycle, Maruti Suzuki, Honda Cars, Ashok Leyland, M&M, Escorts and Tata Motors. STL highlighted that they enjoy a market share of ~27-28%, second to Sundram Fasteners market share of 32-35%. Company's products includes – standard fasteners, chassis fasteners, engine fasteners and special fasteners.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**3,739**	**4,529**	**5,129**	**5,822**
% change YoY	1.2	21.1	13.3	13.5
EBITDA	**737**	**907**	**1,044**	**1,205**
% change YoY	19.2	23.0	15.1	15.4
Depreciation	153	176	193	214
EBIT	**584**	**731**	**851**	**990**
% change YoY	20.5	25.1	16.4	16.4
Net interest	55	38	30	24
Other Income	26	56	73	88
Exceptional income/(loss)	44	0	0	0
Profit before tax	**599**	**749**	**893**	**1,054**
% change YoY	37.8	25.1	19.3	17.9
Tax	210	263	313	369
as % of PBT	35.1	35.1	35.0	35.0
Profit after tax	**389**	**487**	**581**	**685**
Adjusted PAT	**345**	**487**	**581**	**685**
% change YoY	19.7	41.1	19.4	17.9
Shares outstanding (m)	34	36	36	36
Adjusted EPS (Rs)	**10.1**	**13.5**	**16.1**	**19.0**
DPS (Rs)	2.0	2.0	2.0	2.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	28	550	630	1,022
Accounts receivable	342	455	492	558
Inventories	459	545	567	641
Loans and Adv & Others	152	225	181	193
Current assets	982	1,775	1,870	2,414
LT investments	179	189	179	179
Net fixed assets	1,431	1,584	1,818	1,854
Total assets	**2,592**	**3,548**	**3,867**	**4,447**
Payables	286	365	393	447
Other liabilities	67	274	83	91
Current Liabilities	352	639	476	538
Provisions	41	25	48	53
Deferred Tax Liability	156	152	152	152
Debt	402	251	212	128
Equity	68	72	72	72
Reserves	1,571	2,408	2,906	3,504
Total liabilities	**2,592**	**3,548**	**3,867**	**4,447**
BVPS (Rs)	47.9	68.9	82.7	99.3

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	584	731	851	990
Depreciation	153	176	193	214
Change in working capital	(10)	(119)	(30)	(87)
Change in other net current asset	55	119	(125)	1
Operating cash flow	782	906	889	1,118
Interest	(55)	(38)	(30)	(24)
Tax	(201)	(266)	(313)	(369)
Other Income	26	56	73	88
EO income	44	-	-	-
Others	-	(3)	3	-
Cash flow from operations	**596**	**655**	**622**	**813**
Capex	(191)	(328)	(427)	(250)
(Inc)/dec in investments	(120)	(546)	(4)	(400)
Cash flow from investments	**(311)**	**(874)**	**(432)**	**(650)**
Proceeds from issue of equities	-	4	0	-
Inc/(dec) in debt	(289)	(152)	(38)	(84)
Proceeds from share premium	-	441	-	-
Dividends	(82)	(87)	(87)	(87)
Cash flow from financing	**(372)**	**206**	**(125)**	**(171)**
Opening cash	115	28	15	80
Closing cash	28	15	80	72

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	19.7	20.0	20.3	20.7
EBIT margin (%)	15.6	16.1	16.6	17.0
Adj. net profit margin (%)	9.2	10.7	11.3	11.8
Working capital days				
Inventory (days)	45	44	45	45
Receivable (days)	33	37	35	35
Payable (days)	28	29	28	28
Ratios				
Debt/equity ratio (x)	0.2	0.1	0.1	0.0
ROE (%)	23.2	23.6	21.3	20.9
ROCE (%)	27.9	31.0	29.7	29.9
Valuations				
EV/ Sales	3.6	3.0	2.6	2.2
EV/EBITDA	18.4	15.0	12.9	10.8
Price to earnings (P/E)	38.2	28.5	23.9	20.3
Price to book value (P/B)	8.0	5.6	4.7	3.9

Source: Company, Kotak Securities – Private Client Research

Result Update

MAHINDRA HOLIDAYS & RESORTS LTD (MHRIL)

PRICE RS.279 **TARGET RS.390** **BUY**

MHRIL Q1FY19 revenue was mixed bag with membership addition was ahead of estimates while VO income was below our estimates. The company has adopted new accounting standard (Ind AS 115), due to which actual reported Q1FY19 numbers are not comparable. The company has also reported Q1FY19 numbers under previous Ind AS 18 and we have analysed results based on the same.

Key Highlights

- Standalone net revenue for the quarter grew by 6.4% yoy to Rs 2.9 bn and was broadly inline with our estimates driven by strong growth in resort income while VO income was lower than our estimates.
- EBITDA margins at 21.7% was slightly below our estimates with PAT grew by 13.8% yoy at Rs 368 mn.
- MHRIL has added 4577 new members (up 14.3% yoy) which took cumulative membership base to 240,369 up 8.3% yoy. The company has not added new inventory in Q1FY19, however it is on track to add 500 rooms in next two years through greenfield expansion.

Valuation & outlook

- We have maintained our revenue and earnings estimates based on previous Ind AS 18. The change in AS has no impact on company fundamentals, profits over membership tenure, operating and free cashflows, etc.
- The stock is presently trading at FY19E/20E PE of 21.8/19x based on EPS of Rs. 12.8/14.7 respectively. We maintain Buy on the stock with unchanged target price of Rs 390.

Quarterly performance table (based on Ind AS 18)

Year to March (Rs mn)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Net Revenues	**2,876**	**2,702**	**6.4**	**2,961**	**(2.9)**
Employee Expenses	691	629	9.9	643	7.4
Other Expenses	1,561	1,501	4.0	1,693	(7.8)
Operating Expenses	2,252	2,129	5.7	2,336	(3.6)
EBITDA	**624**	**573**	**8.9**	**625**	**(0.2)**
EBITDA margin (%)	21.7	21.2		21.1	
Depreciation	132	143	(7.6)	129	2.0
Other income	78	65	20.0	98	(20.9)
Net finance expense	-	-	-	-	-
Profit before tax	**570**	**495**	**15.2**	**594**	**(4.1)**
Provision for taxes	202	172	17.7	209	(3.1)
Reported net profit	**368**	**323**	**13.8**	**386**	**(4.6)**
As % of net revenues					
Employee cost	24.0	23.3		21.7	
Other Expenses	54.3	55.5		57.2	
Operating expenses	78.3	78.8		78.9	
EBITDA	21.7	21.2		21.1	
Reported net profit	12.8	12.0		13.0	
Tax rate (% of PBT)	35.5	34.7		35.1	

Source: Company

Stock Details

Market cap (Rs mn)	:	37291
52-wk Hi/Lo (Rs)	:	404 / 271
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	98,911
Shares o/s (mn)	:	133

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	10,642	12,443	14,166
Growth (%)	(0.8)	16.9	13.8
EBITDA	2320	2877	3302
EBITDA margin (%)	21.8	23.1	23.3
PAT	1344	1703	1952
EPS	10.1	12.8	14.7
EPS Growth (%)	2.8	26.7	14.7
BV (Rs/share)	57.6	65.7	74.6
Dividend/share (Rs)	4.0	4.0	5.0
ROE (%)	18.7	20.8	21.0
ROCE (%)	24.6	28.1	28.2
P/E (x)	27.6	21.8	19.0
EV/EBITDA (x)	15.9	12.6	10.6
P/BV (x)	4.8	4.2	3.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	67.3	67.4	67.5
FII	7.5	7.6	13.4
DII	12.9	12.7	7.3
Others	12.3	12.3	11.9

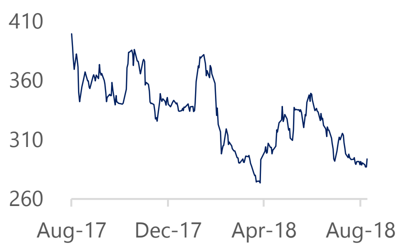
Source: Company

Price Performance (%)

(%)	1M	3M	6M
MHRL	(11.0)	(16.7)	(8.5)
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Quarterly performance table (under new accounting standard Ind AS 115)

Year to March (INR Mn.)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Net Revenues	**2,345**	**2,702**	**(13.2)**	**2,961**	**(20.8)**
Employee Expenses	623	629	(1.0)	643	(3.2)
Other Expenses	1,453	1,501	(3.2)	1,693	(14.2)
Operating Expenses	2,076	2,129	(2.5)	2,336	(11.2)
EBITDA	**270**	**573**	**(52.9)**	**625**	**(56.9)**
EBITDA margin (%)	11.5	21.2		21.1	
Depreciation	132	143	(7.6)	129	2.0
Other income	78	65	20.0	98	(20.9)
Net finance expense	-	-	-	-	-
Profit before tax	**216**	**495**	**(56.4)**	**594**	**(63.7)**
Provision for taxes	78	172	(54.3)	209	(62.4)
Reported net profit	**137**	**323**	**(57.5)**	**386**	**(64.4)**
As % of net revenues					
Employee cost	26.5	23.3		21.7	
Other Expenses	62.0	55.5		57.2	
Operating expenses	88.5	78.8		78.9	
Reported net profit	5.9	12.0		13.0	
Tax rate (% of PBT)	36.4	34.7		35.1	

Source: Company

Q1FY19 revenue grew by 6.4% driven by strong resort income

Net revenue for the quarter grew by 6.4% yoy to Rs 2.9 bn and was broadly inline with our estimates (of Rs 2.93 bn) driven by strong growth in resort income while VO income was lower than our estimates. The resort income for the quarter grew by 28% yoy to Rs 640 mn and was ahead of our estimates of Rs 575 mn driven by 29.1% yoy growth in room income. VO income grew at lower rate by 2.4% vs our estimates of 10% yoy growth despite strong growth of 14.3% yoy growth in members additions. The lower growth in VO is also attributed to change in new member addition mix on yoy as the company also added members under low realization product Bliss, which was largely insignificant in Q1FY18.

