

AUGUST 14, 2018

	13-Aug	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	37,645	(0.6)	3.0	5.9
NIFTY Index	11,356	(0.6)	3.1	5.1
NSEBANK Index	27,794	(1.2)	3.2	5.2
NIFTY 500 Index	9,657	(0.7)	3.3	2.6
CNXMcap Index	19,012	(0.6)	4.1	(2.5)
BSESMCAP Index	16,654	(0.8)	2.8	(6.5)
<b>World Indices</b>				
Dow Jones	25,188	(0.5)	0.7	1.2
Nasdaq	7,820	(0.2)	(0.1)	5.5
FTSE	7,642	(0.3)	(0.3)	(0.9)
NIKKEI	21,857	(2.0)	(2.1)	(3.2)
Hangseng	21,857	(2.0)	(2.1)	(3.2)
Shanghai	27,937	(1.5)	(2.7)	(12.0)

	13-Aug	% Chg Day	
<b>Value traded (Rs cr)</b>			
Cash BSE	2,691		(41.5)
Cash NSE	29,317		(12.7)
Derivatives	-		-

	10-Aug	MTD		YTD
<b>Net inflows (Rs cr)</b>				
FII	1,332	2,802		(608)
Mutual Fund	15	155		72,753

Nifty Gainers & Losers	Price	Chg	Vol
<b>Gainers</b>			
Gail India	375	3.4	10.5
Tech Mahindra	660	2.2	5.3
Sun Pharma	564	1.8	3.3
<b>Losers</b>			
BPCL	380	(5.5)	4.4
HPCL	273	(4.6)	6.3
Indiabulls Housing	1,277	(3.7)	1.3

<b>Advances / Declines (BSE)</b>						
13-Aug	A	B	T	Total	% total	
Advances	112	333	47	492	100	
Declines	274	776	63	1,113	226	
Unchanged	1	14	17	32	7	

	13-Aug	% Chg		
		1 Day	1 Mth	3 Mths
<b>Commodity</b>				
Crude (US\$/BBL)	72.9	0.4	(3.2)	(6.8)
Gold (US\$/OZ)	1,194	(1.5)	(3.7)	(9.0)
Silver (US\$/OZ)	15.0	(2.1)	(4.7)	(8.8)

	13-Aug	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.8	7.8	7.7
Re/US\$	69.9	68.8	68.5	67.5



Source: Bloomberg

## News Highlights

- ▶ Retail price inflation dropped to a nine-month low of 4.17% in July from 4.92% in the previous month, a five-month high, prompting the MPC to hike policy rate for the second time in a row. (BS)
- ▶ The ministry of finance has allowed a 'provisional stay' on imposing safeguard duty on imported solar cells and modules in India. The department of revenue in its notice issued dated August 13 said that due to an order by Odisha High Court imposing stay on safeguard duty on solar panels, the department has decided to "not to insist on payment of safeguard duty." (BS)
- ▶ The government is considering easing the mandatory 80% land acquisition condition before highways construction can begin to expedite road building and roll out more projects before the next elections. (ET)
- ▶ Bowing to a global rout in currencies on fears of an economic crisis in Turkey, the rupee nosedived by Rs 1.09 to close at an all-time low of Rs 69.92 against the US dollar. (BS)
- ▶ The government is considering awarding about 25 small and mid-sized power transmission contracts aggregating to about Rs120 bn to **Power Grid Corporation of India (PGCIL)**, a move that has upset private sector transmission companies. (ET)
- ▶ BP Plc and its partner **RIL** will produce at least 10% of India's total gas demand from the Krishna Godavari (KG) basin by 2022. (BS)
- ▶ **Infosys** has finally decided to go ahead with its plan to set up operations in Kolkata without the proposed centre getting the SEZ status, a key demand which has made the IT services major delay the project for quite some time. (BS)
- ▶ **Tata Steel** submitted a revised bid for Bhushan Power & Steel after the Supreme Court rejected its plea to stay a directive from higher bankruptcy court, which last week allowed lenders to accept fresh bids from all applicants. (ET)
- ▶ The SEBI is probing possible violations of disclosure and listing agreement norms at the troubled **Jet Airways**. According to sources, Sebi is examining the role of credit rating agency Icria and the airline for not making timely disclosure to investors about alleged default risk of loans worth Rs110 bn sanctioned to the company by multiple lenders. (BS)
- ▶ **Allcargo Logistics** plans to build warehouses and sell or lease them out, as the company aims to monetise its dormant land bank and take advantage of increasing demand for bigger and more efficient logistics facilities in the country. (ET)
- ▶ **Reliance Communications** and its subsidiary Reliance Telecom restored bank guarantees aggregating Rs 774 bn to the department of telecommunications (DoT), thereby ensuring that the government does not cancel its licences and spectrum. (ET)

## What's Inside

- ▶ **Result Update:** Finolex Industries, KNR Constructions, Dollar Industries, Cummins India, AIA Engineering, Aksharchem, Allcargo Logistics, Berger Paints, NCC, The India Cements, Zensar Technologies.

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Result Update

## FINOLEX INDUSTRIES LTD (FIL)

### Stock Details

Market cap (Rs mn)	:	75549
52-wk Hi/Lo (Rs)	:	756 / 530
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	90,394
Shares o/s (mn)	:	124

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	27,378	32,338	37,565
Growth (%)	5.2	18.1	16.2
EBITDA	4,839	5,698	6,616
EBITDA margin (%)	17.7	17.6	17.6
PAT	2,985	3,550	4,165
EPS	24.1	28.6	33.6
EPS Growth (%)	(15.2)	18.9	17.3
BV (Rs/share)	223	240	262
Dividend/share (Rs)	10.0	10.0	10.0
ROE (%)	11.8	12.4	13.4
ROCE (%)	16.1	16.9	18.3
P/E (x)	25.4	21.4	18.2
EV/EBITDA (x)	15.9	13.3	11.2
P/BV (x)	2.7	2.6	2.3

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	52.5	52.5	52.5
FII	3.7	5.5	5.4
DII	9.6	8.8	8.7
Others	33.8	33.3	33.5

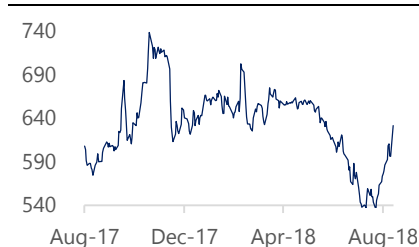
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Finolex Industries	8.9	(6.4)	(12.1)
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE RS.612

TARGET RS.671

ACCUMULATE

Finolex Industries Q1FY19 results was ahead of estimates with strong volume in pipes segment and margins improved across segments.

### Key Highlights

- The company reported 13.3% yoy growth in net sales (adjusted for excise). The growth in revenue was driven by 8.6% yoy growth in volume in PVC pipes segment and improved realization in both pipes and resin segment. The improvement in realization is led by better product mix and reduced discount in pipes segment.
- EBITDA margin at 23.4%, improved by 550 bps yoy, was ahead of our estimates due to higher margin across both segment due to 1) better PVC EDC spread and inventory gain in resin business; and 2) better product mix and reduction in discounts in pipes and fittings business.
- The company targets to grow at double digit rate in volume terms in the longer run driven by positive outlook for both agri and plumbing segment.

### Outlook and Valuations

We maintain our estimates for FY19E & FY20E. The stock is presently trading at PE of 21.4x and 18.2x on FY19E and FY20E EPS of Rs 28.6 and 33.6 per share, respectively. We maintain our Accumulate rating on the stock with target price of Rs671, valuing the stock at 20x on FY20E earnings.

### Quarterly performance table

Particulars (Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
<b>Net Sales</b>	<b>8,278</b>	<b>7,307</b>	<b>13.3</b>	<b>8,091</b>	<b>2.3</b>
Expenditure	6,340	6,000	5.7	6,212	2.1
RM Cost	4,999	4,883	2.4	4,771	4.8
Employee Cost	325	285	14.2	298	9.4
Other Expenditure	1,016	832	22.0	1,143	(11.2)
<b>EBITDA</b>	<b>1,939</b>	<b>1,306</b>	<b>48.4</b>	<b>1,879</b>	<b>3.2</b>
EBITDAM%	23.4%	17.9%		23.2%	
Other Income	137	38	257.3	28	397.9
<b>PBIDT</b>	<b>2,076</b>	<b>1,345</b>	<b>54.4</b>	<b>1,907</b>	<b>8.9</b>
Depreciation	162	145	11.6	156	3.8
Interest	52	30	75.7	34	56.3
<b>PBT</b>	<b>1,862</b>	<b>1,170</b>	<b>59.1</b>	<b>1,717</b>	<b>8.4</b>
Exceptional Items	279	-		-	
PBT (post exceptional items)	1,583	1,170		1,717	
Tax	550	372	47.7	508	8.3
<b>PAT</b>	<b>1,033</b>	<b>798</b>	<b>29.5</b>	<b>1,209</b>	<b>(14.6)</b>
PATM (%)	12.5%	10.9%		14.9%	
Equity Capital	1,241	1,241	0.0	1,241	0.0
<b>EPS (Rs)</b>	<b>8.3</b>	<b>6.4</b>	<b>29.5</b>	<b>9.7</b>	<b>(14.6)</b>

Source: Company, \*Adjusted for excise

### Pankaj Kumar

pankajr.kumar@kotak.com

+91 22 6218 6434

## Revenue growth driven by strong PVC pipes volume and better realization

Net Revenue for the quarter (net of excise) grew by 13.3% yoy to Rs 8.3 bn driven by 18.4% yoy growth in PVC pipes segment while resin segment witnessed 1.9% yoy decline in value terms. PVC pipes and fittings segment grew at 8.6% on yoy in volume and 9% yoy in realization. The volume growth in the quarter was driven by 7.2% yoy growth in pipes volume and 36.6% yoy growth in fittings business. The company has been focusing on increasing the range of fittings which has now crossed 1500 SKUs. Further, the company has also witnessed improved volumes in CPVC which grew by 70% yoy to 1700 tonnes in the quarter. Better product mix and reduced discount resulted in higher realization for the segment. The company has been reducing discounts on qoq for past few quarters. The company expects robust demand in both the agri pipes and building segment in the coming quarters.

### Volume Details

In tonnes	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
PVC Pipes & Fittings	77,636	71,518	8.6	71,758	8.2
Pipes	73,065	68,171	7.2	66,753	9.5
Fittings	4,571	3,347	36.6	5,005	-8.7
PVC Resins	68,454	74,998	-8.7	72,123	-5.1
Resins Internal	55,406	59,273	-6.5	54,997	0.7
Resins External	13,048	15,725	-17.0	17,126	-23.8

Source: Company

### EBITDA improved on higher margins across businesses

EBITDA for the quarter grew by 48% yoy to Rs 1.9 bn (Vs estimates of Rs 1.5bn) with EBITDA margins at 23.4% (Vs estimates of 16.7%) on strong margins across segments. The improvement in EBITDA margins was driven by 1) higher margin in resin segment led by benefits from low cost inventory and better PVC-EDC spread; and 2) better product mix and reduction in discounts in pipes and fittings business. The company reported 670 bps yoy improvement EBIT margin of PVC resin segment which came in at 25.5%. During the quarter, the resin sales through EDC route was higher than VCM route which contributed to the margins. Further, PVC-EDC spread in the quarter was at US\$688 in Q1FY19 as against US\$ 634 in Q1FY18. In pipes segment, better product mix and reduction in price aggression (in terms of discount to dealers) on qoq resulted in margins coming back on track to ~9% (EBIT margins) in Q1FY19. As a result of all these, PAT for the quarter grew by 29.5% yoy to Rs1 bn Vs estimates of Rs867 mn.

### Segmental Breakup

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
<b>Gross Sales</b>	<b>12,625</b>	<b>11,623</b>	<b>8.6</b>	<b>12,390</b>	<b>1.9</b>
PVC Pipes & Fittings	7,225	6,104	18.4	6,827	5.8
PVC Resins	5,042	5,137	-1.9	5,158	-2.3
Power	358	382	-6.3	405	-11.6
<b>EBIT</b>	<b>1,945</b>	<b>1,301</b>	<b>49.5</b>	<b>1,896</b>	<b>2.6</b>
PVC Pipes & Fittings	666	286	133.0	618	7.9
PVC Resins	1,283	965	33.0	1,263	1.6
Power	-4	50	-108.2	15	-127.0
<b>EBIT Margins (%)</b>	<b>15.4%</b>	<b>11.2</b>		<b>15.3</b>	
PVC Pipes & Fittings	9.2	4.7		9.0	
PVC Resins	25.5	18.8		24.5	
Power	-1.1	13.0		3.7	

Source: Company, \*including excise duty

### **Maintained positive outlook for long term**

FIL has maintained positive demand outlook for long term in PVC pipes business and aims to grow its volume at double digit rate in the longer run. Its aggressive capex in last few years would take the capacity of pipes and fitting business to 370,000 tonne per annum (tpa) by FY19E end (vs 290,000 tpa in FY17 end and 330,000 tpa in FY18 end) and would support its revenue growth.

### **Other highlights**

- CPVC business witnessed strong volume growth of 70% yoy in Q1FY19 which grew from 1000 tonnes in Q1FY18 to 1700 tonnes in Q1FY19. CPVC pipes and fitting segment contributed Rs 440 mn in Q1FY19. The company expects strong growth in the segment.
- FIL has been strengthening its distribution across different geographies and has achieved 18000 touch points. Its major markets includes Maharashtra, Gujarat, MP, Karnataka, etc
- The government is expected to come out with new draft rule on lead free PVC pipes for potable water and agriculture purpose. The implementation of lead free PVC water pipe is expected in next 1-3 year. The company has already launched lead free PVC pipes for potable water segment.

### **Outlook and valuation**

We believe that, FIL would be a major beneficiary from government's focus on irrigation and improvement in rural consumption in long term. We believe that wide spread rainfall in 2018 and higher MSP are triggers for agri PVC pipes demand in FY19. We believe that the company is gaining market share with strong volume growth and better realization in agri pipes segment. Based on FY19E and FY20E EPS Rs28.6 and Rs 33.6, the stock is trading at PE of 21.4x and 18.2x respectively. We maintain our Accumulate rating on the stock with target price of Rs 671 (unchanged), valuing the stock at unchanged FY20E PE multiple of 20x.

### **Company background**

Finolex Industries Ltd (formerly Finolex Pipes Ltd), was incorporated in 1981, and is a leading brand in Indian PVC pipes and fittings market. The company manufactures and sells PVC pipes, fittings and PVC resin. 82% of its revenue is contributed by PVC pipes and fittings and balance 18% is contributed by PVC resins. The company began its journey as a PVC pipes player and further diversified in manufacturing of PVC resin in 1994 as part of its backward integration strategy. Further, it commissioned 43 MW thermal power plant at Ratnagiri in 2009-10 to reduce its dependency on the grid for its power requirements. Presently, FIL is the largest player in terms of market share in agriculture pipes segment and is a leading player in PVC resin business (after RIL and Chemplast) in India. FIL has three pipes manufacturing plants located in Pune (Maharashtra), Ratnagiri (Maharashtra) and Masar (near Vadodara, Gujarat) with installed capacity of 330000 tonne per annum. FIL has strong distribution network with over 700 dealers and 18,000+ retail touch points across country.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>26,024</b>	<b>27,378</b>	<b>32,338</b>	<b>37,565</b>
% change yoy	-8.5	5.2	18.1	16.2
Direct Cost	16,096	17,644	21,034	24,585
Employee Cost	1,049	1,161	1,312	1,470
Other Expenses	3,249	3,733	4,293	4,894
Total Expenses	20,393	22,539	26,640	30,949
<b>EBITDA</b>	<b>5,630</b>	<b>4,839</b>	<b>5,698</b>	<b>6,616</b>
% change yoy	39.2	(14.0)	17.7	16.1
Depreciation	550	606	670	742
EBIT	5,080	4,233	5,028	5,874
Other Income	243	253	291	349
Interest	153	98	101	101
Profit Before Tax	5,170	4,388	5,218	6,122
% change yoy	38.5	(15.1)	18.9	17.3
Tax	1,648	1,403	1,668	1,957
as % of EBT	31.9	32.0	32.0	32.0
<b>PAT</b>	<b>3,522</b>	<b>2,985</b>	<b>3,550</b>	<b>4,165</b>
% change yoy	38.4	(15.2)	18.9	17.3
Shares outstanding (mn)	124	124	124	124
<b>EPS (Rs)</b>	<b>28.4</b>	<b>24.1</b>	<b>28.6</b>	<b>33.6</b>
DPS (Rs)	11.5	10.0	10.0	10.0
CEPS (Rs)	32.8	28.9	34.0	39.5
BVPS (Rs)	184.6	222.8	239.7	261.5

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	5,170	4,388	5,218	6,122
Depreciation & Others	550	606	670	742
Change in WC	(1,531)	(91)	(834)	(610)
Other operating activities	(1,848)	(1,305)	(1,567)	(1,856)
<b>Operating Cash Flow</b>	<b>2,342</b>	<b>3,598</b>	<b>3,487</b>	<b>4,398</b>
Capex	(936)	(1,583)	(1,200)	(1,200)
Free Cash Flow	1,405	2,015	2,287	3,198
Change in Investments	1,415	(2,977)	0	0
<b>Investment cash flow</b>	<b>479</b>	<b>(4,560)</b>	<b>(1,200)</b>	<b>(1,200)</b>
Equity Raised	0	0	0	0
Debt Raised/Repaid	(1,174)	65	0	0
Dividend	(1,474)	(1,452)	(1,452)	(1,452)
Other financing activity	(113)	2,419	(101)	(101)
<b>CF from Financing</b>	<b>(2,761)</b>	<b>1,032</b>	<b>(1,553)</b>	<b>(1,553)</b>
Change in Cash	59	71	734	1,645
Opening Cash	104	163	234	968
Closing Cash	163	234	968	2,613

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	1,241	1,241	1,241	1,241
Reserves	21,673	26,405	28,503	31,216
Net worth	22,914	27,646	29,744	32,457
Borrowings	942	1,007	1,007	1,007
Net Deferred tax & others	1,218	537	537	537
<b>Total Liabilities</b>	<b>25,074</b>	<b>29,190</b>	<b>31,287</b>	<b>34,000</b>
Gross Block	9,559	10,456	11,656	12,856
Accumulated Depreciation	1,008	1,614	2,283	3,026
Net block	8,551	8,842	9,373	9,831
Capital work in progress	217	903	903	903
Investments	12,795	15,772	15,772	15,772
Inventories	5,574	6,116	7,223	8,391
Sundry debtors	525	431	510	592
Cash and equivalents	163	234	968	2,613
Loans and advances & Others	2	2	2	2
Total current assets	7,192	7,425	9,345	12,240
Sundry creditors and others	2,275	2,505	2,658	3,088
Provisions	124	149	149	149
Total CL & provisions	3,682	3,753	4,105	4,745
Net current assets	3,510	3,672	5,239	7,495
<b>Total Assets</b>	<b>25,074</b>	<b>29,190</b>	<b>31,287</b>	<b>34,000</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	21.6	17.7	17.6	17.6
EBIT margin (%)	19.5	15.5	15.5	15.6
Net profit margin (%)	13.5	10.9	11.0	11.1
EPS growth (%)	38.4	(15.2)	18.9	17.3
Receivables (days)	7	6	6	6
Inventory (days)	78	82	82	82
Payable (days)	50	48	45	45
Cash Conversion Cycle (days)	47	46	48	47
Asset Turnover (x)	1.3	1.0	1.1	1.2
Net Debt/ Equity (x)	0.0	0.0	0.0	(0.0)
RoCE (%)	25.0	16.1	16.9	18.3
RoE (%)	18.2	11.8	12.4	13.4
P/E (x)	21.6	25.4	21.4	18.2
P/BV (x)	3.3	2.7	2.6	2.3
EV/EBITDA (x)	13.6	15.9	13.3	11.2
EV/Sales (x)	2.9	2.8	2.3	2.0

Source: Company, Kotak Securities – Private Client Research

## Result Update

## KNR CONSTRUCTIONS LTD

### Stock Details

Market cap (Rs mn)	:	32145
52-wk Hi/Lo (Rs)	:	349 / 198
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	217,746
Shares o/s (mn)	:	141

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	19,317	18,400	26,540
Growth (%)	25.3	(4.7)	44.2
EBITDA	3,861	2,906	4,105
EBITDA margin (%)	20.0	15.8	15.5
PAT	2,718	1,415	2,192
EPS	18.1	10.1	15.6
EPS Growth (%)	51.7	(44.5)	54.9
BV (Rs/share)	82	92	107
Dividend/share (Rs)	0.9	0.5	0.8
ROE (%)	24.8	11.6	15.7
ROCE (%)	22.5	11.9	18.9
P/E (x)	12.6	22.7	14.7
EV/EBITDA (x)	8.8	12.0	8.4
P/BV (x)	2.8	2.5	2.1

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	55.4	55.4	55.4
FII	3.3	3.8	4.3
DII	27.3	28.1	28.7
Others	14.0	12.8	11.7

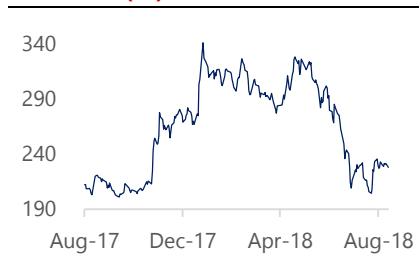
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
KNR Constructions	4.5	(25.9)	(30.0)
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE Rs.229

TARGET Rs.283

BUY

KNR Q1FY19 results was ahead of our estimates led by strong execution in certain old projects.

### Key Highlights

- Revenue for the quarter grew by 15.7% yoy to Rs 5.5 bn (Vs estimates of Rs 4.2 bn) led by strong execution in its older projects which boost revenue for the quarter.
- EBITDA margin at 19.7% was ahead of our estimates on account of reversal of provisions for completed projects and increased contribution from projects nearing completion.
- KNR has an order book of Rs 59.5 bn (including estimated EPC component of 5 HAM projects). The company is targeting to add Rs 20-25 bn of new projects from road space in FY19E.

### Outlook and Valuation

- The company management has reduced its revenue guidance for FY19E from ~Rs 20 bn revenue in FY19E to ~Rs18bn (10-15% yoy decline). This is based on execution timeline for current order book and land acquisition status of HAM projects with EBITDA margins of 13.5-14.5%.
- We have cut our EPS estimates for FY19E and FY20E by 17% and 10% respectively. The EPC business (adjusted for Rs 33 per share value of BOT) is available at a PE of 19.5x and 12.6x based on FY19E and FY20E revised EPS of Rs 10.1 and Rs 15.6 per share, respectively. We maintain our Buy rating on the stock with revised SOTP based target price of Rs 283 (Vs Rs 346 earlier).

### Quarterly performance

Year to March (INR mn)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
<b>Net Revenues</b>	<b>5,564</b>	<b>4,807</b>	<b>15.7</b>	<b>6,244</b>	<b>(10.9)</b>
Raw Materials & Construction Cost	3,585	3,441	4.2	4,120	(13.0)
Gross Profit	1,978	1,367	44.7	2,123	(6.8)
Employee Expenses	196	148	32.3	200	(1.9)
Other Expenses	684	373	83.1	716	(4.5)
Operating Expenses	4,465	3,962	12.7	5,036	(11.3)
<b>EBITDA</b>	<b>1,099</b>	<b>845</b>	<b>30.0</b>	<b>1,207</b>	<b>(9.0)</b>
EBITDA margin	19.7%	17.6%		19.3%	
Depreciation	360	244	47.7	491	(26.7)
Other income	178	123	44.9	183	(2.8)
Net finance expense	72	52	38.5	88	(18.2)
Profit before tax	844	672	25.6	811	4.1
Provision for taxes	104	(4)	-	14	-
<b>Net profit</b>	<b>740</b>	<b>676</b>	<b>9.5</b>	<b>797</b>	<b>(7.2)</b>
Net profit	13.3	14.1		12.8	
Tax rate (% of PBT)	12.3	(0.6)		1.7	

Source: Company

**Pankaj Kumar**

pankajr.kumar@kotak.com

+91 22 6218 6434

### **Q1FY19 revenue ahead of estimates**

The standalone net revenue for the quarter was ahead of our estimates and grew at 15.7% yoy to Rs 5.56 bn as against estimates of Rs 4.2 bn. The growth was driven by certain older projects which witnessed strong execution in the quarter. Rs 1.71 bn revenue was contributed by KP Sagar project followed by Rs 750 mn by Arunachal Pradesh project and Rs 540 mn by Madurai- Ramanathpuram project (in Tamil Nadu) which are near completion.

Based on execution timeline in older projects and land acquisition status of HAM projects, the management expects a decline of ~10-15% yoy in FY19E revenue and expects pickup in execution in FY20E. Thus, the company has reduced its revenue guidance for FY19E from Rs 20 bn to Rs 18 bn and guides for a sharp growth in FY20E with Rs 25 bn plus revenue. We believe that the company can beat its guidance in FY20E based on current order book and its track record of beating revenue guidance.

### **EBITDA above estimates on higher margins driven by certain one-offs**

EBITDA margin at 19.7% was ahead of our estimates of 16% on account of reversal of certain provision for completed projects and increased contribution from projects nearing completion. As a result, EBITDA for the quarter stood at Rs 1.1 bn, up 30% yoy. The company expects EBITDA margins to be in the range of 13.5-14.5% on conservative basis, as the company keeps buffer for 2-3% of margins on account of variation in raw material prices and other contingencies. PAT for the quarter grew by 12.3% yoy to Rs 740 mn (Vs our estimates of Rs 260 mn) on strong margins and lower net tax provisioning due to MAT credit and 80IA benefits in older projects. The company targets tax rate of 15%-20% and 20-25% in FY19E and FY20E respectively as it would continue to claim 80IA tax benefits on its older projects.

### **Order book at Rs 59.5 bn gives strong revenue growth visibility in FY20E**

KNR has robust order book of Rs 59.5 bn (including Rs 39.75 bn of EPC component of 5 HAM projects bagged by the company). Excluding HAM projects, its current order book of Rs 18.8 bn is expected to be completed in next 18 months. The present order book is largely concentrated in southern region comprising 91% of order book where the company has strong foothold. Besides this, the company is targeting to add Rs 20-25 bn of fresh road projects in FY19E.

### **Update on BOT projects**

KNR has reported Rs 1.6 mn toll per day (Vs Rs 1.6 mn qoq) in Kerala project (Walayar –Vadakkancherry) and Rs 1.5 mn per day (Vs Rs 1.6 mn qoq) in Bihar project (Muzaffarpur Barauni) project where it has got 100% COD. The company intends to exit from these BOT projects in future at right valuation.