MHRIL reported 8.9% yoy growth in EBITDA with EBITDA margins of 21.7% slightly lower than our estimates. The company has been focusing on rationalizing membership acquisition cost which will improve profitability in the longer run. PAT for the quarter grew by 13.8% yoy due to lower depreciation and higher other income.

Revenue Breakup

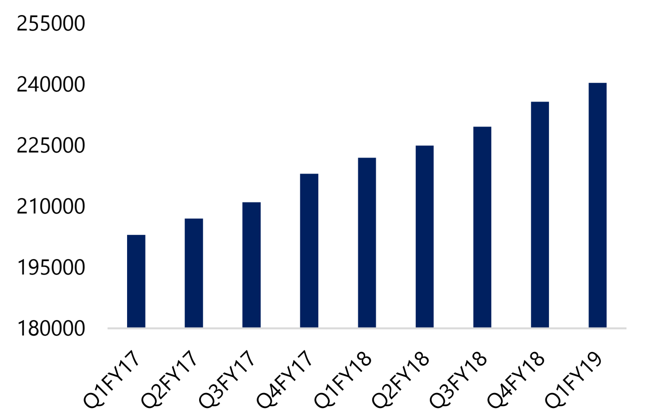
	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
VO Income	1450	1416	2.4	1642	(11.7)
ASF Income	550	573	(4.0)	580	(5.2)
Resorts Income	640	501	27.7	496	29.2
Interest & Others	230	212	8.6	244	(5.7)
Others (non operating income)	78	65	19.8	98	(20.8)

Source: Company

New member addition continued to grow

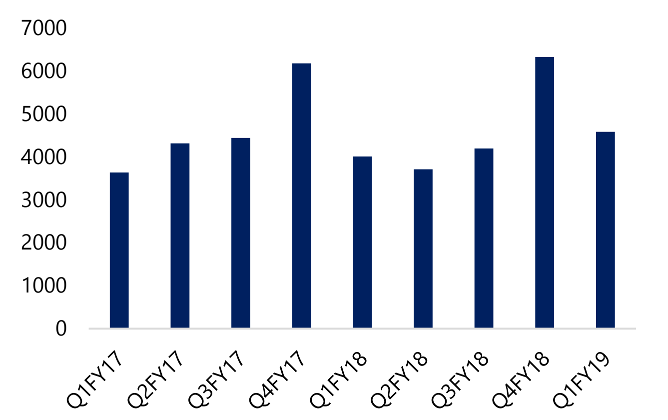
After taking corrective measures in FY18, the new members addition grew in the last two quarters. Apart from that, new product Bliss with lower membership tenure (for higher age group) also helped in growing membership base. The company added 4577 new members (up 14.3% yoy) which took cumulative membership base to 240,369, up 8.3% yoy and was ahead of our estimates. The growth in membership was affected in Q2FY18 and Q3FY18 as MHRIL adopted corrective measures such as 1) targeting members of the right profile, 2) encouraging higher down payments with increased share of members who are paying 50% down payment and 3) stopped 48 EMIs in its Blue Studio product. The company's focus on adding right quality members will positively impact its margins and cash flows in the longer run.

Cumulative membership base (nos)



Source: Company

Membership addition (nos)



Source: Company

Inventory addition on track

MHRIL has not added any new inventory in the quarter and its total inventory stood unchanged at 3472 at the end of Q1FY19. As part of its greenfield capex plans, MHRIL is adding ~500 new units at three location with capex of Rs 5 bn. The expansion at three properties at Asanora, (Goa, ~240 rooms), Ashtamudi (Kerala, 100 rooms) are on track. Regarding Kandaghat (Himachal Pradesh, ~140 rooms), the company is awaiting certain approvals. These all greenfield projects would be delivered in the next two years. Apart from these, the company is exploring expansions at new and existing location through lease model. The addition of new inventory is expected to drive growth in membership in coming years.

Change in Accounting Standard has no impact on cash flows

The company has adopted new accounting standard Ind AS 115 retrospectively on total membership base under which VO income is recognized over the tenure of membership as against previous accounting standard (Ind AS 18) under which 60% of new membership fee was accounted upfront and balance was deferred over the membership tenure. This 60% upfront booking was covering entire membership cost. Under the new AS only direct expenses related to membership acquisition (like certain commission, incentives, etc) can be deferred over the membership period. Due to the change in accounting standard the reported revenue under new Ind AS 115 for the quarter declined by 13% yoy and PAT declined by 57.5% yoy. The new AS will reduce total reported revenue and EBITDA margin in near term, but it will have no impact on overall profits over the membership tenure, operating cash flows and free cashflows. The new AS will reduce the networth of the company and will increase the deferred revenue. The company would be reporting balance sheet under new AS in Q2FY19 result.

Change in accounting standard

Head	Ind AS 18 (previous)	Ind AS 115 (new)
VO Income	60% non refundable admission fee ecognized upfront, 40% deferred over the tenure of membership	Recognized over the tenure of membership
Cost	Costs are allocated to P&L as and when incurred	ONLY incremental costs to obtain the contract are amortized over the tenure of membership

Source: Company

Other highlights

- The company is focusing on high potential new markets for growing membership base. It is also focusing on tier 2 and tier 3 cities.
- The company is testing a new product with lower tenure of 3 years in order to give its service experience to new customers. The company believes that this product can help it in converting these members to longer tenure members.
- The company plans to add inventory at new locations through leased model as well. In past few years, 35% of the inventory addition took place through leased resorts. This also helped company to meet members to room ratio at optimum level and also help it in expanding reach at locations where greenfield projects may take longer time.
- On HCRO, MHRIL had turnaround it in FY18. Q1 is low season for HCRO while Q4 is the best. As per management, HCRO is progressing as per plan.

Outlook and valuation

We have maintained our revenue and earnings estimates based on previous Ind AS 18. We believe that the change in AS has no impact on business fundamental, profits over membership tenure, operating and free cash flows, etc. We expect MHRIL's revenue and PAT to grow at a CAGR of 15.4 and 20.5% respectively in FY18-20E driven by addition of new inventories supporting membership growth, growing share of resort income and increasing realization due to corrective measures adopted in recent time. This will have positive impact on earnings, cash flows and returns ratios. The stock is presently trading at FY19E/20E PE of 21.8/19x based on EPS of Rs.12.8/14.7 respectively. We maintain Buy with SOTP based target price of Rs 390.

SOTP valuation

Segment	Parameter	Value	Per Share
Mahindra Holidays	DCF	47,371	357
Holiday Club Resort	BV of equity	4,450	34
Equity value		51,821	390

Source: Kotak Private Client Research

Company Background

Mahindra Holidays & Resorts India Limited (MHRIL), part of Mahindra group and founded in 1996, is a leading player in the leisure hospitality industry operating under brand name 'Club Mahindra'. The company is the market leader in the vacation ownership (VO) business in India with over 20 years of track record. MHRIL has built a membership base of over 2 lakh members, offering them holidays across 50+ resorts across India. In FY15, MHRIL acquired Finnish vacation ownership player 'Holiday Club Resorts", a leading vacation ownership company in Europe. MHRIL initially acquired 18% stake in Holiday Club Resorts Oy (HCR) which subsequently increased to around 95%. With this acquisition, MHRIL has become the largest vacation ownership company outside US with a bouquet of 81 resorts across Thailand, Malaysia, Dubai, Finland, Sweden and Spain. Further, its members can choose to access a range of resorts globally through its RCI affiliation. The company delivers quality family holidays experience at its properties by offering various activities such as sports, adventure, fun, dance, etc. Its resorts are located at different terrain such as beaches, hill stations, jungle, deserts, etc giving bouquet of experiences.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**10,732**	**10,642**	**12,443**	**14,166**
% change yoy	12.8	(0.8)	16.9	13.8
Employees expenses	2,253	2,428	2,671	2,938
Material Consumed	342	339	396	451
Other SG&A Expenses	5,850	5,908	6,499	7,474
Total Expenditure	8,289	8,322	9,566	10,863
EBITDA	**2,443**	**2,320**	**2,877**	**3,302**
% change yoy	7.6	(5.0)	24.0	14.8
Depreciation	605	548	575	678
EBIT	1,838	1,772	2,302	2,624
Other Income	172	300	318	334
Interest	0	0	0	0
Profit Before Tax	2,009	2,072	2,619	2,958
% change yoy	19.5	3.1	26.4	12.9
Tax	703	728	917	1,006
as % of EBT	35.0	35.1	35.0	34.0
PAT	**1,307**	**1,344**	**1,703**	**1,952**
% change yoy	15.0	2.8	26.7	14.7
Shares outstanding (mn)	88	133	133	133
EPS (Rs)	**9.8**	**10.1**	**12.8**	**14.7**
DPS (Rs)	5.0	4.0	4.0	5.0
CEPS (Rs)	14.4	14.2	17.2	19.8
BVPS (Rs)	50.8	57.6	65.7	74.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Equity	6,744	7,644	8,726	9,901
Equity Share Capital	882	1,328	1,328	1,328
Other Equity	5,862	6,317	7,398	8,573
Liabilities	23,120	25,233	27,649	30,541
Non-current liabilities	18,876	20,543	22,426	24,595
Financial Liabilities & Prov.	96	101	101	101
Other non-current liabilities	18,780	20,442	22,325	24,495
Current liabilities	4,244	4,690	5,223	5,946
Financial Liabilities	1,929	1,997	2,295	2,613
Provisions	16	34	29	33
Other current liabilities	2,298	2,660	2,899	3,300
Total Equities & Liabilities	**29,864**	**32,878**	**36,375**	**40,442**
Non-current assets	17,414	17,692	20,255	21,728
Property, Plant and Equipmt	8,786	8,485	10,988	12,400
Capital work-in-progress	596	1,085	1,085	1,085
Intangible assets	181	107	117	127
Financial Assets	6,349	6,349	6,398	6,450
Deferred Tax Assets (Net)	207	135	135	135
Other non-cur tax assts (Net)	1,078	1,178	1,178	1,178
Current assets	12,450	15,185	16,120	18,714
Inventories	59	63	92	104
Financial Assets	12,086	14,767	15,617	18,142
Cash & Equivalent	2,518	4,686	5,219	6,318
Other current assets	305	355	411	468
Total Assets	**29,864**	**32,878**	**36,375**	**40,442**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	2,009	2,072	2,619	2,958
Depreciation	605	548	575	678
Change in WC	589	1,692	1,965	1,346
Other operating activities	(546)	(993)	(905)	(1,005)
Operating Cash Flow	**2,658**	**3,318**	**4,254**	**3,976**
Capex	(728)	(781)	(3,100)	(2,100)
Free Cash Flow	1,927	2,536	1,154	1,876
Chg in Investments & Others	(105)	(3,369)	-	-
Investment cash flow	**(833)**	**(4,150)**	**(3,100)**	**(2,100)**
Equity Raised	-	59	-	-
Debt Raised	-	-	-	-
Dividend & others	(534)	(535)	(622)	(777)
CF from Financing	**(534)**	**(477)**	**(622)**	**(777)**
Change in Cash	1,291	(1,308)	533	1,099
Opening Cash	256	1,547	239	772
Closing Cash	1,547	239	772	1,871

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	22.8	21.8	23.1	23.3
EBIT margin (%)	17.1	16.7	18.5	18.5
Net profit margin (%)	12.2	12.6	13.7	13.8
Balance Sheet Ratios:				
Receivables (days)	295	321	290	290
Inventory (days)	3	3	3	3
Payable (days)	44	44	44	44
Working capital (days)	209	218	190	178
Asset Turnover (x)	0.4	0.4	0.4	0.4
Net Debt/ Equity (x)	(0.4)	(0.6)	(0.6)	(0.6)
Return Ratios:				
RoCE (%)	29.1	24.6	28.1	28.2
RoE (%)	20.7	18.7	20.8	21.0
Valuation Ratios:				
P/E (x)	28.3	27.6	21.8	19.0
P/BV (x)	5.5	4.8	4.2	3.7
EV/EBITDA (x)	9.4	15.9	12.6	10.6
EV/Sales (x)	2.1	3.5	2.9	2.5

Source: Company, Kotak Securities – Private Client Research

kotak Securities

Result Update

VA TECH WABAG LTD

PRICE RS.372 TARGET RS.476 BUY

VA Tech (VAW) reported good set of numbers which exceeded our estimates on revenue front. EBITDA margin was in-line but forex loss resulted in slippage on the profit front. The company has reported tepid order wins in Q1FY19, thereby leading to further decline in order book.

Key Highlights

- Order intake declined 25% y-o-y to Rs 5.3 bn. Order intake lagged the run-rate needed to meet the full year management guidance of Rs 53-57 bn.
- Order book at Rs 66.6 bn, down 10% on a y-o-y basis.

Valuation and Outlook

In view of the long term growth potential in water and waste water treatment and reasonable valuations, we reiterate "BUY" with price target of Rs 476 (earlier Rs 550), valuing the stock at 13x FY20 earnings (earlier valued at 15xFY20E). We are according lower exit multiple to the stock in view of the 1) recent slippages in order intake guidance 2) deterioration in balance sheet metrics – increase in debt due to higher working capital engagement.

We will consider according higher target multiple if 1) upturn in order inflows and 2) receipt of retention money from APGENCO.

Stock Details

Market cap (Rs mn)	:	20110
52-wk Hi/Lo (Rs)	:	654 / 336
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	176,226
Shares o/s (mn)	:	55

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	34,746	38,221	42,043
Growth (%)	8.3	10.0	10.0
EBITDA	2,918	3,287	3,616
EBITDA margin (%)	8.4	8.6	8.6
PAT	1,353	1,695	1,998
EPS	24.8	31.1	36.6
EPS Growth (%)	32.1	25.3	17.9
BV (Rs/share)	207	238	273
Dividend/share (Rs)	4.0	4.0	4.0
ROE (%)	12.7	14.0	14.6
ROCE (%)	10.9	11.7	12.8
P/E (x)	15.0	12.0	10.1
EV/EBITDA (x)	8.0	5.9	5.1
P/BV (x)	1.8	1.6	1.4

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	24.7	24.7	24.7
FII	21.4	24.7	25.8
DII	20.1	20.1	19.8
Others	33.8	30.5	29.7

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Va Tech Wabag	(4.0)	(24.3)	(35.4)
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Quarterly performance

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	**6,879**	**6,686**	**2.9**	**10,375**	**-33.7**
Total Expenditure	6,467	6,267	3.2	9,427	-31.4
(Increase) / Decrease In Stocks	-8	-14	-44.4	30	-127.0
Cost of Services & Raw Materials	5,159	5,270	-2.1	8,096	-36.3
Other Expenses	659	352	87.3	633	4.1
Employee Cost	658	661	-0.4	669	-1.7
PBIDT	**412**	**419**	**-1.7**	**948**	**-56.6**
Other Income	7	20	-66.8	26	-75.2
Operating Profit	418	438	-4.6	974	-57.1
Depreciation	43	45	-5.5	45	-5.7
EBIT	**375.3**	**393.0**	**-4.5**	**929**	**-59.6**
Interest	148	133	11.3	158	-6.3
Exceptional Items	-	-		-	
Forex gain/(loss)	-	-		-	
PBT	**227.0**	**259.8**	**-12.6**	**770**	**-70.5**
Tax	101	160	-36.9	145	-30.6
Profit After Tax	**126.1**	**99.8**	**26.4**	**625**	**-79.8**
Minority Interest	-12.1	-17.9	-32.4	(38)	-67.9
Shares of Associates	16.0	2.3	595.7	9	75.8
Consolidated Net Profit	130.0	84.2	54.4	596	-78.2
EBITDA excl other op income (%)	6.0	6.3		9.1	
Material costs to sales (%)	74.9	78.6		78.3	
Staff costs to sales (%)	9.6	9.9		6.5	
Other expenditure to sales (%)	9.6	5.3		6.1	
Tax rate (%)	44.4	61.6		30	
EPS (Rs)	**2.4**	**1.5**		**10.9**	

Source: Company

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Quarterly performance – Reported Vs Estimated

Rs mn	Reported	Estimated
Revenue	6,879	6,500
EBITDA %	5.9	6.0
PAT	130	144

Source: Kotak Securities – Private Client Research

Consolidated results highlights

- Revenue - consolidated revenue stood at Rs 6.8 bn (+2.9% YoY) and was modestly ahead of our revenue estimates.
- EBITDA for the quarter stood at Rs 412 mn (down 1.7% YoY), which was ahead of our estimates as the margins were in-line with our estimates.
- EBITDA margins for the quarter stood at 6.0% vs 6.3% on a y-o-y basis, mainly due to 87% y-o-y increase in "other expenditure" which was attributed to forex loss of Rs 234 mn as compared to a minor forex gain of Rs 13 mn in the corresponding quarter of the previous fiscal.
- The impact of forex loss was to a great extent offset by higher gross margins which could be due to change in project mix (as some projects may have reached profit recognition stage). The management attributed improved gross margins to overseas project progress and aided by cost control initiatives in Europe.
- Share of profits from associates stood at Rs 16 mn vs Rs 2.3 mn on a y-o-y basis. The company reported PAT of Rs 130 mn vs Rs 84.2 mn in corresponding quarter of the previous fiscal.
- Consolidated Order backlog stands at Rs 66 bn (Rs 74 bn on a y-o-y basis). Order book has declined in FY18 and Q1FY19 due to sluggish pace of order accretion. Notwithstanding the decline, the revenue visibility provided by order book is adequate at 23.6 months of trailing four quarter revenues.
- Order intake in Q1FY19 stood at Rs 5.3 bn (vs Rs 7.0 bn on a y-o-y basis); the decline being caused by delay in finalization of large orders in India as well as Overseas markets.

Maintained Guidance

The company missed out on its revenue guidance of Rs 38-40 bn in FY18 due to tepid order book. For the current fiscal, the management has given revenue guidance of Rs 40-42 bn, which implies a growth of 15-21% over FY18 revenues.