### **Focusing on executing existing HAM projects**

KNR has bagged 4 NHAI Hybrid Annuity Projects (HAM) with bid project cost of Rs. 44.67 bn in state of Tamil Nadu, AP and Telangana and one Karnataka government HAM project of value ~Rs 11.4 bn. These 5 HAM projects have total bid project cost of Rs 56.1 bn and estimated EPC cost of Rs 39.75 bn. This strengthens KNR's order book and gives revenue growth visibility for FY20E. The company is confident of achieving financial closure of these HAM projects in next 5-6 months. The company is required to infuse ~Rs 4 bn of equity in HAM projects. Based on its strong balance sheet (standalone net debt equity at 0.1x) and decent internal accruals, achieving financial closure in these projects would not be a challenge for KNR. The company has got sanction letters from bank in 3

out of 5 HAM projects. In addition, the company is also exploring options to bring in strategic partners for funding HAM projects. Further, the company has an option to monetize its BOT assets and land bank at appropriate time which would help its future growth.

### HAM Project Details

Date of Announcement	HAM Projects	Lanes	Bid Project Cost (Rs mn)
1 Mar 2018	Trichy to Kallagam (TN)	4 laning	10206
8 Mar 2018	Meensurutti to Chidambaram (TN)	2 laning	4820
26 Mar 2018	Chittor to Mallavaram (AP)	6 laning	17301
26 Mar 2018	Ramsanpalle to Mangloor (Telangana)	4 laning	12340
30 May 2018	Magadi to Somwarpet (KSHIP, Karnataka)	2 laning	11445
	Total		56112

Source: Company

### Outlook and valuation

KNR has track record of generating positive operating cash flows which would help it in funding HAM projects. Based on execution stage of current EPC projects and land acquisition status of HAM project, the management has reduced its guidance for FY19E and has guided for 10-15% decline in FY19E revenue on conservative basis. Based on current order book and status of HAM projects, we have estimated 9% decline in KNR's revenue in FY19E and have estimated a sharp pickup in FY20E. We have cut our EPS estimates for FY19E and FY20E by 17% and 10% respectively. The EPC business (adjusted for Rs 33 per share value of BOT) is available at a PE of 19.5x and 12.6x based on FY19E and FY20E revised EPS of Rs 10.1 and Rs 15.6 per share, respectively. We have valued KNR's EPC business at 16x FY20E EPS (Vs 18x earlier, factoring in near term risk of earning volatility). We maintain our Buy rating on the stock with revised SOTP based target price of Rs 283 (Vs Rs 346 earlier).

### Revision in Estimates

Particulars Rs Mn	Previous		Revised		Chg (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	20261	26467	18400	26540	(9.2)	0.3
EBITDA	3075	4151	2906	4105	(5.5)	(1.1)
EBITDA Margin%	15.2	15.7	15.8	15.5	59 bps	(23) bps
Adj PAT	1697	2438	1415	2192	(16.6)	(10.1)
Adj EPS (Rs)	12.1	17.3	10.1	15.6	(16.8)	(9.9)

Source: Kotak Securities - Private Client Research

### Valuation Table

Segment	Parameter	Multiple (x)	Per Share (Rs)
Standalone Construction Business	PE	16	250
Road BOT	BV of equity	1	33
Consol KNR	Value		283

Source: Kotak Securities Private Client Research



**Company background**

KNR Constructions Ltd (KNR), incorporated in 1995, is Hyderabad based construction company promoted by Mr. K. Narasimha Reddy. The company is broadly present in construction of roads and highways with small presence in irrigation space. Over 90% of its order book is located in South India. The company has a track record of executing 6000 lane km of projects across 12 states in India with top management is actively involved at all stages of project execution. It has portfolio of four BOT projects of 778 lane Kms projects in the state of Telangana, Karnataka, Kerala and Bihar of this two are BOT toll based and two are annuity based. The company has securitized its annuity based projects. Further, it has also won five HAM projects in south India. The company executes its road projects through in-house construction equipment.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>15,411</b>	<b>19,317</b>	<b>18,400</b>	<b>26,540</b>
% change yoy	70.7	25.3	(4.7)	44.2
Direct Cost	11,145	12,854	12,727	19,154
Employee Cost	552	721	793	912
Other Expenses	1,417	1,880	1,974	2,368
Total Expenses	13,115	15,455	15,494	22,435
<b>EBITDA</b>	<b>2,296</b>	<b>3,861</b>	<b>2,906</b>	<b>4,105</b>
% change yoy	47.7	68.2	(24.7)	41.3
Depreciation	639	1,344	1,316	1,239
<b>EBIT</b>	<b>1,657</b>	<b>2,517</b>	<b>1,590</b>	<b>2,866</b>
Other Income	303	393	393	393
Interest	219	231	318	337
Profit Before Tax	1,741	2,679	1,665	2,922
% change yoy	34	54	(38)	76
Tax	60	(39)	250	731
as % of EBT	3.4	(1.5)	15.0	25.0
<b>PAT</b>	<b>1,790</b>	<b>2,718</b>	<b>1,415</b>	<b>2,192</b>
% change yoy	4.3	61.7	(47.9)	54.9
Shares outstanding (mn)	141	141	141	141
<b>EPS (Rs)</b>	<b>12.0</b>	<b>18.1</b>	<b>10.1</b>	<b>15.6</b>
DPS (Rs)	0.6	0.9	0.5	0.8
CEPS(Rs)	15.7	27.7	19.4	24.4
BVPS(Rs)	63.7	82.3	91.9	106.7

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	1,524	2,511	1,665	2,922
Depreciation	639	1,344	1,316	1,239
Change in WC	788	(1,511)	(1,071)	(516)
Other operating activities	(346)	(1,005)	(250)	(731)
<b>Operating Cash Flow</b>	<b>2,605</b>	<b>1,338</b>	<b>1,661</b>	<b>2,915</b>
Capex	(1,439)	(2,658)	(1,200)	(1,000)
Free Cash Flow	1,165	(1,319)	461	1,915
Change in Investments	(1,467)	610	(1,200)	(1,500)
<b>Investment cash flow</b>	<b>(2,906)</b>	<b>(2,048)</b>	<b>(2,400)</b>	<b>(2,500)</b>
Equity Raised	-	-	-	-
Debt Raised/Repaid	273	759	600	(300)
Dividend	(82)	(132)	(73)	(114)
Other Financing activity	(22)	276	-	-
<b>CF from Financing</b>	<b>170</b>	<b>903</b>	<b>527</b>	<b>(414)</b>
Change in Cash	(132)	193	(213)	1
Opening Cash	378	246	439	226
Closing Cash	246	439	226	227

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	281	281	281	281
Reserves	8,674	11,297	12,639	14,717
Net worth	8,955	11,578	12,920	14,998
Borrowings	1,441	2,200	2,800	2,500
<b>Total Liabilities</b>	<b>10,395</b>	<b>13,778</b>	<b>15,720</b>	<b>17,498</b>
Gross Block	6,403	9,076	10,276	11,276
Accumulated Depreciation	3,796	5,140	6,456	7,695
Net block	2,607	3,936	3,820	3,581
Capital work in progress	15	0	0	0
Total fixed assets	2,622	3,936	3,820	3,581
Investments	5,966	5,356	6,556	8,056
Inventories	574	712	1,008	1,818
Sundry debtors	1,640	2,320	2,210	3,187
Cash and equivalents	246	439	226	227
Loans and advances & Others	3,465	4,499	4,999	4,999
Total current assets	5,924	7,969	8,443	10,231
Sundry creditors and others	5,341	5,696	5,293	6,544
Provisions	128	184	203	223
Total CL & provisions	5,470	5,880	5,496	6,767
Net current assets	455	2,089	2,947	3,464
Other assets	920	990	990	990
Net Deferred tax	432	1,408	1,408	1,408
<b>Total Assets</b>	<b>10,395</b>	<b>13,778</b>	<b>15,720</b>	<b>17,498</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	14.9	20.0	15.8	15.5
EBIT margin (%)	10.8	13.0	8.6	10.8
Net profit margin (%)	11.6	14.1	7.7	8.3
Adjusted EPS growth (%)	80.0	51.7	(44.5)	54.9
Receivables (days)	39	44	44	44
Inventory (days)	14	13	20	25
Loans & Advances (days)	82	85	99	69
Payable (days)	127	108	105	90
Net Working Capital (days)	8	35	58	48
Asset Turnover (x)	1.5	1.6	1.3	1.6
Net Debt/ Equity (x)	0.1	0.2	0.2	0.2
RoCE (%)	18.3	22.5	11.9	18.9
RoE (%)	19.3	24.8	11.6	15.7
P/E (x)	19.2	12.6	22.7	14.7
P/BV (x)	3.6	2.8	2.5	2.1
EV/EBITDA (x)	14.5	8.8	12.0	8.4
EV/Sales (x)	2.2	1.8	1.9	1.3

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	17800
52-wk Hi/Lo (Rs)	:	515 / 265
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	47,060
Shares o/s (mn)	:	57

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	9825	10709	11988
Growth (%)	9.5	9.0	11.9
EBITDA	1239	1374	1596
EBITDA margin (%)	12.6	12.8	13.3
PAT	640	735	886
EPS	11.3	13.0	15.6
EPS Growth (%)	41	15	21
Book value (Rs/share)	62.2	73	87
Dividend per share (Rs)	1.6	1.8	2.2
ROE (%)	24.0	19.1	19.5
ROCE (%)	24.2	22.8	24.3
P/E (x)	27.7	24.2	20.0
EV/EBITDA (x)	15.5	13.9	11.8
P/BV (x)	5.0	4.3	3.6

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	56.8	56.8	54.9
FII	0.6	2.0	2.8
DII	8.4	7.7	7.2
Others	34.2	33.5	35.2

Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Dollar Industries	(4.9)	(23.7)	(27.0)
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Pankaj Kumar

pankajr.kumar@kotak.com  
+91 22 6218 6434

## DOLLAR INDUSTRIES LTD (DIL)

PRICE RS.313

TARGET RS.427

BUY

DIL Q1FY19 results were below our estimates due to below expected revenue in domestic markets and decline in exports.

### Key Highlights

- DIL reported below expected revenue growth of 3.6% yoy due to decline in exports, lower revenue growth across brands due to weakness in overall volume offtake. and company adopting corrective measures for distribution of various brands.
- EBITDA margin improved by 60 bps to 11.6% was inline with our estimates led by better product mix. PAT for the quarter grew by 10.3% yoy to Rs 138 mn Vs estimates of Rs 153 mn.
- DIL management has maintained guidance for 12% growth in revenue in FY19E with improvement in EBITDA margins at ~13%.

### Valuation & outlook

- The company is positive on its business in the longer run and is focusing on strengthening of its internal systems and improving distribution of high value brands. We have cut our EPS estimates for FY19E & FY20E by 7% and 10.2% respectively factoring in lower growth in volume and EBITDA margins as the transformation in business may take longer time.
- The stock is trading at PE of 24.2x and 20x on FY19E and FY20E revised EPS of Rs 13 and 15.6, respectively. We maintain our Buy rating on the stock with revised target price of Rs 437 (Vs Rs 505 earlier).

### Quarterly performance table (standalone)

Year to March (INR Mn.)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
<b>Net Revenues</b>	<b>2,437</b>	<b>2,351</b>	<b>3.6</b>	<b>2,722</b>	<b>(10.5)</b>
Raw Materials Cost	1,005	1,106	(9.2)	1,157	(13.2)
Gross Profit	1,432	1,245	15.0	1,565	(8.5)
Employee Expenses	75	53	42.2	79	(5.9)
Other Expenses	1,075	934	15.0	1,163	(7.6)
Operating Expenses	2,154	2,093	2.9	2,400	(10.3)
<b>EBITDA</b>	<b>283</b>	<b>258</b>	<b>9.6</b>	<b>322</b>	<b>(12.3)</b>
EBITDA margin	11.6%	11.0%		11.8%	
Depreciation	26	29	(11.7)	31	(15.7)
Other income	2	1	30.6	8	(78.9)
Net finance expense	34	46	(25.0)	35	(2.4)
Profit before tax	224	184	21.7	264	(15.2)
Provision for taxes	86	59	46.0	77	10.8
<b>Reported net profit</b>	<b>138</b>	<b>125</b>	<b>10.3</b>	<b>186</b>	<b>(25.9)</b>
As % of net revenues					
COGS	41.2	47.0		42.5	
Employee cost	3.1	2.2		2.9	
Other Expenses	44.1	39.7		42.7	
Operating expenses	88.4	89.0		88.2	
Reported net profit	5.7	5.3		6.8	
Tax rate (% of PBT)	38.3	31.9		29.3	

Source: Company

### **Revenue grew at 3.6% on weakness in demand and corrective measures**

Net revenue in Q1FY19 grew at sluggish pace of 3.6% at Rs 2.4 bn (as against our estimates of Rs 2.63 bn). The company missed our estimates due to 3% yoy decline in volume across brands due to weak demand and sluggish exports (declined by 5% yoy). The company adopting corrective measures for distribution for various brands has also impacted growth in the major brands. As per the management, exports declined due to quarterly variations and would revive in coming quarters. Average realization for the quarter improved by 6% due to better product mix. In Q1FY19, 46% revenue contributed by Big Boss, 37% by regular, 3% by Force NXT, 7% by Missy, 6% by Force Gowear and 1% by Champion. The company is focusing on strengthening its retail presence by increasing presence in modern retail, online, rolling out EBOs on franchisee basis, etc. The company is also focusing on expanding product range in Missy and Bigboss.

### **EBITDA margins improved by 60 bps yoy**

EBITDA for the quarter grew by 9.6% yoy to Rs283mn and was below our estimates, with inline EBITDA margin at 11.6%. The company has guided to achieve EBITDA margins of 13% in FY19E and aims to achieve 15% EBITDA margins in the longer run. This will be achieved by its focus towards premiumization, improvement in product mix, improved distribution model, etc. PAT for the quarter grew by 10.3% yoy at Rs 138 mn Vs estimates of Rs 153 mn.

### **Working capital remained high**

Working capital remained at elevated level due to GST, creating working capital pressure in the channel. In addition, the company also supported channel partners due to liquidity issue during GST implementation. The company expects revival in working capital scenario once the impact of GST subsidies in the system.

### **Guided for 12% revenue growth with improved margins**

DIL has guided for 12% growth in revenue in FY19E with improvement in EBITDA margins estimated at 13%. The company expects that the benefits from strengthening of its system through appointment of consultant would take 4-6 quarters in terms yielding complete results. Hence its expectation of additional 8% growth in revenue in FY19E due to restructuring of its internal systems may not materialize.

### **Other highlights**

- JV with Pepe jeans for innerwear products is operating as per expectations. The team is on board and manufacturing of the products started. The products are expected to reach market by Q2FY19.
- The company is positive on its premium end brand Force NXT and Missy. It expects the segment to grow at faster pace in coming years.
- The company does not require any capex in next few years and would continue to follow asset light strategy by focusing on sourcing from third party vendors.

## Outlook and valuation

The company is positive on its business in the longer run and aims to add Rs 10 bn revenue in next 5 years with better margins of over 15%. Presently it is undergoing through transformation phase and is focusing on strengthening of its internal systems through appointment of consultant and improving distribution of high value brands. We have cut our EPS estimates for FY19E & FY20E by 7% and 10.2% respectively, factoring lower growth in volume and EBITDA margins as the transformation in business may take 4-6 quarters.

The stock is trading at PE of 24.2x and 20x on FY19E and FY20E revised EPS of Rs 13 and 15.6, respectively. We maintain our Buy rating on the stock with revised target price of Rs 437 (Vs Rs 505 earlier). We have valued the stock at 28x FY20E EPS (Vs 29x earlier due to company undergoing through consolidation). At our target price, the stock would be trading at discount to its peers.

## Revision in estimates

Particulars (Rs mn)	Previous		Revised		% Chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	11046	12557	10709	11988	(3.0)	(4.5)
EBITDA margin (%)	13.3	14.1	12.8	13.3	(47 bps)	(79 bps)
PAT	790	987	735	886	(7.0)	(10.2)
EPS (Rs)	13.9	17.4	13.0	15.6	(7.0)	(10.2)

Source: Kotak Securities - Private Client Research

## Company background

Dollar Industries Limited was promoted by Dindayal Gupta under the name Bhawani Textiles and now has created substantial presence in India under the Dollar umbrella. The company is present across segment in innerwear space with its brands Big Boss, Force NXT, Missy, Champion, Ultra, Force Go Wear, etc. Its brands are also marketed in over 10 countries which includes UAE, Oman, Jordan, Qatar, Kuwait, Bahrain, Yemen, Iraq, Nepal and Sudan. The company manufactures more than 350 products across all innerwear segments. The company's manufacturing facilities are located at Kolkata, Tirupur, Delhi and Ludhiana. It has fully integrated facility at Tirupur with presence in spinning (400 tonnes per annum), knitting (300 tonnes per annum), dyeing and bleaching (400 tonnes per annum), cutting (0.3 mn pcs per day), elastic manufacturing, stitching and packaging and caters to high end products.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>8,973</b>	<b>9,825</b>	<b>10,709</b>	<b>11,988</b>
% change yoy	9.2	9.5	9.0	11.9
<b>EBITDA</b>	<b>926</b>	<b>1,239</b>	<b>1,374</b>	<b>1,596</b>
% change yoy	40.8	33.8	10.9	16.2
Depreciation	148	122	134	150
<b>EBIT</b>	<b>778</b>	<b>1,117</b>	<b>1,240</b>	<b>1,446</b>
Other Income	86	20	20	20
Interest	197	179	160	140
Profit Before Tax	667	958	1,100	1,326
% change yoy	63.2	43.5	14.8	20.5
Tax	233	318	365	440
as % of EBT	34.9	33.2	33.2	33.2
<b>PAT</b>	<b>435</b>	<b>640</b>	<b>735</b>	<b>886</b>
% change yoy	64.9	47.3	14.8	20.5
Shares outstanding (mn)	54	57	57	57
<b>EPS (Rs)</b>	<b>8.0</b>	<b>11.3</b>	<b>13.0</b>	<b>15.6</b>
DPS (Rs)	1.0	1.6	1.8	2.2
CEPS(Rs)	10.7	13.4	15.3	18.3
BVPS(Rs)	33.4	62.2	73.3	86.8

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	667	958	1,100	1,326
Depreciation	148	122	134	150
Change in WC	(525)	(950)	(368)	(534)
Other operating activities	(271)	(533)	(365)	(440)
<b>Operating Cash Flow</b>	<b>20</b>	<b>(403)</b>	<b>501</b>	<b>502</b>
Capex	(53)	(79)	(200)	(200)
Free Cash Flow	(33)	(482)	301	302
Change in Investments	(3)	(35)	-	-
<b>Investment cash flow</b>	<b>(56)</b>	<b>(113)</b>	<b>(200)</b>	<b>(200)</b>
Equity Raised	31	1,168	-	-
Debt Raised	110	(464)	(200)	(200)
Dividend & others	(111)	(90)	(103)	(124)
<b>CF from Financing</b>	<b>29</b>	<b>615</b>	<b>(303)</b>	<b>(324)</b>
Change in Cash	(7)	98	(2)	(22)
Opening Cash	104	97	195	193
<b>Closing Cash</b>	<b>97</b>	<b>195</b>	<b>193</b>	<b>171</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	108	113	113	113
Reserves	1,701	3,414	4,046	4,808
Net worth	1,809	3,527	4,159	4,921
Borrowings	2,163	1,700	1,500	1,300
Net Deferred tax	24	4	4	4
<b>Total Liabilities</b>	<b>3,996</b>	<b>5,231</b>	<b>5,663</b>	<b>6,225</b>
Gross block	1,514	1,572	1,772	1,972
Depreciation	766	888	1,021	1,171
Net block	748	684	750	801
Capital work in progress	0	21	21	21
Total fixed assets	749	705	772	822
Investments	3	38	38	38
Inventories	2,049	2,829	3,083	3,452
Sundry debtors	2,265	2,717	2,962	3,315
Cash and equivalents	97	195	193	171
Loans and advances & Others	134	30	35	40
Total current assets	4,545	5,771	6,273	6,978
Sundry creditors and others	1,168	1,412	1,540	1,723
Provisions	154	88	97	107
Total CL & provisions	1,322	1,501	1,636	1,830
Net current assets	3,223	4,271	4,636	5,148
Other net assets	22	218	218	218
<b>Total Assets</b>	<b>3,996</b>	<b>5,231</b>	<b>5,663</b>	<b>6,225</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Profitability Ratios</b>				
EBITDA margin (%)	10.3	12.6	12.8	13.3
EBIT margin (%)	8.7	11.4	11.6	12.1
Net profit margin (%)	4.8	6.5	6.9	7.4
Adjusted EPS growth (%)	17.9	40.7	14.8	20.5
<b>Balance Sheet Ratios:</b>				
Receivables (days)	92	101	101	101
Inventory (days)	83	105	105	105
Loans & Advances	5	1	1	1
Payable (days)	48	52	52	52
Cash Conversion Cycle	133	155	155	155
Asset Turnover (x)	2.2	1.9	1.9	1.9
Net Debt/ Equity (x)	1.1	0.4	0.3	0.2
<b>Return Ratios:</b>				
RoCE (%)	20.6	24.2	22.8	24.3
RoE (%)	26.6	24.0	19.1	19.5
<b>Valuation Ratios:</b>				
P/E (x)	39.0	27.7	24.2	20.0
P/BV (x)	9.4	5.0	4.3	3.6
EV/EBITDA (x)	20.6	15.5	13.9	11.8
EV/Sales (x)	2.1	2.0	1.8	1.6

Source: Company, Kotak Securities – Private Client Research

## Result Update

## CUMMINS INDIA LTD

### Stock Details

Market cap (Rs mn)	:	186001
52-wk Hi/Lo (Rs)	:	993 / 612
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	412,112
Shares o/s (mn)	:	277

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	49,518	55,219	62,620
Growth (%)	0.1	11.2	13.1
EBITDA	7,325	8,651	10,262
EBITDA margin (%)	14.4	15.3	16.4
Adj. PAT	7,084	7,707	9,081
EPS	23.5	27.8	32.8
EPS Growth (%)	-11.2	18.2	17.8
BV (Rs/share)	144	148	156
Dividend/share (Rs)	15.0	20.0	20.0
ROE (%)	18.3	19.1	21.6
ROCE (%)	17.1	17.9	20.1
P/E (x)	28.7	24.3	20.6
EV/EBITDA (x)	23.2	19.6	16.6
P/BV (x)	4.7	4.6	4.3

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	51.0	51.0	51.0
FII	13.2	14.1	14.6
DII	22.9	14.2	13.8
Others	12.7	20.7	20.6

Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Cummins India	3.6	(13.4)	(20.6)
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Ruchir Khare

ruchir.khare@kotak.com  
+91 22 6218 6431

PRICE Rs.675

TARGET Rs.785

BUY

Cummins India met our Q1FY19 estimates on back of margin expansion (highest in last six quarter) aided by favourable product mix and currency movement. Domestic business declined 7% y/y on the high base of last year (pre-GST buying in Q1FY18). Management sounded confident of building growth momentum in 9MFY19 and maintained domestic business revenue growth guidance at 8-10% y/y. Export business reported revenue growth of 12.4 % in Q1FY19 (though management maintained guidance of muted growth for now and rather wait for one more quarter of exports growth to revisit guidance).

### Key Highlights

- Cummins India revenue declined 1% y/y to Rs 13.2 Bn in Q1FY19 due to muted performance in the domestic market. Domestic business declined 7% y/y, reported at Rs 8.5 Bn, on the high base of Q1FY18 which was aided by pre-GST buying. Exports revenue grew 12.4% y/y, reported at Rs 4.4 Bn in Q1FY19.
- EBITDA margin expanded to 16.2% in Q1FY19 against 14.2% in Q1FY18 driven by favourable product mix and currency movement. Management is confident of maintaining margins going forward and expect expand Gross Margin to expand by c.100 bps in FY19.

### Valuation & Outlook

At CMP of Rs 675, Cummins India is trading attractive at PER of 20.6x and EVEBITDA of 16.6 on FY20 earnings estimate.

We maintain our FY19/FY20 earnings estimates and value Cummins India at PER 24x FY20 earnings. In view of significant upside to our unchanged target price of Rs 785, move recommendation to 'BUY' from 'ACCUMULATE' earlier.

### Quarterly performance

(Rs mn)	Q1FY19	Q1FY18	% YoY	Q4FY18	% QoQ
<b>Net Sales / Income from Operations</b>	<b>13280</b>	<b>13408</b>	<b>(1.0)</b>	<b>12332</b>	<b>7.7</b>
Other Income	696	583	19.3	664	4.8
Purchase of traded goods	2034	2007	1.3	1753	16.1
Consumption of Raw Materials	6296	6715	(6.2)	6278	0.3
Staff Cost	1265	1226	3.2	1180	7.2
Other Expenses	1538	1507	2.1	1391	10.6
Operating Expenditure	11133	11455	(2.8)	10602	5.0
<b>EBITDA</b>	<b>2146</b>	<b>1953</b>	<b>9.9</b>	<b>1730</b>	<b>24.0</b>
Interest & Finance Charges	36	42		34	
Depreciation	271	208	29.8	273	(0.9)
Exceptional Item	0	0		0	
Profit / (Loss) before tax	2536	2286	11.0	2087	21.5
Exceptional Item	0			0	
Tax provision	706	625	12.9	475	48.6
PAT	1830	1660	10.2	1612	13.5
<b>Adj PAT</b>	<b>1830</b>	<b>1660</b>	<b>10.2</b>	<b>1612</b>	<b>13.5</b>
<b>Adj EPS</b>	<b>6.6</b>	<b>6.0</b>	<b>10.2</b>	<b>5.8</b>	<b>13.5</b>
EBITDA (%)	16.2	14.6		14.0	
Raw material cost to sales (%)	62.7	65.1		65.1	
Tax rate (%)	27.8	27.4		22.8	

Source: company

## Result Highlights

Cummins India revenue declined 1% y/y to Rs 13.2 Bn in Q1FY19. Domestic business declined 7% y/y, reported at Rs 8.5 Bn, on the high base of Q1FY18 (which was aided by pre-GST buying). Exports revenue grew 12.4% y/y, reported at Rs 4.4 Bn in Q1FY19.

Power Gen segment net sales reported at Rs 3.3 Bn (declined 2.5% y/y) in the quarter. Management however shared a positive outlook for 9MFY19. As per management, the growth in real estate projects, hospitals, data centers and airports etc could potentially lead to segment growth going forward.