Also, the company missed out on its order intake guidance of Rs 43-45 bn in FY18 as actual order intake was at Rs 31.9 bn. For the current fiscal, the management has given order intake guidance of Rs 53-57 bn, which implies a growth of 66-79% over FY18 order intake. The management believes that couple of large orders have got delayed and some of these should materialize in FY19, which should help the company meet its guidance.

The company expects some of the large orders to get awarded by Dec 2018.

Valuation – Maintain BUY

VAW is trading at 12x and 10x, FY19 and FY20 earnings respectively. The Wabag stock has corrected in past few quarters on 1) weak order intake in FY18 and credible risk of missing on the order intake guidance 2) Decline in order book 3) Higher working capital engagement especially in case of APGENCO orders.

In view of the long term growth potential in water and waste water treatment and reasonable valuations, we reiterate "BUY" with price target of Rs 476 (earlier Rs 550), valuing the stock at 13x FY20 earnings (earlier valued at 15xFY20E). We are according lower exit multiple to the stock in view of the 1) recent slippages in order intake guidance 2) deterioration in balance sheet metrics – increase in debt due to higher working capital engagement.

We will turn more bullish if 1) upturn in order inflows and 2) receipt of retention money from APGENCO.

Company background

VAW is a multinational player in the water treatment industry with market presence in India, the Middle East, North Africa, Central and Eastern Europe, China and South East Asia through its principal offices in India, Austria, the Czech Republic, China, Switzerland, Algeria, Romania, Tunisia, UAE, Libya and Macao. VAW is headquartered in Chennai and operations are conducted through its overseas subsidiaries and branch and representative offices. VAW shares strategic and technical expertise across Subsidiaries that allows research, operational and marketing synergies.

VAW has R & D centres located in Chennai, India and at Vienna and Winterthur in Austria and Switzerland respectively. Wabag Austria and Wabag Wassertechnik own 157 patents which include both process and product patents. Wabag Austria has also applied for 51 patents that are pending.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**32,079**	**34,746**	**38,221**	**42,043**
% change yoy	26.1	8.3	10.0	10.0
EBITDA	**2,967**	**2,918**	**3,287**	**3,616**
% change yoy	36.8	(1.6)	12.6	10.0
Other Income	112	57	110	110
Depreciation	191	178	185	185
EBIT	**2,775**	**2,740**	**3,102**	**3,431**
% change yoy	41.4	(1.3)	13.2	10.6
Net Interest	526	577	567	437
Earnings Before Tax	2,362	2,219	2,644	3,103
% change yoy	53.4	(6.0)	19.2	17.4
Prov/Excepnl items/Extraord items	-	-	-	-
Tax	(667)	(774)	(899)	(1,055)
as % of EBT	(28.2)	(34.9)	(34.0)	(34.0)
Net Income adj	1,695	1,445	1,745	2,048
% change yoy	91.9	(14.7)	20.8	17.4
Share of profit from associates	(573)	10	-	-
Minority Interest	(98)	(102)	(50)	(50)
Reported Net Income	**1,024**	**1,353**	**1,695**	**1,998**
Shares outstanding (m)	54.6	54.6	54.6	54.6
Adj EPS (Rs)	**18.8**	**24.8**	**31.1**	**36.6**
DPS (Rs)	4.0	4.0	4.0	4.0
CEPS	22.3	28.1	34.5	40.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	2,616	1,852	3,058	3,807
Accounts receivable	25,115	28,732	29,844	32,828
Inventories	385	382	385	385
Loans and Advances	409	348	409	409
Other current assets	2,163	3,054	2,618	2,880
Current Assets	30,687	34,368	36,313	40,309
Investments/Loans and Adv	826	781	781	781
Intangible Assets	691	732	732	732
Net fixed assets	1,053	992	957	922
Deferred tax assets	247	247	247	247
CWIP	-	-	-	-
Total Assets	**33,504**	**37,120**	**39,030**	**42,991**
Payables	18,163	18,540	21,676	23,843
Provisions	521	554	521	521
Current liabilities	18,684	19,094	22,197	24,364
LT debt	3,091	4,773	2,090	2,090
Other liabilities	1,627	1,520	1,520	1,520
Equity & reserves	9,931	11,396	12,836	14,579
Minority Interest	173	338	388	438
Total Liabilities	**33,504**	**37,120**	**39,031**	**42,991**
BVPS (Rs)	182.0	208.8	235.2	267.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	2,967	2,918	3,287	3,616
Direct tax paid	(770)	(774)	(899)	(1,055)
Adjustments	(151)	177	-	-
Cash flow from operations	**2,045**	**2,321**	**2,388**	**2,561**
Net Change in Working Cap	(1,862)	(4,035)	2,364	(1,079)
Net Cash from Operations	183	(1,715)	4,752	1,482
Capital Expenditure	(139)	(118)	(150)	(150)
Cash from investing	327	214	110	110
Net Cash from Investing	**188**	**96**	**(40)**	**(40)**
Interest paid	(526)	(577)	(567)	(437)
Issue of Shares	0	0	(0)	-
Other liabilities	539	1	-	-
Dividends Paid	(264)	(255)	(255)	(255)
Debt Raised	(683)	1,682	(2,683)	-
Net cash from financing	**(933)**	**852**	**(3,506)**	**(692)**
Net change in cash	(562)	(767)	1,206	750
Free cash flow	44	(1,832)	4,602	1,332
Cash at end	**2,391**	**1,852**	**3,058**	**3,807**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	9.2	8.4	8.6	8.6
EBIT margin (%)	8.7	7.9	8.1	8.2
Net profit margin (%)	5.3	4.2	4.6	4.9
Receivables (days)	285.8	301.8	285.0	285.0
Inventory (days)	4.4	4.0	3.7	3.3
Sales / Net Fixed Assets (x)	30.5	35.0	39.9	45.6
Interest coverage (x)	5.6	5.1	5.8	8.3
Debt/equity ratio(x)	0.3	0.4	0.2	0.1
ROE (%)	10.7	12.7	14.0	14.6
ROCE (%)	13.7	10.9	11.7	12.8
EV/ Sales	0.6	0.7	0.5	0.4
EV/EBITDA	6.9	8.0	5.9	5.1
Price to earnings (P/E)	19.8	15.0	12.0	10.1
Price to book value (P/B)	2.0	1.8	1.6	1.4
Price to cash earnings	16.7	13.3	10.8	9.3

Source: Company, Kotak Securities – Private Client Research

Result Update

VOLTAS LTD

PRICE RS.620 | **TARGET RS.658** | **ACCUMULATE**

Voltas reported higher than expected profits for the first quarter. The company has continued to maintain its market leadership in room AC business. Order book is also at a healthy level.

Stock Details

Market cap (Rs mn)	:	205496
52-wk Hi/Lo (Rs)	:	675 / 493
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	1,771,394
Shares o/s (mn)	:	331

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	64,044	70,040	81,770
Growth (%)	6.2	9.4	16.7
EBITDA	6,626	7,150	9,018
EBITDA margin (%)	10.3	10.2	11.0
PAT	5,718	6,057	7,904
EPS	17.3	18.3	23.9
EPS Growth (%)	12.6	5.9	30.5
BV (Rs/share)	118.1	130.9	148.7
Dividend/share (Rs)	4.0	4.5	5.0
ROE (%)	15.9	14.7	17.1
ROCE (%)	14.7	13.7	16.0
P/E (x)	35.9	33.9	25.9
EV/EBITDA (x)	27.0	24.5	18.5
P/BV (x)	5.3	4.7	4.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	30.3	30.3	30.3
FII	15.5	19.6	20.0
DII	32.3	29.3	28.0
Others	21.6	20.5	21.7

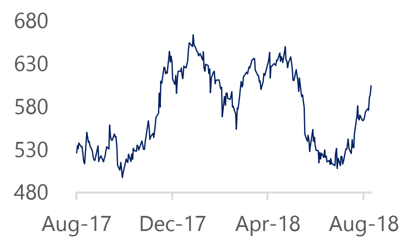
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Voltas Ltd	16.3	3.2	4.6
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Key Highlights

- Revenue growth in Q1FY19 was muted due to 11% decline in room AC market in the first quarter.
- The company reported margin expansion in MEP and Engineering Services segments which offset the margin contraction in UCP segment.
- Order intake was subdued during the quarter but the outlook is improving. The management highlighted that it is negotiating several major orders which are at advanced stages of finalization.

Valuation and Outlook

Voltas is valued at 34x and 26x FY19E and FY20E earnings respectively. Valuations are at a premium to historical trend but are at a discount to sector peers (Symphony, Whirlpool, IFB, Havells etc). While we remain positive on the business, however, in view of modest upside, we maintain Accumulate rating (BUY on declines) on the stock with a revised target price of Rs 658 (Rs 583 earlier).