Industrial segment reported net sales at Rs 1.8 Bn in Q1FY19 vis-à-vis Rs 2 Bn in Q1FY18. Management shared positive outlook for 9MFY19 driven by improved public spending on various infrastructure projects like roads, mining and railways. We believe that the momentum in the industrial business would last into FY19/20, driven by strong tailwinds in construction and railways. We note that the company is well poised to benefit from this trend as it enjoys leadership position in the construction segment within the industrial segment and similar dominant positioning in most of the product categories it is present into. Compressors is the only segment within the Industrial division where company is witnessing muted activity due to weak water well demand. Overall, Industrial division is likely to outperform power generation segment over the next few quarters.

Distribution business de-grew 5.9% y/y to Rs 3.2 Bn in Q1FY19. We also note that the higher growth in Industrial sales, would likely pull the distribution sales upward as longer the engines run, higher the need for spare-parts/maintenance.

### Domestic Revenue Breakup

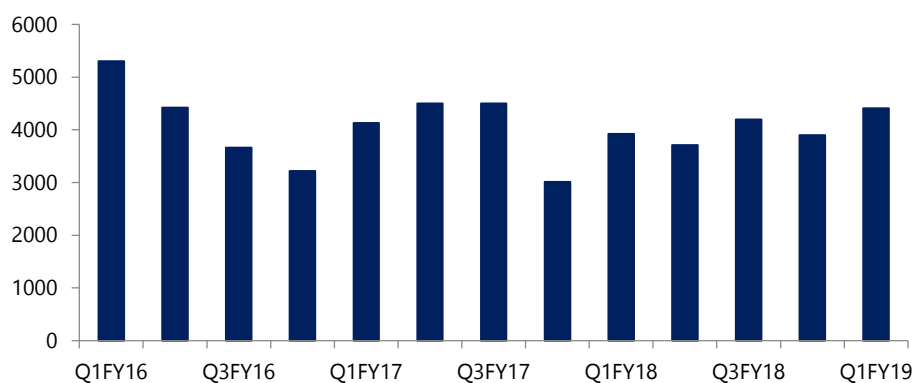
(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Power Generation	3600	3700	(2.7)	3300	9.1
Industrial	1800	2000	(10.0)	1970	(8.6)
Distribution	3200	3400	(5.9)	2700	18.5

Source: company, Kotak Securities – Private Client Research

### Low LHP volumes affected exports

Export sales at Rs 4.4 Bn (+12.4% y/y). Management highlighted that Middle East has recovered in a meaningful way. Africa and LATAM (mainly Mexico) has also posted sharp recovery in Q1FY19. Europe is the only region, which has been experiencing muted growth.

Table Cummins India Export Sales Rs mn



Source: Company



### Operating margin expanded after six quarters of disappointment

EBITDA margin expanded to 16.2% in Q1FY19 against 14.2% in Q1FY18 driven by favourable product mix and currency movement. Being net exporter, company benefited from INR depreciation in Q1FY19 (though benefits last only to an extent until it resets forex gain/loss with parent) to the tune of 40-50 bps at EBITDA level. Management is confident of maintaining margins on back of 1/ cost rationalization measures undertaken by the company, 2/ implementation of six sigma would likely address this issue to a large extent and 3/ operating leverage. Management expects to expand Gross Margins by c.100 bps in FY19.

While the margins could have bottomed out, we believe that the recovery would be slower than our prior assumption. Competitive intensity has been increasing in almost all the segments, by both domestic and international players getting attracted towards Indian market.

### Other takeaways from Q1FY19 earnings call

- Management maintained domestic growth guidance at 9-10% y/y in FY19 led by continued momentum in Industrial business and 7-8% y/y growth in PowerGen business. Despite being hopeful, management refrained from giving aggressive guidance for exports and rather wait for one more quarter to confirm recovery.
- Supply constraints (driven by truck strikes) affected company's operation in Q1FY19 to some extent. Management stated that the company faced these challenges in a particular period and now supply chain is working normally.
- Consistent with parent company's (Cummins Inc) view management highlighted that the global market for power generation is recovering, implying a cyclical recovery in the sector.
- Management is comfortable with current capacity in hand (c.70% capacity utilization currently) and have guided for a capex of Rs 3.5-4 Bn in FY19 and below Rs 3 Bn in FY20.

### Valuation and Recommendation

At CMP of Rs 675, Cummins India is trading attractive at PER of 20.6x and EVEBITDA of 16.6 on FY20 earnings estimate.

We maintain our FY19/FY20 earnings estimates and value Cummins India at PER 24x FY20 earnings. In view of significant upside to our unchanged target price of Rs 785, move recommendation to 'BUY' from 'ACCUMULATE' earlier.

### Company background

Cummins India Limited, 51 percent subsidiary of US based Cummins Inc limited, is India's leading manufacturer of diesel and natural gas engines. One of the eight legal entities of the Cummins Group in India, Cummins India Limited comprises of three business units - Engine, Power Systems, and Distribution. Cummins India is a market leader in the key product categories in India. Exports (including exporting to Cummins group of companies globally) constitute to be a major part of Cummins India limited revenues.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>49,581</b>	<b>49,518</b>	<b>55,219</b>	<b>62,620</b>
% change yoy	7.8	0.1	11.2	13.1
<b>EBITDA</b>	<b>8,019</b>	<b>7,325</b>	<b>8,651</b>	<b>10,262</b>
% change yoy	3.4	(8.7)	18.1	18.6
Depreciation	848	939	1,080	1,134
<b>EBIT</b>	<b>9,249</b>	<b>8,671</b>	<b>10,131</b>	<b>12,199</b>
% change yoy	0.3	(6.3)	16.8	20.4
Other Income	2,079	2,285	2,559	3,071
Net Interest	168	148	250	250
Earnings Before Tax	9,082	8,522	9,881	11,949
% change yoy	(0.5)	(6.2)	15.9	20.9
Extraordinary Gains/(losses)	0	561	0	0
Tax	1,736	2,000	2,174	2,868
Net Income adj	7,346	7,084	7,707	9,081
% change yoy	(2.9)	(11.2)	18.2	17.8
<b>EPS (Rs)</b>	<b>26.5</b>	<b>23.5</b>	<b>27.8</b>	<b>32.8</b>
DPS (Rs)	14.0	15.0	20.0	20.0
CEPS	29.6	28.9	31.7	36.9

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	9,082	8,522	9,881	11,949
Depreciation	848	939	1,080	1,134
Current liabilities incl provisions	625	2,336	1,863	2,531
Increase in inventory	382	246	(828)	(831)
Increase in sundry Debtors	(175)	(3,706)	1,160	(1,622)
Increase in advances	(79)	(873)	0	0
Tax Paid	(1,736)	(2,000)	(2,174)	(2,868)
Other Adjustments	104	1,327	(139)	(124)
<b>Net cash from operations</b>	<b>9,051</b>	<b>6,791</b>	<b>10,842</b>	<b>10,169</b>
Purchase of fixed Assets	(270)	(1,527)	(3,580)	(3,134)
Net investments	(6,496)	(2,631)	(15)	0
Other investment activities	273	5,783	590	0
<b>Net cash from investing</b>	<b>(6,493)</b>	<b>1,625</b>	<b>(3,004)</b>	<b>(3,134)</b>
Change in Borrowings	2,508	6	(6)	0
Dividend Paid	(4,671)	(5,005)	(6,673)	(6,673)
<b>Net Cash from financing</b>	<b>(2,163)</b>	<b>(4,999)</b>	<b>(6,680)</b>	<b>(6,673)</b>
Cash at the end of year	1,292	4,708	5,867	6,229

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,291	4,708	5,867	6,229
Accounts receivable	9,557	13,263	12,103	13,725
Inventory	5,621	5,375	6,203	7,034
Other current assets	3,613	3,689	3,807	3,931
<b>Current Assets</b>	<b>18,790</b>	<b>22,326</b>	<b>22,112</b>	<b>24,690</b>
Net fixed assets	12,240	12,828	15,328	17,328
Investments	9,753	12,798	12,813	12,813
WIP	4,631	380	380	380
Other non-current assets	19,194	19,264	22,286	25,179
<b>Total Assets</b>	<b>50,409</b>	<b>55,312</b>	<b>58,771</b>	<b>63,711</b>
Debt	2,508	2,514	2,508	2,508
Equity & reserves	37,422	39,861	40,894	43,302
Other liabilities	911	1,033	1,602	1,602
Current Liabilities	9,568	11,904	13,767	16,298
<b>Total Liabilities</b>	<b>50,409</b>	<b>55,312</b>	<b>58,771</b>	<b>63,711</b>
BVPS (Rs)	135	144	148	156

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	15.8	14.4	15.3	16.4
EBIT margin (%)	18.7	17.5	18.3	19.5
Net profit margin (%)	14.8	14.3	14.0	14.5
Receivables (days)	70.4	97.8	80.0	80.0
Inventory (days)	41.4	39.6	41.0	41.0
Sales / Net Fixed Assets (x)	4.1	3.9	3.6	3.6
Interest coverage (x)	55.1	58.5	40.5	48.8
Debt/ equity ratio	0.1	0.1	0.1	0.1
ROE (%)	20.3	18.3	19.1	21.6
ROCE (%)	19.5	17.1	17.9	20.1
EV/ Sales	3.4	3.4	3.1	2.7
EV/EBITDA	21.2	23.2	19.6	16.6
Price to earnings (P/E)	25.5	28.7	24.3	20.6
Price to book value (P/B)	5.0	4.7	4.6	4.3
Price to cash earnings	22.8	23.3	21.3	18.3

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	160948
52-wk Hi/Lo (Rs)	:	1849 / 1273
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	52,579
Shares o/s (mn)	:	94

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	24,452	28,610	34,904
Growth (%)	8.9	17.0	22.0
EBITDA	5,357	7,009	8,901
EBITDA margin (%)	23.5	24.5	25.5
PAT	4,436	5,030	6,419
EPS	47.0	53.3	68.1
EPS Growth (%)	(3.0)	13.4	27.6
BV (Rs/share)	319	366	426
Dividend/share (Rs)	5.6	6.8	8.1
ROE (%)	15.5	15.6	17.2
ROCE (%)	10.7	11.2	12.8
P/E (x)	36.3	32.0	25.1
EV/EBITDA (x)	29.8	22.8	17.9
P/BV (x)	5.3	4.7	4.0

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	58.5	61.7	61.7
FII	23.0	23.0	23.9
DII	13.3	10.1	9.5
Others	5.0	5.3	4.9

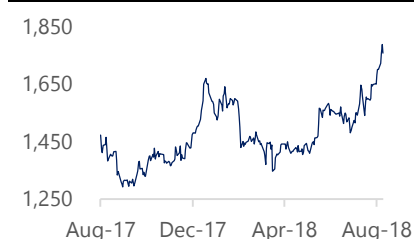
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
AIA Engineering	6.2	16.7	17.6
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Ruchir Khare

ruchir.khare@kotak.com  
+91 22 6218 6431

## AIA ENGINEERING LTD (AIA)

PRICE RS.1705

TARGET RS.1700

SELL

AIA reported Q1FY19 revenues in line with our estimate driven by the mining division. Mining volumes are expected to remain strong on back of new market creation and improved realizations from existing clients going ahead.

### Key Highlights

- AIA reported net revenue at Rs 7.1 Bn (+25.5% y/y) driven by over 14.6% volume growth in mining division.
- Operating margin contracted to 21.8% in the quarter against 22.8% in Q1FY18 due to 38.1% y/y increase in raw material expense. However with improved volumes/pricing in mining division, margins are likely to recover in FY19/20.

### Valuation & Outlook

We believe that the growth in the mining division will last into 9MFY19/20 and AIA could maintain/expand margins going ahead. We tweak our FY19/20 estimates upwards to factor in improved traction in the mining business. We value AIA Engineering at PER 25x FY20 earnings and arrive at a revised target price of Rs 1700. Stock has moved up since our previous update and in view of the downside to our revised target price, we change recommendation to 'Sell from 'Accumulate' earlier.

### Consolidated Financials Q1FY19

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18E	QoQ (%)
<b>Net Sales</b>	<b>7,152</b>	<b>5,700</b>	<b>25.5</b>	<b>7,439</b>	<b>(3.8)</b>
Inc/dec in stock	(478)	(128)		207	
Raw materials	3,344	2,421	38.1	2,928	14.2
Staff cost	308	274	12.6	285	8.1
Other exp.	2,423	1,834	32.1	2,353	3.0
Total exp.	5,597	4,401	27.2	5,773	(3.1)
<b>EBIDTA</b>	<b>1,556</b>	<b>1,299</b>	<b>19.8</b>	<b>1,665</b>	<b>(6.6)</b>
Other income	202	185	9.0	495	(59.3)
Depreciation	166	178	(6.8)	138	19.9
<b>EBIT</b>	<b>1,592</b>	<b>1,307</b>	<b>21.8</b>	<b>2,022</b>	<b>(21.3)</b>
Interest	18	14	30.7	29	(35.8)
<b>PBT</b>	<b>1,574</b>	<b>1,293</b>	<b>21.7</b>	<b>1,994</b>	<b>(21.1)</b>
Tax & deferred tax	526	405	29.8	475	10.6
<b>PAT</b>	<b>1,048</b>	<b>888</b>	<b>18.1</b>	<b>1,519</b>	<b>(31.0)</b>
<b>Adj EPS</b>	<b>11.1</b>	<b>9.4</b>	<b>18.1</b>	<b>16.1</b>	<b>(31.0)</b>
Raw Materials / Sales (%)	40.1	40.2		42.1	
EBITDA (%)	21.8	22.8		22.4	
Tax (%)	33.4	31.3		23.8	

Source: Company

In Q1FY19, AIA Engineering Ltd reported volume sale of 64211 MT against 56706 MT in Q1FY18 and 66375 MT of mill internals in Q4FY18. Growth in the quarter was driven by mining division (+14.6% y/y), reported at 39726 MT. Company reported net revenue at Rs 7.1 Bn (+25.5% y/y).