Q1FY19 Results

(Rs mn)	Q1FY19	Q1 FY18	YoY (%)	Q4 FY18	QoQ (%)
Net Revenue	**21344**	**19624**	**8.8**	**20213**	**5.6**
Operating other income	137	57	138.3	271	-49.5
Expenditure	19049	17323	10.0	17952	6.1
Raw Material costs	7205	10392	-30.7	4443	62.2
Purchase of stock in trade	8421	3555	136.9	10569	-20.3
Staff costs	1431	1478	-3.2	1434	-0.2
Other expenditure	1992	1899	4.9	1507	32.2
EBITDA	**2432**	**2358**	**3.1**	**2532**	**-3.9**
Depreciation	60	61	-2.0	61	-1.2
Other income	282	550	-48.7	438	-35.6
EBIT	**2654**	**2847**	**-6.8**	**2909**	**-8.8**
Interest	27	35	-22.9	43	-37.1
PBT	**2627**	**2811**	**-6.6**	**2865**	**-8.3**
Tax	762	727	4.8	900	-15.3
Minority interest	-31	-23	38.3	-15	103.9
Share in profit/(loss) of associates cos	5	10	-47.4	-10	-150.5
PAT before Exceptional items /(expense)	1839	2072	-11.2	1940	-5.2
Exceptional items	0	20	-	-14	-
Reported PAT	**1839**	**2092**	**-12.1**	**1927**	**-4.6**
EPS	**5.56**	**6.27**		**5.9**	
EBITDA excl other op income (%)	10.8	11.7		11.2	
EBITDA incl other op income (%)	11.4	12.0		12.5	
Raw material to sales (%)	33.8	53.0		22.0	
Purchase of traded goods to sales (%)	39.5	18.1		52.3	
Other expenditure to sales (%)	9.3	9.7		7.5	
Employee costs to sales (%)	6.7	7.5		7.1	
Tax rate (%)	29.0	25.8		31.4	

Source: Company

Reported Vs Estimated performance

(Rs mn)	Reported	Estimated
Revenue	21344	19969
EBITDA (%)	11.4%	9.7%
Adj PAT	1839	1743

Source: Kotak Securities – Private Client Research

Segment Revenues

(Rs mn)	Q1FY19	Q1FY18	YoY (%)
Electromechanical projects (MEP)	8664	6608	31%
Engg products and services	772	904	-14.6%
Unitary cooling Products	11911	12117	-2%

Source: Company

Segment Margins

(%)	Q1FY19	Q1FY18
Electromechanical projects (MEP)	10.2	5.3
Engg products and services	34.7	28.5
Unitary cooling Products	12.5	14.1

Source: Company

Electromechanical Projects (MEP) Segment

The MEP segment reported 31% rise in revenue on a y-o-y basis.

Segment margins rose on a y-o-y as well as sequential basis, reflecting the benefit from closure of couple of legacy orders and improved margins profile of existing order book.

The increased margins are also a reflection of improvement in execution efficiency of both the domestic as well as international projects.

Profitability in this segment is dependent on pace of execution of existing orders, risk assessment of projects and proportion of legacy projects in overall book. The management is rightly focusing on these factors and expects to close all its legacy projects by the end of this fiscal.

Turnaround in financials of Rohini Electricals also aided expansion in segment margins.

Additionally, some of the company's orders reached a profit recognition stage and hence margins have been reckoned.

Engineering Products and Services Business

This segment includes commission income on sale of textile machinery for LMW and sale and services of mining equipment.

Quarterly segment revenue reported decline of 15% on a y-o-y basis. Profitability of spinning mills has been under pressure during the past few quarters due to subdued prices for yarn and a steep increase in raw cotton prices. Banks are have also been wary of lending to the textile sector.

Given these challenges, the division has focused on providing value added services and sale of capital goods equipment.

In Mining and Construction Equipment, Mozambique operations continued to drive the performance.

On the domestic front, the slowdown in mining related activity continued but there are some signs of a gradual recovery.

The Government impetus on road development should lead to orders in the Crushing & Screening equipment sector, the management opined.

Unitary Cooling Products (UCP - largely room AC) Business

Revenue in the UCP segment posted a decline of 2% on a y-o-y basis during the quarter.

Sales in the Q1FY19, which is seasonally the strongest for room ACs was impacted by erratic weather conditions in the regional markets of North and South India.

Decline in demand led to intensifying competitive pressure resulting in build up in inventory across the distribution channel.

Air cooler sales were also hit by unfavourable weather. Voltas managed to retain its number three position in the market.

Due to weak sales and coupled with a combination of higher competitive and commodity price pressure, segment margins contracted to 12.5%, as compared to 14.1% on a y-o-y basis.

Order book down 6% y-o-y.

Continued embargo on Qatar is a challenge and in view of this, the company has been selective in booking orders.

In the domestic market, the company's focus is on government projects and good quality orders

At the end of Q1FY19, Voltas had a carry forward order book position of Rs 46 bn (overseas Rs 19.1 bn and domestic Rs 27.1 bn), representing a decline of 6% yoy.

With the Government pushing the growth agenda, opportunities are increasing in electrical distribution, water treatment and Smart City development. Besides, the MEP division's core area of HVAC projects has benefited with projects in large buildings and in tunnel ventilation for Metro transportation.

Also, Voltas is one of the Tier 1 MEP contractors in the Middle East. With the upturn in crude oil prices, the investor sentiment has improved in the region, which should potentially lead to more orders in the future.

Voltbek Joint Venture

The company's Joint Venture arrangement Arçelik A.S. for entering the wider consumer durables market in India is in process. The entity will launch refrigerators, washing machines, microwaves and other white goods / domestic appliances in a phased manner, under the brand name of Voltas-Beko.

The JV is setting up manufacturing facilities in Gujarat, leveraging the technological excellence and global capabilities of its Joint Venture partner.

The initial investment by the partners in the JV is of the order of USD 100 mn.

In the first phase, the company will manufacture Washing Machines and Refrigerators.

Conference call highlights

- The management is negotiating several orders in the domestic market. Some of them are in advanced stages of finalization.
- For the quarter, the industry degrew by 11% y-o-y but voltas managed to outperform the industry.
- Inverter sales accounted for 50% of the sales of company's split ACs.
- The company is plans to launch the products from this JV in the upcoming festive season. Initially, products will be imported until the manufacturing plant comes up in Sanand.

Earnings Revision

	FY19		FY20	
(Rs mn)	Earlier	Revised	Earlier	Revised
Revenue	68,528	70,040	78,478	81,770
EBITDA %	9.7	10.2	10.7	11.0
EPS	17.9	18.3	22.5	23.9
% change	2.3%		6.2%	

Source: Kotak Securities – Private Client Research

Rating and Target Price

Voltas is valued at 34x and 26x FY19E and FY20E earnings respectively. Valuations are at a premium to historical trend but are at a discount to sector peers (Symphony, Whirlpool, IFB, Havells etc).

Voltas is the market leader and has a strong brand and distribution network in the industry. It is well positioned to ride the growth in the industry.

While we are positive on the business, modest upside to our target price of Rs 658, constrains us from giving a more favourable rating. Hence, maintain "Accumulate" ("Buy on decline") with a revised target price of Rs 658 (Rs 583 earlier). The increase in target price is mainly on account of giving higher PE(x) to the UCP business in view of the company's market leadership in room ACs and the strong structural drivers favouring sustained growth of room AC in India.

Sum of the parts

	UCP	Engg Comm	MEP	Total
FY20 EPS (proportionate to EBIT share)	14	2.5	7.6	23.9
Target (x)	33.0	17.0	21	27.5
Target Price	456.8	41.7	159.6	658.1

Source: Kotak Securities – Private Client Research

Company background

Voltas is India's largest air conditioning company, and one of the world's premier engineering solutions providers and project specialists. Founded in India in 1954, Voltas Limited offers engineering solutions for a wide spectrum of industries in areas such as heating, ventilation and air conditioning, refrigeration, electro-mechanical projects, textile machinery, mining and construction equipment, water management & treatment, cold chain solutions, building management systems, and indoor air quality.

Voltas' operations have been organized into three independent business-specific clusters. Each of these has its own facilities for market coverage and service to customers.

Electro-Mechanical Projects & Services

- Electrical, Mechanical & Refrigeration Solutions
- Electrical & Mechanical Solutions (international)

Engineering Products & Services

- Textile Machinery
- Mining & Construction Equipment

Unitary Cooling Products

- Air Conditioners
- Commercial Refrigeration
- Water Coolers & Dispensers

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**60,328**	**64,044**	**70,040**	**81,770**
% change yoy	3.0	6.2	9.4	16.7
EBITDA	**5,790**	**6,626**	**7,150**	**9,018**
% change yoy	32.5	14.4	7.9	26.1
Depreciation	245	244	240	260
EBIT	**5,546**	**6,383**	**6,910**	**8,758**
% change yoy	35.6	15.1	8.3	26.7
Interest	160	119	132	150
Other Income	1,998	1,741	1,632	2,485
Earnings Before Tax	7,383	8,005	8,409	11,093
% change yoy	44.4	8.4	5.1	31.9
Tax	2,088	2,270	2,381	3,217
as % of EBT	28.3	28.4	28.3	29.0
Net Income adj	**5,295**	**5,735**	**6,029**	**7,876**
% change yoy	#REF!	8.3	5.1	30.6
Minority interest	(24)	(55)	(10)	(10)
Share of profits from associates	(193)	38	38	38
Adj Net income for eqty holdrs	5,078	5,718	6,057	7,904
Exceptional income	11	6	-	-
Reported Net Income	**5,089**	**5,724**	**6,057**	**7,904**
Shares outstanding (m)	331	331	331	331
EPS (Rs)	**15.4**	**17.3**	**18.3**	**23.9**
DPS (Rs)	3.5	4.0	4.5	5.0
CEPS	16.1	18.0	19.0	24.7

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	3,307	2,735	4,595	8,633
Accounts receivable	14,541	15,703	16,311	19,042
Stocks	9,070	8,130	10,554	13,218
Loans and Advances	27	43	45	48
Others	10,223	13,565	14,922	14,922
Current Assets	37,169	40,176	46,427	55,862
LT investments	22,677	27,536	27,537	27,538
Net fixed assets	1,728	1,705	1,815	1,905
CWIP	6	41	41	41
Deferred tax asset	305	178	178	178
Intangible assets	815	820	820	820
Other long term assets	2,096	2,631	2,642	2,653
Total Assets	**64,795**	**73,087**	**79,459**	**88,997**
Payables	25,936	28,492	30,612	34,249
Provisions	1,770	1,855	1,855	1,855
Current liabilities	27,707	30,347	32,467	36,104
LT debt	1,709	1,423	1,423	1,423
Other liabilities	2,028	1,947	1,947	1,947
Equity & reserves	33,066	39,052	43,294	49,185
Minority Interest	285	317	327	337
Total Liabilities	**64,795**	**73,087**	**79,459**	**88,997**
BVPS (Rs)	100.0	118.1	130.9	148.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	5,790	6,626	7,150	9,018
Tax and adjustments	(2,164)	(543)	(2,381)	(3,217)
Cash flow from operations	3,626	6,084	4,769	5,801
Net Change in Working Capital	622	(2,882)	(2,470)	(1,961)
Net Cash from Operations	**4,248**	**3,202**	**2,299**	**3,840**
Capital Expenditure	(257)	(256)	(350)	(350)
Cash from investing	(568)	(3,117)	1,631	2,484
Net Cash from Investing	**(825)**	**(3,373)**	**1,281**	**2,134**
Interest paid	(160)	(119)	(132)	(150)
Issue of Shares	0	0	-	-
Dividends Paid	(939)	-	(1,588)	(1,786)
Debt Raised	(890)	(287)	0	-
Net cash from financing	**(1,990)**	**(406)**	**(1,720)**	**(1,936)**
Net change in cash	1,433	(577)	1,860	4,038
Free cash flow	3,990	2,946	1,949	3,490
Cash at end	3,307	2,735	4,595	8,633

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	9.6	10.3	10.2	11.0
EBIT margin (%)	9.2	10.0	9.9	10.7
Net profit margin (%)	8.8	9.0	8.6	9.6
Adjusted EPS growth (%)	47.1	12.6	5.9	30.5
Receivables (days)	88.0	89.5	85.0	85.0
Inventory (days)	54.9	46.3	55.0	59.0
Sales / Net Fixed Assets (x)	34.9	37.6	38.6	42.9
ROE (%)	30.7	15.9	14.7	17.1
ROCE (%)	16.5	14.7	13.7	16.0
EV/ Sales	2.9	2.8	2.5	2.0
EV/EBITDA	30.7	27.0	24.5	18.5
Price to earnings (P/E)	40.4	35.9	33.9	25.9
Price to book value (P/B)	6.2	5.3	4.7	4.2
Price to cash earnings	38.5	34.4	32.6	25.1

Source: Company, Kotak Securities – Private Client Research

Result Update

VRL LOGISTICS LTD (VRL)

PRICE RS.320 **TARGET RS.395** **BUY**

A Mixed Bag – Strong performance of the bus segment, strong revenue growth in the trucking segment, lower interest cost and higher fuel prices were the highlights of the results for VRL Logistics (VRL). In terms of performance, Q1FY19 revenue was in-line, but margins lower than estimate. There was significant improvement in the BS with further debt reduction.

Key Highlights

- Q1 is a seasonally strong quarter for VRL in which the company has reported sales at Rs 5.3 bn (+7.5% YoY) highest ever for the company, with benefits of GST implementation and E-way bill occurring to the company.
- Performance of the bus division has been healthy for the quarter with sales of 1.07 bn (+29% QoQ and +3% YoY)
- But increasing crude prices and simultaneous increase in diesel prices (diesel prices in Mumbai is +20% YoY) and increasing cost of regulatory compliance (GST implementation) has impacted operational performance. Company reported EBIDTA of Rs 603 mn with EBIDTA margin of 11.4% (+230 bps QoQ and -330 bps YoY).
- The company has repaid debt during the quarter. Debt currently stands at Rs 500 mn (from Rs 1740 mn in March end 2017) which lowered the interest cost in the quarter
- Consequently PAT was reported Rs 242 mn below our estimate of Rs 294 mn
- Company has guided for 10% YoY volume growth over FY18 to FY20E
- The Company has completed the buy-back of 9,00,000 Equity Shares

Valuation & outlook

We see VRL as a Logistics player which has created a niche for itself in the transport industry and a player who has overcome the nuances of the industry through effective practices within the company. This has enabled the company to outperform its peers in every financial parameter. The GST Act, Motor Vehicle Act and E-way bill are expected to improve business prospects of the company with full benefits accruing from FY19E. We estimate strong earnings growth in medium term for the company with improvement in EBIDTA margins and return ratios over FY18-20E. However, with our aggressive estimates, rising diesel prices and weak Q1FY19, we have marginally lowered our estimates. However, we continue to remain positive on the company and value the company at 24x FY20 earnings and Recommend BUY with a revised TP of Rs 395 (from Rs 440)

Operational performance

In Q1FY19, the **trucking segment** revenue growth of 9.5% YoY was led by 5%/4% YoY growth in tonnage/realization. In Q1FY19, company took a price hike from 1st May on 80% routes, primarily to offset to the increase in fuel cost and other costs. Higher diesel prices weren't passed on to the customers completely, which impacted EBITDA margin. Diesel prices in Mumbai is currently at Rs 72.9 per litre (up from Rs 68.5 QoQ and Rs 61 YoY).

Passenger segment revenue growth of 4% YoY and 29% QoQ in Q1FY19 was led by 12% growth each in passengers and 5% in realizations.

Stock Details

Market cap (Rs mn)	:	28725
52-wk Hi/Lo (Rs)	:	492 / 301
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	132,457
Shares o/s (mn)	:	90

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	19,222	21,330	24,190
Growth (%)	6.6	11.0	13.4
EBITDA	2,341	2,925	3,461
EBITDA margin (%)	11.3	13.7	14.3
PAT	757	1,222	1,493
EPS	8.3	13.5	16.5
EPS Growth (%)	0.5	22.0	13.6
BV (Rs/share)	71.7	79.4	88.3
Dividend/share (Rs)	6.0	6.1	7.1
ROE (%)	11.7	17.8	19.7
ROCE (%)	17.3	24.6	27.1
P/E (x)	38.5	23.6	19.4
EV/EBITDA (x)	13.1	10.0	8.5
P/BV (x)	4.5	4.0	3.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	68.1	68.1	68.0
FII	9.1	12.0	12.4
DII	15.8	11.8	11.0
Others	7.0	8.0	8.6

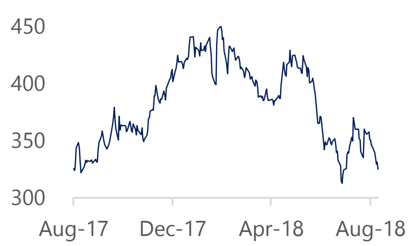
Source: Company

Price Performance (%)

(%)	1M	3M	6M
VRL Logistics	(9.1)	(25.1)	(26.5)
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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Quarterly Performance

Rs mn	Q1FY18	Q4FY18	Q1FY19	YoY%	QoQ%
Sales	**4918**	**4892**	**5285**	**7.5**	**8.0**
Operating expenses	3307	3514	3730	12.8	6.1
Employee	830	879	899	8.3	2.3
Other	59	55	53	-10.2	-3.6
Total operating expenditure	4196	4448	4682	11.6	5.3
EBIDTA	**722**	**444**	**603**	**-16.5**	**35.8**
EBIDTA %	14.7	9.1	11.4		
Depreciation	242	245	245	1.2	0.0
Other income	58	21	25	-56.9	19.0
Finance cost	42	22	16	-61.9	-27.3
Exceptional	0	0	0		
PBT	**496**	**198**	**367**	**-26.0**	**85.4**
Tax	159	79	125	-21.4	58.2
RPAT	**337**	**119**	**242**	**-28.2**	**103.4**

Source: Company, Kotak Securities – Private Client Research

Segmental Performance

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Sales (Rs mn)					
Trucking	3744	3576	3868	3965	4098
Bus	1033	781	939	834	1072
Power	80	92	25	20	54
Air chartering	24	33	30	43	33
Others	37	36	31	30	28
Total	**4918**	**4518**	**4893**	**4892**	**5285**
EBIT (Rs mn)					
Trucking	387	338	364	275	295
Bus	163	-11	86	-27	120
EBIT Margin (%)					
Trucking	10.3	9.5	9.4	6.9	7.2
Bus	15.8	-1.4	9.2	-3.2	11.2

Source: Company

Current Capex has aligned with GST

Management of VRL had indicated that the company has most of the infrastructure in place to cater to the changing requirement of clients in the medium term, Accordingly, we had envisaged that the next phase of capex for the company would be now primarily towards purchase of larger and modern trucks, new Volvo buses and expansion of hubs. The upcoming capex was estimated to be in sync with the requirement mandated by GST over FY18 to FY20E. We estimate the company to spend around Rs 5.3 bn over FY18 to FY21E as capex of which the company has already planned capex of Rs 4 bn towards modern trucks. Also with strong operational cash flow of Rs 8 bn per annum, we expect the BS quality to improve for VRL.