Operating margin contracted to 21.8% in the quarter against 22.8% in Q1FY18 due to 38.1% y/y increase in raw material expense. Ferro chrome prices have remained firm on y/y basis. Employee cost in Q1FY19 stabilized at Rs 308 mn in the quarter. We note that the company will continue to report increased

overheads for creating new markets in mining space over the next few quarters. We believe that the company shall eventually take adequate price hikes to cover input price inflation to safeguard margins.

We believe that the company is well poised to benefit from the growth in the high chrome mill internals mining space. AIA has commissioned phase I of the capex plan increasing capacity to 34000 MT. Phase II shall incur through FY19. Management maintained capex guidance at Rs 5 Bn in FY19 and Rs 3 Bn in FY20.

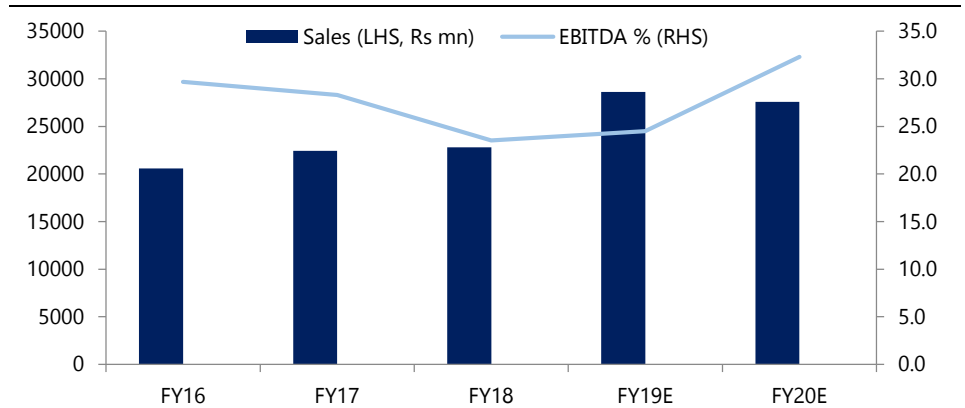
Higher tax rate in Q1FY19 (tax expense at Rs 526 mn in Q1FY19) resulted in the PAT of Rs 1 bn in the quarter.

### Financials

We believe that company would potentially expand margins over the next two years due to operating leverage. We also believe that the promotional prices in mining would be compensated by the price action/operating leverage.

We build a gradual expansion in operating margin over FY19-20E. In our projections, we build EBITDA margin improvement from 23.5% in FY18 to 25% in FY20.

### Sales vs EBITDA



Source: Company, Kotak Securities – Private Client Research

### Valuation and Recommendation

We believe that the growth in the mining division will last into 9MFY19/20 and AIA could maintain/expand margins going ahead. We tweak our FY19/20 estimates upwards to factor in improved traction in the mining business. We value AIA Engineering at PER 25x FY20 earnings and arrive at a revised target price of Rs 1700. Stock has moved up since our previous update and in view of the downside to our revised target price, we change recommendation to 'Sell from 'Accumulate' earlier.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>22,460</b>	<b>24,452</b>	<b>28,610</b>	<b>34,904</b>
% change yoy	7.0	8.9	17.0	22.0
<b>EBITDA</b>	<b>6,347</b>	<b>5,357</b>	<b>7,009</b>	<b>8,901</b>
% change yoy	8.7	(1.5)	17.9	22.0
Depreciation	725	656	890	950
<b>EBIT</b>	<b>5,622</b>	<b>4,701</b>	<b>6,119</b>	<b>7,951</b>
% change yoy	3.3	(16.4)	30.2	29.9
Net Interest	45	69	47	48
Earnings Before Tax	6,622	5,850	7,290	9,303
% change yoy	3.4	(16.9)	31.1	30.1
Tax	2,048	1,414	2,260	2,884
as % of EBT	30.9	24.2	31.0	31.0
<b>Recurring PAT</b>	<b>4,574</b>	<b>4,436</b>	<b>5,030</b>	<b>6,419</b>
% change yoy	(1.4)	(3.0)	13.4	27.6
Shares outstanding (m)	94.3	94.3	94.3	94.3
<b>EPS (Rs)</b>	<b>48.5</b>	<b>47.0</b>	<b>53.3</b>	<b>68.1</b>
DPS (Rs)	4.7	5.6	6.8	8.1
CEPS	56.1	53.9	62.7	78.0

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	6,622	5,850	7,290	9,303
Depreciation	725	656	890	950
Current liabilities incl provisions	1,202	626	(884)	517
inc in inventory	(3,256)	(193)	(737)	(1,380)
inc in sundry Debtors	(948)	(1,053)	(1,041)	(1,552)
inc in advances	(31)	(4)	30	-
Tax Paid	(2,048)	(1,414)	(2,260)	(2,884)
Other Adjustments	2,236	(1,019)	(142)	(517)
<b>Net cash from operations</b>	<b>4,532</b>	<b>3,453</b>	<b>3,117</b>	<b>4,437</b>
Purchase of fixed Assets	(1,128)	(671)	(1,890)	(1,950)
Net investments	1,347	1,564	-	-
<b>Net cash from investing</b>	<b>(2,167)</b>	<b>(2,676)</b>	<b>(1,890)</b>	<b>(1,950)</b>
Change in Borrowings	205	(74)	-	-
Dividend Paid	(443)	(531)	(638)	(765)
<b>Net Cash from financing</b>	<b>(238)</b>	<b>(605)</b>	<b>(638)</b>	<b>(765)</b>
Net Cash Flow	2,128	172	590	1,722
Cash at the end of year	2,477	2,650	3,239	4,961

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	2,478	2,650	3,239	4,961
Accounts receivable	4,961	6,014	7,055	8,607
Inventories	5,341	5,534	6,271	7,650
Other current assets	1,698	1,829	2,352	2,869
<b>Current Assets</b>	<b>11,999</b>	<b>13,377</b>	<b>15,677</b>	<b>19,126</b>
Net fixed assets	6,949	7,505	8,505	9,505
Investments	9,596	10,919	10,919	10,919
Goodwill (intangible assets)	218	219	219	219
Other non-current assets	3,139	3,566	3,775	5,497
<b>Total Assets</b>	<b>31,901</b>	<b>35,586</b>	<b>39,095</b>	<b>45,266</b>
Debt	1,158	1,231	1,231	1,231
Equity & reserves	27,173	30,093	34,486	40,140
Other liabilities	961	1,026	1,026	1,026
Current Liabilities	2,609	3,236	2,352	2,869
<b>Total Liabilities</b>	<b>31,901</b>	<b>35,586</b>	<b>39,095</b>	<b>45,266</b>
BVPS (Rs)	288	319	366	426

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	28.3	23.5	24.5	25.5
EBIT margin (%)	25.0	19.2	21.4	22.8
Net profit margin (%)	20.4	18.1	17.6	18.4
Receivables (days)	81	90	90	90
Inventory (days)	87	83	80	80
Sales / Net Fixed Assets (x)	0.8	0.8	0.9	1.0
Interest coverage (x)	125	68	130	166
Debt/ equity ratio	0.0	0.0	0.0	0.0
ROE (%)	19.2	15.5	15.6	17.2
ROCE (%)	13.8	10.7	11.2	12.8
EV/ Sales	7.1	6.5	5.6	4.6
EV/EBITDA	25.1	29.8	22.8	17.9
Price to earnings (P/E)	35.2	36.3	32.0	25.1
Price to book value (P/B)	5.9	5.3	4.7	4.0
Price to cash earnings	30.4	31.7	27.2	21.9

Source: Company, Kotak Securities – Private Client Research

## Result Update

## AKSHARCHEM (INDIA) LTD

### Stock Details

Market cap (Rs mn)	:	4322
52-wk Hi/Lo (Rs)	:	819 / 470
Face Value (Rs)	:	10
3M Avg. daily vol (nos)	:	13,231
Shares o/s (mn)	:	8.2

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	2,647	3,181	3,537
Growth (%)	5.8	20.2	11.2
EBITDA	417	509	566
EBITDA margin (%)	15.7	16.0	16.0
PAT	306	343	365
EPS	37.3	41.9	44.4
EPS Growth (%)	(42.1)	12.1	6.2
BV (Rs/share)	290	334	383
Dividend/share (Rs)	3.5	3.5	3.5
ROE (%)	12.9	12.8	12.2
ROCE (%)	16.3	17.2	16.3
P/E (x)	14.1	12.5	11.8
EV/EBITDA (x)	10.7	8.9	8.2
P/BV (x)	1.8	1.6	1.4

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	62.7	62.7	62.7
FII	4.9	4.8	4.6
DII	6.3	5.1	5.1
Others	26.1	27.5	27.6

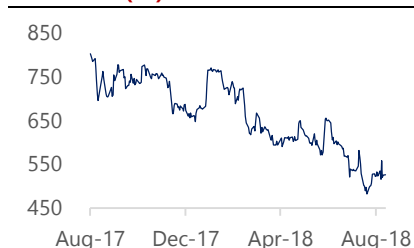
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Aksharchem India	(0.4)	(11.2)	(27.3)
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Jatin Damania

jatin.damania@kotak.com  
+91 22 6218 6440

PRICE Rs.525

TARGET Rs.533

REDUCE

AksharChem Q1FY19 PAT was above estimates, due to higher than expected other income. However, the increase in raw material costs and other expenses led to underperformance at the operating level.

### Key Highlights

- Revenue during the quarter grew 18.4% YoY to Rs755mn (down 1.4% QoQ), driven by strong volume growth. Volume in Q1FY19 stood at 2,310 tonnes, up 6.9% YoY (down 9.2% QoQ)
- The company reported PAT of Rs76 mn, up 54.7% QoQ, backed by higher other income (includes dividend from mutual funds).
- The capex plan is on track, 480 tonnes of CPC Green capacity and 1,200 tonnes of H-Acid commercial production is expected from 2QFY19. The benefit of the same would start to accrue from 2HFY19 onwards.

### Valuation & outlook

The completion of capex plan, will transform AksharChem business to more stable earnings from FY20E onwards. However, in the near term till the new unit get stabilized and the company is able to pass on the rise in input costs, we believe that the earnings are likely to remain under pressure. We have revised our estimates downward on the back of lower than expected operating performance (consistent with Q1FY19 results). Our revised earnings stands at Rs41.9 (earlier Rs46.4) and Rs44.4 (earlier 49.5) for FY19E and FY20E, respectively. We believe, given the supply disruption in China (environmental concern), should keep the final product prices firm, but the volatility in the raw material prices, will be the key variable to monitor. The stock has corrected sharply, since our last update dated 5th June (Reduce). At CMP, the stock is trading at 12.5x/11.8X FY19E/FY20E revised earnings, which in our view is fairly valued and offer a limited upside. Hence, we recommend REDUCE with a revised target price of Rs533 (earlier Rs640).

### Quarterly performance table

Particulars (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
<b>Net sales</b>	<b>755</b>	<b>637</b>	<b>18.4</b>	<b>765</b>	<b>(1.4)</b>
Materials	488	381		492	
% of sales	64.7	59.8		64.3	
Employee Expenses	20	14		26	
% of sales	2.7	2.1		3.4	
Total Expenditure	669	518		669	
<b>EBITDA</b>	<b>85</b>	<b>120</b>	<b>(28.7)</b>	<b>96</b>	<b>(11.5)</b>
EBITDA Margin (%)	11.3	18.8		12.6	
Depreciation	11	13		8	
Interest	2	7		2	
<b>EBT</b>	<b>72</b>	<b>100</b>		<b>86</b>	
Other income	31	6		2	
<b>PBT</b>	<b>103</b>	<b>106</b>	<b>(3.2)</b>	<b>88</b>	<b>16.5</b>
Provision for tax	27	35		39	
-effective tax rate	26.5	32.5		44.7	
<b>PAT (reported)</b>	<b>76</b>	<b>72</b>	<b>5.2</b>	<b>49</b>	<b>54.7</b>
NPM (%)	10.0	11.3		6.4	

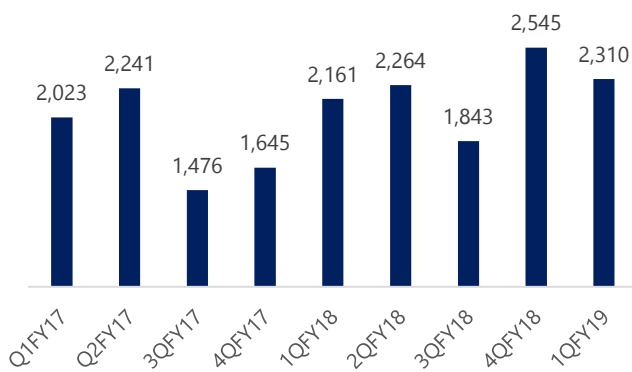
Source: Company, Kotak Securities – Private Client Research

### Increase in raw material costs impacted profitability

CPC green contribution declined marginally QoQ to 31% (32% in Q4FY18) in the overall revenue mix, but EBITDA margin was stable, as the company was able to pass on the rise in raw material costs. On the other hand, Viny Sulphone (VS) business was drag during the quarter, as raw material prices gets passed on with a 3-6 months lag effect. Decline in VS margin coupled with an increase in other expenses led to 28.7%/11.5% YoY/QoQ decline in EBITDA to Rs85mn, with a margin of 11.3%.