Capex Planned

(Rs mn)	FY19E	FY20E
Trucks	1600	1500
Buses	100	100
Other vehicles	50	50
Hubs	300	300
Total	**2050**	**1950**

Source: Company

Improvement in performance going forward

We estimate that the various legislative changes like GST Act, Motor Vehicle Amendment Act and Scrappage policy to yield benefits for VRL from FY19 with benefits increasing further in FY20/FY21. Healthy GDP growth, improvement in trade and various road infra projects of the government would further add to the growth of the company.

For VRL we expect,

- Improvement in tonnage in the trucking segment with enhanced client base
- Improvement in occupancy in the bus segment with improved geographical reach
- Operating leverage to play-out which would lead to improvement in margins and return ratios
- Management has guided for 10% YoY volume growth over the next 3 years

Outlook and Valuation

We see VRL as a Logistics player which has created a niche for itself in the transport industry and a player who has overcome the nuances of the industry through effective practices within the company. This has enabled the company to outperform its peers in every financial parameter. The GST Act, Motor Vehicle Act and E-way bill are expected to improve business prospects of the company with full benefits accruing from FY19E. We estimate strong earnings growth in medium term for the company with improvement in EBIDTA margins and return.

However, we reckon the current quarter's performance as weak. Also, we estimate crude prices (and so diesel prices) to go up further from here (our long term estimate for crude is a range of $80-90 per barrel). Accordingly, we have lowered our earnings estimates for the company. However, we continue to remain positive on the company and value the company at 24x FY20 earnings (from 25x) and Recommend BUY with a revised TP of Rs 395 (from Rs 440).

Change in estimates

	FY19			FY20		
Rs mn	Old	New	% chg	Old	New	% chg
Sales	22,280	21,330	4.3	25,610	24,190	5.5
EBIDTA	3,112	2,925	6.0	3,624	3,461	4.5
PAT	1,347	1,222	9.3	1,603	1,493	6.9

Source: Kotak Securities – Private Client Research

Company background

VRL is a leading Pan-India surface logistics, parcel delivery and luxury bus services provider, owning and operating a large fleet of commercial vehicles and luxury buses providing general parcel, priority parcel delivery, courier, full-truckload (FTL) and passenger bus services through its widespread transportation network. We believe that the differentiated service offerings, large integrated hub-and-spoke transportation network, extensive operational and maintenance infrastructure and in-house technology systems would enable the company to report healthy growth

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**18,030**	**19,222**	**21,330**	**24,190**
% change YoY	4.4	6.6	11.0	13.4
Opex	13,315	14,349	15,460	17,412
Employee cost	1,902	2,026	2,209	2,487
Other expenses	634	675	736	829
Total Operating expd	15,851	17,050	18,405	20,729
EBITDA	**2,179**	**2,172**	**2,925**	**3,461**
Depreciation	933	975	1,014	1,081
EBIT	**1,246**	**1,197**	**1,911**	**2,379**
Other income	92	143	100	100
Interest expense	174	115	187	251
Profit before tax	**1,164**	**1,225**	**1,824**	**2,229**
Tax	352	468	602	736
ETR (%)	30.2	38.2	33.0	33.0
Profit after tax	**812**	**757**	**1,222**	**1,493**
JV & Associates	0	0	0	0
Net income	**812**	**757**	**1,222**	**1,493**
% change YoY	-28.4	-6.8	61.4	22.2
Shares outstanding (m)	91	91	90	90
EPS	8.9	8.3	13.5	16.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	194	485	244	1,032
Debtors	811	865	960	1,089
Inventory	216	231	256	290
Loans & advances	1,262	1,346	1,493	1,693
Other current assets	180	192	213	242
Total current assets	2,470	2,633	2,922	3,314
LT investments	1	1	1	1
Net fixed assets	6,817	6,710	7,536	7,905
Total assets	**9,482**	**9,830**	**10,705**	**12,253**
Creditors	1,659	1,768	1,962	2,225
Provisions	198	211	235	266
Other current liabilities	0	0	0	0
Total current liabilities	1,857	1,980	2,197	2,492
LT debt	1,242	1,308	1,337	1,790
Minority Interest	0	0	0	0
Equity Capital	912	912	903	903
Reserves	5,471	5,629	6,265	7,067
Networth	6,383	6,541	7,168	7,970
Total liabilities	**9,482**	**9,828**	**10,704**	**12,252**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	812	757	1,222	1,493
Depreciation +DTL	968	1,022	1,074	1,155
Change in working capital	(26)	(41)	(72)	(97)
Cash flow from operations	**1,754**	**1,738**	**2,225**	**2,551**
Capex	(786)	(868)	(1,840)	(1,450)
Investments	-	-	-	-
Cash flow from investments	**(786)**	**(868)**	**(1,840)**	**(1,450)**
Equity issuance	-	-	(9)	-
Debt raised	(494)	66	30	453
Dividend Paid	(538)	(646)	(646)	(766)
Miscellanous items	-	-	-	-
Cash flow from financing	**(1,032)**	**(580)**	**(625)**	**(313)**
Net cash flow	(64)	291	(241)	789
Opening cash	258	194	485	244
Closing cash	194	485	244	1,032

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	12.1	11.3	13.7	14.3
EBIT margin (%)	6.9	6.2	9.0	9.8
Net profit margin (%)	4.5	3.9	5.7	6.2
ROE (%)	13.0	11.7	17.8	19.7
ROCE (%)	17.3	17.3	24.6	27.1
DPS	5.0	6.0	6.1	7.1
Dividend payout (%)	66.2	85.3	52.9	51.3
Book Value (Rs/share)	70.0	71.7	79.4	88.3
Working capital turnover (days)	12.1	12.0	11.8	11.7
Debt Equity (x)	0.2	0.2	0.2	0.2
PER (x)	35.9	38.5	23.6	19.4
P/C (x)	16.4	16.4	12.6	10.9
Dividend yield (%)	1.6	1.9	1.9	2.2
P/B (x)	4.6	4.5	4.0	3.6
EV/Sales (x)	1.7	1.6	1.4	1.2
EV/ EBITDA (x)	13.3	13.1	10.0	8.5

Source: Company, Kotak Securities – Private Client Research

Result Update

MOIL LTD

PRICE RS.174 **TARGET RS.260** **BUY**

Stock Details

Market cap (Rs mn)	:	44747
52-wk Hi/Lo (Rs)	:	286 / 162
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	213,026
Shares o/s (mn)	:	258

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	13,235	13,379	14,737
Growth (%)	34.8	1.1	10.1
EBITDA	5,327	5,694	6,624
EBITDA margin (%)	40.2	42.6	44.9
PAT	4,220	4,430	4,993
EPS	16.4	17.2	19.4
EPS Growth (%)	37.3	5.0	12.7
BV (Rs/share)	109	119	132
Dividend/share (Rs)	5.5	5.5	5.5
ROE (%)	15.1	14.4	14.7
ROCE (%)	13.0	12.3	12.5
P/E (x)	10.6	10.1	9.0
EV/EBITDA (x)	4.4	4.1	3.1
P/BV (x)	1.6	1.5	1.3

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	65.7	65.7	65.6
FII	4.0	3.7	3.6
DII	13.4	13.7	10.2
Others	16.9	16.9	20.6

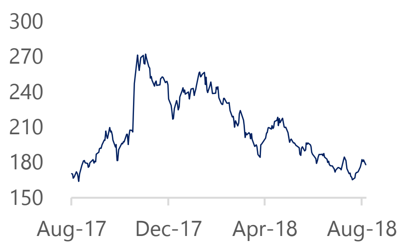
Source: Company

Price Performance (%)

(%)	1M	3M	6M
MOIL Ltd	(5.9)	(10.6)	(25.9)
Nifty	4.4	6.7	9.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

MOIL Q1FY19 numbers were above our estimates, driven by better than expected realisation. However, volume during the quarter declined and was lower than production, resulting in a build-up in inventory. MoIL has revised its prices upwards in the month of July, benefit of the same will flow in 2QFY19 onwards.

Key Highlights

- Manganese ore shipments declined 20.8% YoY and 24.8% QoQ to 243kt (production volume stood at 324kt). This, offset the benefit of higher realisation. Blended realisation during the quarter stood at Rs12,258/tonne. Management has guided for a 10% increase in ore volume for FY19E.
- The cost during the quarter declined sequentially due to decline employee costs, as last quarter numbers includes impact of actuarial adjustment.

Valuation & outlook

Manganese ore outlook remains positive with the strength in international steel prices and firm domestic demand led by higher steel production. Given its strong business model, robust balance sheet with strong liquidity positions and its dominant position in the domestic, supports our positive stance on the stock. At CMP, the stock trades at 10.1x/9.0x FY19E/FY20E earnings and on EV/EBITDA, it trades at 4.1x/3.1x FY19E/FY20E EBITDA. We reiterate our BUY rating on the stock with an unchanged target price of Rs260.