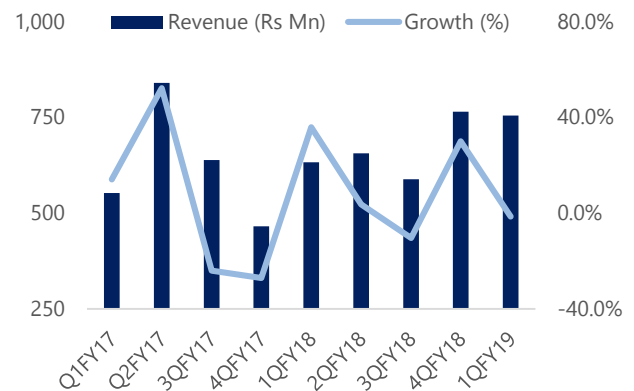
The company expects gross margin to expand from ~35% in 1QFY19, as the contribution from CPC green to increase, with the start of 480 tonnes of new facility. Management expects CPC green to contribute Rs15cr in FY19 and H-Acid to contribute Rs25cr, both these give a stable margin compared to VS. The management expect EBITDA margin to remain over 15% (we expect 16%), as a contribution from the stable business would increase. We believe, operating performance to improve in the coming quarters, as prices of VS and CPC green are currently higher than the average of 1QFY19. Besides this, increased contribution from CPC and H-Acid in 2HFY19 should also support margin.

#### Quarterly volume trend (tonnes)



Source: Company

#### Revenue and Revenue growth



Source: Company

### Recommend Reduce

Expansion into CPC green (Phase I) and commercial operation of H-Acid, would help the company to report improvement in EBITDA margin. We expect EBITDA margin to improve to be in the range of 16-17%, supported by stable business. At CMP, the stock is trading at 12.5x/11.8X FY19E/FY20E revised earnings, which in our view is fairly valued and offers a limited upside. Hence, we recommend REDUCE with a revised target price of Rs533.

### Company background

AksharChem (India) Limited (AIL), is engaged in the production of dye intermediates (Vinyl Sulphone) and pigments (CPC Green). AIL manufactures and exports Vinyl Sulphone and CPC Green. The current installed capacity stands at 9,720 tonnes (including pigments). AIL is the largest exporter of VINYL SULPHONE in India with ~ 45% share in exports of this product. The company is One of the largest exporters from India and among the largest players globally for CPC GREEN PIGMENT with a global market share of ~10%. Large scale of production enables the company to ensure optimum utilisation of resources and reduce overhead costs, making AIL one of the most competitive dyes and pigments manufacturers globally. The company has presence in more than 20 countries with overseas market operations (exports) accounting for over 80% of the overall revenue.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Net sales</b>	<b>2,503</b>	<b>2,647</b>	<b>3,181</b>	<b>3,537</b>
Growth (%)	33.3	5.8	20.2	11.2
Operating expenses	1,728	2,230	2,672	2,971
<b>EBITDA</b>	<b>775</b>	<b>417</b>	<b>509</b>	<b>566</b>
growth (%)	140.5	(46.2)	22.1	11.2
Depreciation	47	46	52	72
<b>EBIT</b>	<b>728</b>	<b>371</b>	<b>457</b>	<b>493</b>
Other income	91	71	72	74
Interest paid	30	15	17	24
<b>PBT</b>	<b>788</b>	<b>426</b>	<b>512</b>	<b>544</b>
Tax	259	120	169	180
Effective tax rate (%)	32.9	28.2	33.0	33.0
<b>Net profit</b>	<b>529</b>	<b>306</b>	<b>343</b>	<b>365</b>
Minority interest	0	0	0	0
Reported Net profit	529	306	343	365
Growth (%)	218.1	(42.1)	12.1	6.2

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-tax profit	788	426	512	544
Depreciation	47	46	52	72
Chg in working capital	(145)	(175)	320	(35)
Other operating activities	(229)	(105)	(152)	(156)
<b>Operating CF</b>	<b>461</b>	<b>192</b>	<b>732</b>	<b>425</b>
Capital expenditure	(178)	(444)	(748)	(456)
Chg in investments	(286)	(261)	0	0
Other investing activities	94	21	0	0
<b>Investing CF</b>	<b>(370)</b>	<b>(684)</b>	<b>(748)</b>	<b>(456)</b>
Equity raised/(repaid)	0	690	0	0
Debt raised/(repaid)	6	(132)	65	87
Dividend (incl. tax)	(30)	(48)	(48)	(48)
Other financing activities	(30)	(15)	(17)	(24)
<b>Financing CF</b>	<b>(54)</b>	<b>495</b>	<b>(1)</b>	<b>16</b>
Net chg in cash & bank bal.	37	4	(17)	(15)
Closing cash & bank bal	43	47	30	15

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	43	47	30	15
Other Current assets	901	1,040	830	907
Investments	511	771	771	771
Net fixed assets	736	1,134	1,831	2,214
Other non-current assets	0	0	0	0
<b>Total assets</b>	<b>2,190</b>	<b>2,992</b>	<b>3,461</b>	<b>3,907</b>
Current liabilities	350	314	423	465
Borrowings	317	185	250	337
Other non-current liab	120	116	116	116
Total liabilities	786	615	788	918
Share capital	73	82	82	82
Reserves & surplus	1,331	2,295	2,591	2,907
Shareholders' funds	1,404	2,377	2,673	2,989
<b>Total equity &amp; liabilities</b>	<b>2,190</b>	<b>2,992</b>	<b>3,461</b>	<b>3,907</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Profitability &amp; Return Ratios (%)</b>				
EBITDAM (%)	31.0	15.7	16.0	16.0
EBITM (%)	29.1	14.0	14.4	14.0
NPM (%)	21.1	11.6	10.8	10.3
RoE (%)	37.7	12.9	12.8	12.2
RoCE (%)	43.9	16.3	17.2	16.3
<b>Per Share (Rs)</b>				
EPS	72.4	37.3	41.9	44.4
CEPS	78.8	42.9	48.1	53.3
BV	192.0	289.8	333.8	382.8
DPS	3.5	3.5	3.5	3.5
<b>Valuation Ratios (x)</b>				
PE (x)	7.3	14.1	12.5	11.8
P/CEPS (x)	6.7	12.2	10.9	9.9
P/BV (x)	2.7	1.8	1.6	1.4
EV/EBITDA (x)	5.3	10.7	8.9	8.2
<b>Other Key Ratios</b>				
D/E (x)	0.2	0.1	0.1	0.1
DSO (Days)	19.4	38.0	38.0	38.0

Source: Company, Kotak Securities – Private Client Research



## Result Update

## ALLCARGO LOGISTICS LTD (ALL)

### Stock Details

Market cap (Rs mn)	:	28378
52-wk Hi/Lo (Rs)	:	229 / 100
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	331,665
Shares o/s (mn)	:	246

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	60,648	63,150	65,110
Growth (%)	8.6	4.1	3.1
EBITDA	3,748	4,379	4,522
EBITDA margin (%)	6.2	6.9	6.9
PAT	1,758	2,332	2,484
EPS	6.8	9.1	9.7
EPS Growth (%)	-28.3	34.5	6.7
BV (Rs/share)	99.2	106.1	112.9
Dividend/share (Rs)	2.0	2.0	2.6
ROE (%)	7.0	8.9	8.9
ROCE (%)	8.6	10.2	10.2
P/E (x)	17.0	12.7	11.9
EV/EBITDA (x)	6.8	5.9	5.7
P/BV (x)	1.2	1.1	1.0

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	69.1	69.1	69.1
FII	13.6	15.6	15.8
DII	4.8	4.7	4.8
Others	12.5	10.6	10.3

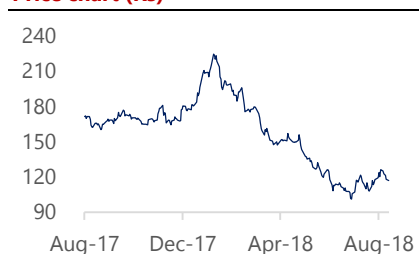
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Allcargo	1.2	(10.1)	(41.1)
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Amit Agarwal

agarwal.amit@kotak.com  
+91 22 6218 6439

PRICE RS.115

TARGET RS.145

BUY

**Improved quarter** – Strong volume trend in both the key segments of Multimodal Transport Operations (MTO) and Container Freight station (CFS) with stable realisations and loss in the project engineering division were the highlights of the results in Q1FY19 for ALL.

### Key Highlights

- Strong volume growth in the MTO at 174043 TEUs (+25.7% YoY), healthy volume trend in the CFS division at 82210 TEUs (+4.4% YoY), stable realisations and loss at EBIT level in the Project and Engineering Solutions divisions (PES) led to stable performance for ALL in the quarter
- Sales was reported at Rs 16.25bn (+9.5% YoY/+5.8% QoQ), EBIDTA margin at 6.3% (+150 bps QoQ/-60 bps YoY) and PAT of Rs 543 mn above our expectation of Rs 392 mn.
- Depreciation, interest cost, other income and taxes were stable for the company during the quarter.
- Improvement in financial performance in Q1FY19 was mainly on account of strong volume trends in the MTO segment, contribution to CFS volumes from the Kolkata CFS and stable realisations. Performance of the PES division remains a drag on the overall performance of the company.

### Valuation & Outlook

We believe the performance of FY18 of ALL is a reflective of structural changes in the container freight station business, which we believe would be a feature in medium term. The profit margin in the MTO segment is capped due to the pass through nature of realisations in the segment. While the project engineering division would continue be a drag, unless the private sector capex picks-up. Broadly, we feel the performance of company to remain stable (with a positive bias) over FY18 to FY20E. The current quarter outperformance has given us confidence of decent performance in FY19. Also, we believe that most of negatives have got factored in the current price. Maintain estimates with an unchanged target prices of Rs 145 at 15x FY20 earnings.

### Quarterly performance

(Rs Mn)	Q1FY18	Q4FY18	Q1FY19	YoY (%)	QoQ (%)
<b>Sales</b>	<b>14,834</b>	<b>15,363</b>	<b>16,250</b>	<b>9.5</b>	<b>5.8</b>
Operating expense	10,577	10,981	11,662	10.3	6.2
Staff cost	2,224	2,414	2,529	13.7	4.8
Other expense	1,003	1,230	1,038	3.5	-15.6
Operating expd	13,804	14,625	15,229	10.3	4.1
<b>EBIDTA</b>	<b>1,030</b>	<b>738</b>	<b>1,021</b>	<b>-0.9</b>	<b>38.3</b>
EBIDTA (%)	6.9	4.8	6.3	-9.5	30.8
Depreciation	399	397	397	-0.5	0.0
Interest	83	75	79	-4.8	5.3
Other income	159	155	51	-67.9	-67.1
<b>PBT</b>	<b>707</b>	<b>421</b>	<b>596</b>	<b>-15.7</b>	<b>41.6</b>
Taxes	77	231	86	11.7	-62.8
<b>PAT</b>	<b>630</b>	<b>190</b>	<b>510</b>	<b>-19.0</b>	<b>168.4</b>
Minority interest/Associates	5	4	33		
Consolidated PAT	635	194	543	-14.5	179.9
Exceptional items	0	69	0		
<b>Reported PAT</b>	<b>635</b>	<b>125</b>	<b>543</b>	<b>-14.5</b>	<b>334.4</b>

Source: Company

### CFS division has shown improvement in the quarter

The total volumes in the CFS division was reported at 82,210 TEUs (+7.7% QoQ and +4.4% YoY). Growth was driven by Kolkata operations and increased share of Direct Port Delivery (DPD) CFS volumes at JNPT.

#### CFS and ICD segment performance for ALL

Year	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
CFS TEUs	78,732	65,362	71,764	76,304	82,210
Revenue (Rs Mn)	1088	998	940	1060	1100
EBIT	297	304	280	310	310
EBIT margin (%)	27.3	30.5	29.8	29.2	28.2

Source: Company

### Margins under pressure, but volumes growth strong in the MTO segment

Realisation in the MTO segment is a pass through and dependent on freights in the container business. With weak container business, realisations and margins have fallen in the MTO segment. However, volume growth remains strong despite a challenging trade and freight environment.

#### Performance of the MTO segment

Year	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
MTO TEUs	138,479	142,954	144,646	159,951	174,043
Revenue (Rs mn)	12,895	13,879	13,270	13,700	14,550
EBIT	532	566	550	560	580
EBIT margins	4.1	4.1	4.1	4.1	4.0

Source: Company

### Project Engineering Solutions divisions (PES) remains a drag

The PES division continue to report weak numbers and is a drag on overall profitability of the company. The performance of this segment is highly dependent on private capex cycle which is at low levels currently. Similarly, the contract logistics division is not doing well for the company.

### Silver lining is the future Capex – Rs 3.5 bn over FY18 to FY20E

Management indicated that capex in near term would be restricted to setting up infrastructure at Kolkata CFS, increase MTO reach, setting up rail linked logistics park at Jhajjar, Haryana and maintenance capex. Also, ALL may opportunistically spend to make further acquisitions in the MTO segment and towards coastal shipping. If things work-out as per the plans of the management, the above mentioned capex has the capacity to improve the prospects of the company in third-party logistics

### Performance of the company to remain stable over FY18 to FY20E

We believe the business environment in which ALL operates has exhibited structural changes. These changes involve

- 1) DPD scheme at JNPT
- 2) Continued weak global container trade
- 3) Persistently weak private sector capex

These changes has impacted the overall performance of the company. However, despite that, company has reported improvement in performance in Q1FY19. Broadly, we feel the performance of company to remain stable (with a positive

bias) over FY18 to FY20E. The current quarter outperformance has given us confidence of decent performance in FY19. Also, we believe that most of negatives have got factored in the current price. Maintain estimates with an unchanged target prices of Rs 145 at 15x FY20 earnings.