Quarterly performance table

Particulars (Rs Mn)	1QFY19	1QFY18	% YoY	4QFY18	% QoQ
Sales	**3,135**	**3,394**	**(7.6)**	**3,976**	**(21.1)**
Employee expenses	996	828		1,343	
% of Sales	31.8	24.4		33.8	
Other Expenses	970	932		933	
% of Sales	30.9	27.5		23.5	
EBITDA	**1,368**	**1,212**	**12.86**	**1,721**	**(20.5)**
EBITDA margin (%)	43.6	35.7		43.3	
Depreciation	146	147		169	
Interest	0	0		0	
EBT	**1,221**	**1,065**		**1,553**	
Other Income	475	423		456	
PBT	**1,696**	**1,488**	**14.0**	**2,008**	**(15.6)**
Tax	562	511		731	
PAT	**1,134**	**977**	**16.1**	**1,278**	**(11.2)**
NPM(%)	36.2	28.8		32.1	

Source: Company, Kotak Securities – Private Client Research

Lower volume offset realisation benefit

Sales volume during the quarter was weak at 243kt, down 20.8%/24.8% YoY/QoQ, lower than estimates and also lower than the production volume of 343kt, resulting in build-up in inventory. Lower volume offset the benefit of higher realisation, which was up 27.3%/9.6% YoY/QoQ to Rs12,258/tonne. The sequential jump in realisation is attributed to the 5-12.5% hiked taken in the month of April 2018, across the grades and then cut prices by 7.5-15% in May and June 2018. In 2QFY19, the company further revised the prices upwards, this

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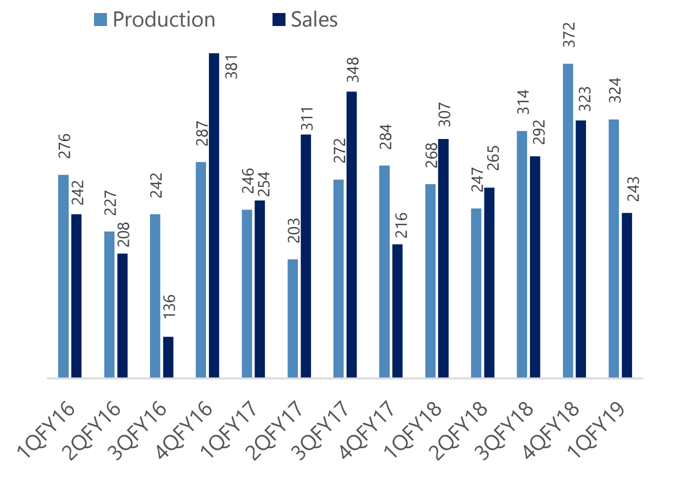
will help the company to further strengthen its margin going ahead. Management expects realisation to remain at the current levels.

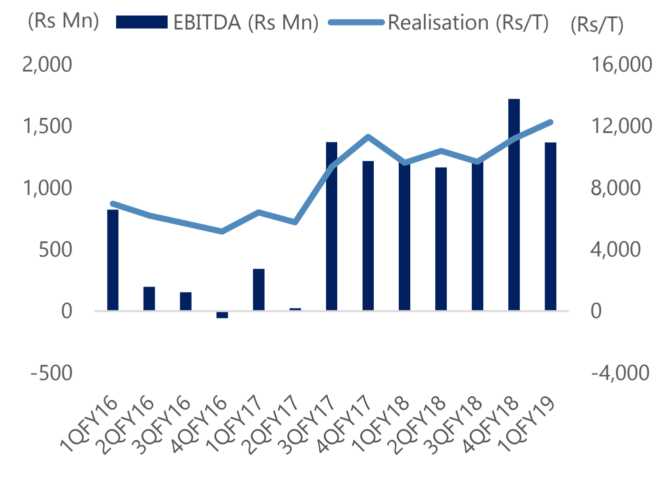
EBITDA during the quarter grew 12.9% YoY to Rs1.37bn (down 20.5% QOQ), with an EBITDA margin of 43.6% (up 30 bps QoQ). We expect margin to remain in the range of 43-45%, any sharp increase in realisation can be a upside risk to our estimates. The outlook for volumes remains positive with higher production of domestic steel. We have modeled 1.24MT (lower than the guidance) and 1.34MT of volume in FY19E and FY20E, respectively. The company focus on improving its product mix with a focus on hydrate non-fines, can also be an upside risk to our estimates.

Mn ore production and sales volume ('000 T)



Source: Company

Mn ore realisation and EBITDA/Tonne



Source: Company

Robust balance sheet with healthy liquidity position

MOIL is a debt free company with a robust balance sheet and a healthy liquidity position. The strong balance sheet, makes the company better placed to expand its mining capacity and to acquire other mines. The company is well placed to fund its capex of Rs15-20 bn till FY21, backed by its strong cash flow. It has a healthy operating cash flow of ~Rs4bn every year, which would further add up to the cash balance. We expect cash and cash equivalents to rise up to Rs24.2bn at the end of FY20E. Besides this, dividend yield is likely to remain in the range of 2-3% in the coming years. Higher liquidity and attractive dividend yield provide a high margin of safety.

Recommend BUY

At current valuation of 3.1x FY20E EV/EBITDA, the stock is attractive compared to other mining companies. Given its strong business model backed by low cost operations, robust balance sheet and improvement in demand backed by rising steel production, we believe MOIL is well poised to capitalize on the opportunity. Besides this, visibility of improvement in domestic demand of high grade manganese ore, we believe manganese ore prices in the domestic market is likely to remain firm, which should support the earnings. We reiterate BUY, with a target price of Rs260.

Company background

MoIL has ~81.47MT of reserves & resources (R&R) of manganese ore out of which ~44% are proven reserves. Currently, MOIL operates 10 mines: six in Maharashtra and four in Madhya Pradesh. These include 3 open cast mines and 7 underground mines. The company's annual production of manganese ore is over 1MT. MOIL also has a ferro manganese plant with an installed capacity of 10000 tonnes, an electrolytic manganese dioxide (EMD) plant with a capacity of 1000 tonnes and two wind power plants with an aggregate capacity of 20 MW.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net sales	**9,819**	**13,235**	**13,379**	**14,737**
Growth (%)	56.2	34.8	1.1	10.1
Operating expenses	6,847	7,908	7,685	8,113
EBITDA	**2,972**	**5,327**	**5,694**	**6,624**
Growth (%)	225.4	79.2	6.9	16.3
Depreciation & amortisation	549	624	704	812
EBIT	**2,423**	**4,702**	**4,990**	**5,812**
Other income	2,212	1,777	1,622	1,639
Interest paid	0	0	0	0
PBT	**4,635**	**6,479**	**6,612**	**7,452**
Tax	1,561	2,259	2,182	2,459
Effective tax rate (%)	33.7	34.9	33.0	33.0
Net profit	**3,074**	**4,220**	**4,430**	**4,993**
Minority interest	0	0	0	0
Reported Net profit	3,074	4,220	4,430	4,993
Adjusted Net profit	3,074	4,220	4,430	4,993
Growth (%)	77.9	37.3	5.0	12.7

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	20,920	21,391	21,636	24,174
Other Current assets	4,940	4,437	5,012	5,609
Investments	2	235	235	235
Net fixed assets	4,486	5,863	8,770	9,309
Other non-current assets	436	480	480	480
Total assets	**30,784**	**32,405**	**36,134**	**39,805**
Current liabilities	2,668	4,390	5,396	5,782
Borrowings	0	0	0	0
Other non-current liabilities	63	23	23	23
Total liabilities	2,731	4,413	5,419	5,805
Share capital	1,332	2,576	2,576	2,576
Reserves & surplus	26,721	25,416	28,139	31,425
Shareholders' funds	28,053	27,992	30,715	34,001
Minority interest	0	0	0	0
Total equity & liabilities	**30,784**	**32,405**	**36,134**	**39,805**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-tax profit	4,635	6,479	6,612	7,453
Depreciation	549	624	704	812
Chg in working capital	(573)	1,608	430	(211)
Total tax paid	1,605	2,259	2,182	2,459
Operating CF	**3,005**	**6,452**	**5,564**	**5,594**
Capital expenditure	(1,063)	(1,935)	(3,611)	(1,350)
Chg in investments	(2)	(235)	0	0
Other investing activities	1,729	0	0	0
Investing CF	**664**	**(2,170)**	**(3,611)**	**(1,350)**
Equity raised/(repaid)	(8,734)	(2,104)	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	802	1,707	1,707	1,707
Other financing activities	0	0	0	0
Financing CF	**(9,536)**	**(3,811)**	**(1,707)**	**(1,707)**
Net chg in cash & bank bal.	(5,866)	471	245	2,537
Closing cash & bank bal	20,920	21,391	21,636	24,174

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	30.3	40.2	42.6	44.9
EBITM	24.7	35.5	37.3	39.4
NPM	31.3	31.9	33.1	33.9
RoE	11.0	15.1	14.4	14.7
RoCE	10.0	13.0	12.3	12.5
Per share data (Rs)				
EPS	23.1	16.4	17.2	19.4
CEPS	27.2	18.8	19.9	22.5
BV	210.6	108.7	119.2	132.0
DPS	11.0	5.5	5.5	5.5
Valuation ratios (x)				
PE	7.5	10.6	10.1	9.0
P/BV	0.8	1.6	1.5	1.3
EV/EBITDA	0.7	4.4	4.1	3.1
EV/Sales	0.2	1.8	1.7	1.4
Other key ratios				
D/E (x)	0.0	0.0	0.0	0.0
DSO (days)	90	52	52	52

Source: Company, Kotak Securities – Private Client Research

Forthcoming Events

Forthcoming events

Date	Event
13-Aug	Cadila Healthcare, Oil India, Tata Chemicals, Steel earnings expected
14-Aug	Dilip Buildcon, Grasim Industries, Sun Pharmaceuticals 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.
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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