### **Company background**

Allcargo Logistics Limited, part of The Avvashya Group, is a global leader in integrated logistics solutions. The Company offers specialized logistics services across Multimodal Transport Operations, Container Freight Station Operations and Project & Engineering Solutions. Benchmarked quality standards, standardized processes and operation excellence across all the services and facilities, have enabled Allcargo Logistics Limited to emerge as the market leader in all these segments. The Company currently operates out of 300 plus offices across 160+ countries and gets supported by an even larger network of franchisee offices across the world.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>55,833</b>	<b>60,648</b>	<b>63,150</b>	<b>65,110</b>
% change YoY	-1.8	8.6	4.1	3.1
Operational cost	39,411	43,813	45,254	46,653
Employee cost	8,189	9,104	9,403	9,694
Other expenses	3,583	3,983	4,114	4,241
Total Operating expd	51,183	56,900	58,771	60,588
<b>EBITDA</b>	<b>4,650</b>	<b>3,748</b>	<b>4,379</b>	<b>4,522</b>
Depreciation	1,663	1,591	1,625	1,630
<b>EBIT</b>	<b>2,987</b>	<b>2,157</b>	<b>2,754</b>	<b>2,892</b>
Other income	453	414	425	450
Interest expense	324	300	335	313
Profit before tax	3,116	2,271	2,844	3,029
Tax	777	513	512	545
ETR (%)	24.9	22.6	18.0	18.0
<b>Profit after tax</b>	<b>2,339</b>	<b>1,758</b>	<b>2,332</b>	<b>2,484</b>
Minorities & Associates	0	0	0	0
<b>Net income</b>	<b>2,339</b>	<b>1,758</b>	<b>2,332</b>	<b>2,484</b>
% change YoY	<b>-16.9</b>	<b>-28.3</b>	<b>34.5</b>	<b>6.7</b>
Shares outstanding (m)	246	246	246	246
<b>EPS</b>	<b>9.4</b>	<b>6.8</b>	<b>9.1</b>	<b>9.7</b>

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	2,319	1,663	2,236	2,387
Depreciation+DTL	1,741	1,642	1,676	1,685
Change in working capital	115	(772)	(285)	(223)
<b>Cash flow from operations</b>	<b>4,174</b>	<b>2,533</b>	<b>3,627</b>	<b>3,848</b>
Capex	(1,863)	(2,500)	(2,000)	(1,500)
Investments	(189)	-	-	-
<b>Cash flow from investments</b>	<b>(2,052)</b>	<b>(2,500)</b>	<b>(2,000)</b>	<b>(1,500)</b>
Equity issuance	-	-	-	-
Debt raised	164	131	(145)	(366)
Dividend Paid	(605)	(605)	(605)	(756)
Miscellaneous items	20	95	96	97
<b>Cash flow from financing</b>	<b>(421)</b>	<b>(379)</b>	<b>(654)</b>	<b>(1,025)</b>
Net cash flow	1,701	(346)	973	1,323
Opening cash	2,713	4,414	4,005	4,978
<b>Closing cash</b>	<b>4,414</b>	<b>4,069</b>	<b>4,978</b>	<b>6,301</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	4,414	4,005	4,978	6,301
Debtors	8,375	9,097	9,473	9,767
Loans and advances	5,472	6,186	6,441	6,641
Other current assets	113	121	126	130
Total current assets	13,959	15,405	16,040	16,538
LT investments	1,050	1,050	1,050	1,050
Net fixed assets	17,599	18,508	18,883	18,753
<b>Total assets</b>	<b>37,022</b>	<b>38,967</b>	<b>40,952</b>	<b>42,643</b>
Creditors	7,537	8,187	8,525	8,790
Other current liabilities	279	303	316	327
Total current liabilities	7,817	8,491	8,841	9,116
LT debt	5,595	5,726	5,581	5,215
Minority Interest	241	336	432	529
Equity Capital	492	492	492	492
Reserves	22,877	23,923	25,605	27,291
Networth	23,369	24,415	26,097	27,783
<b>Total liabilities</b>	<b>37,022</b>	<b>38,967</b>	<b>40,952</b>	<b>42,643</b>
BVPS (Rs)	95.0	99.2	106.1	112.9

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	8.3	6.2	6.9	6.9
EBIT margin (%)	5.3	3.6	4.4	4.4
Net profit margin (%)	4.2	2.9	3.7	3.8
ROE (%)	10.3	7.0	8.9	8.9
ROCE (%)	12.2	8.6	10.2	10.2
DPS	2.0	2.0	2.0	2.6
Dividend payout (%)	26.1	36.4	27.0	31.7
Working capital turnover (days)	40.5	39.3	40.8	41.0
Debt Equity (x)	0.2	0.2	0.2	0.2
PER (x)	12.2	17.0	12.7	11.9
P/C (x)	7.0	8.6	7.2	6.9
Dividend yield (%)	1.8	1.8	1.8	2.2
P/B (x)	1.2	1.2	1.1	1.0
EV/Sales (x)	0.5	0.5	0.5	0.4
EV/ EBITDA (x)	5.6	6.8	5.9	5.7

Source: Company, Kotak Securities – Private Client Research

## Result Update

## BERGER PAINTS LTD (BERGER)

### Stock Details

Market cap (Rs mn)	:	311362
52-wk Hi/Lo (Rs)	:	331 / 231
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	1,063,283
Shares o/s (mn)	:	971.0

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	51,657	57,676	64,332
Growth (%)	13.5	11.7	11.5
EBITDA	8,069	9,210	10,430
EBITDA margin (%)	15.6	16.0	16.2
PAT	4,652	5,759	6,583
EPS	4.8	5.9	6.8
EPS Growth (%)	-2.3	23.8	14.3
BV (Rs/share)	22.5	26.6	31.7
Dividend/share (Rs)	1.8	1.8	1.8
ROE (%)	22.8	24.2	23.3
ROCE (%)	29.7	30.6	30.4
P/E (x)	66.7	53.9	47.2
EV/EBITDA (x)	36.4	31.9	28.4
P/BV (x)	14.2	12.0	10.1

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	75.0	75.0	75.0
FII	5.3	5.7	5.3
DII	9.1	8.5	3.5
Others	10.6	10.8	16.2

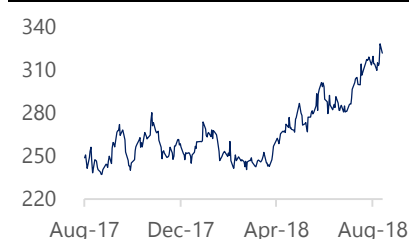
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Berger Paints	7.0	15.7	28.5
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Amit Agarwal

agarwal.amit@kotak.com  
+91 22 6218 6439

PRICE Rs.321

TARGET Rs.305

SELL

**Valuations ahead of performance.** 1/Strong volume growth in the decorative segment; 2/ stable volumes in the industrial segment; 3/ improvement in realisations leading to healthy sales growth; 4/YoY improvement in operating margins despite raw material price inflation and 5/ strong earnings growth were the highlights of the results for Berger during the quarter.

### Key Highlights

- Berger reported volume growth of 15% YoY in decorative paint segment on a strong base (~11% volume growth in Q1FY18), translating into revenue of Rs 14.83 bn (+18.9% YoY). The volume growth was ahead of peers Asian Paints and Kansai Nerolac implying market share gains for Berger.
- Operating margins contracted just by 20 bps QoQ (expanded 50 bps YoY) despite high input cost inflation. To mitigate input cost inflation, the company has taken price hike of 1.5%/2% in Mar'18/May'18 respectively. We believe that any further increase in RM cost will be mitigated with price hikes and improvement in operations.
- Depreciation, interest cost, other income and taxes were stable for the company during the quarter.
- Consequently, company reported its highest ever PAT of Rs 1.35 bn (+27.1% QoQ and +19.7% YoY) well ahead of our estimate of Rs 1.1 bn.
- Management is confident of strong volume and sales growth and further improvement in operational performance. Even we believe that the situation is healthy for paint companies in every segment including decorative paints, industrial as well as auto paints.

### Quarterly Performance

(Rs mn)	Q1FY18	Q4FY18	Q1FY19	QoQ (%)	YoY (%)
<b>Net Sales</b>	<b>12,471</b>	<b>12,983</b>	<b>14,830</b>	<b>14.2</b>	<b>18.9</b>
Raw material consumed	7,409	7,616	8,973	17.8	21.1
Employee cost	838	908	978	7.7	16.7
Other expenditure	2,373	2,457	2,608	6.1	9.9
Total expenditure	10,620	10,981	12,559	14.4	18.3
<b>EBIDTA</b>	<b>1,851</b>	<b>2,002</b>	<b>2,271</b>	<b>13.4</b>	<b>22.7</b>
EBIDTA margin	14.8	15.4	15.3		
Depreciation	305	320	340	6.3	11.5
<b>EBIT</b>	<b>1,546</b>	<b>1,682</b>	<b>1,931</b>	<b>14.8</b>	<b>24.9</b>
Interest	28	64	38	-40.6	35.7
Other income	135	122	164	34.4	21.5
<b>PBT</b>	<b>1,653</b>	<b>1,740</b>	<b>2,057</b>	<b>18.2</b>	<b>24.4</b>
Taxes	556	605	715	18.2	28.6
ETR %	33.6	34.8	34.8		
Share of Associates/JVs	31	-73	8		
<b>Reported PAT</b>	<b>1,128</b>	<b>1,062</b>	<b>1,350</b>	<b>27.1</b>	<b>19.7</b>

Source: Company

## Valuation and Outlook

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

Berger's performance has been better than peers and is indicative of continued market share gains. Reduction in GST rates can drive further improvement in demand. Continued strong quarterly performance, ahead of the peers has impelled us to increase our estimates for Berger. For Berger, now we estimate 10% volume CAGR over FY18 – FY20E with improvement in operating margins and ROE of ~23.3% and ROCE of ~30.4% for FY20E. However, the valuations at the current price and factoring growth prospects looks stretched. Recommend SELL with an increased TP of Rs 305 (from Rs 280) at 45x FY20E earnings in line with valuation of peers.

## Sales was driven by all the segments

Management indicated the sales performance of Q1FY19 could be attributed to:

**Decorative segment** - The Company reported 15% YoY volume growth in the decorative segment for Q1FY19. The decorative business constitutes around 80% of Berger's overall business and typically grows at 1.5x the GDP of the country. The current volume growth of ~15% on a strong base (~11% volume growth in Q1FY18), indicating market share gains. Berger is expecting healthy volume growth in the decorative segment on the back of low per-capita consumption in the country, strong urbanization trends, shortening re-painting cycles, up-trading, real estate reforms and with paints forming just 5 to 10% of the overall painting cost. We also believe that the reduction in GST on Paints (from 28% to 18%) from 27th July, 2018 would result in 9-10% price correction in products and will further drive demand for organized paint companies.

**Industrial paints segment** - Management of Berger indicated that infra based paints demand is yet to witness significant improvement (except government projects). While Automotive paints remain strong for the company

## Performance of Subsidiaries

Berger Paints has a total of 10 subsidiaries contributing about 10% of the overall revenues for Berger – 2 are incorporated in India and 8 internationally. Of these 10 subsidiaries the top 3 in terms of revenue are;

- 1) Berger Jenson and Nicholson, Nepal (~2% of overall revenues)
- 2) Bolix, Poland (~4% of overall revenues)
- 3) BJN paints, India (~2% of overall revenues)

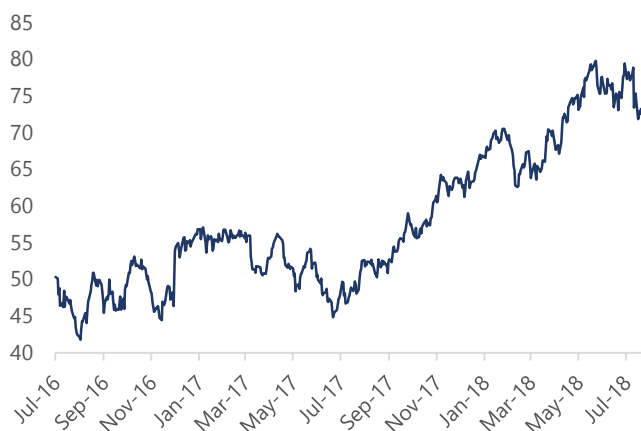
Operational performance of subsidiaries was healthy in Q1FY19. However, adverse currency movement in a couple of subsidiaries led to Berger booking marginal PAT of Rs 8 mn from associates/subsidiaries.

## Raw Material and Pricing Power

Paint Industry uses two key raw material including crude derivatives and Titanium Dioxide. The Paint industry is experiencing increase in prices of raw material since the last 3 quarters. Almost ~60% of the raw material are crude derivatives and with crude at \$73/barrel (+30% YoY), prices of crude derivatives have also increased. Even prices of pigments like Titanium Dioxide, Iron oxide and Zinc oxide have increased. Even INR volatility has contributed to cost inflation for the company. To counter this, the management of paint companies including Berger

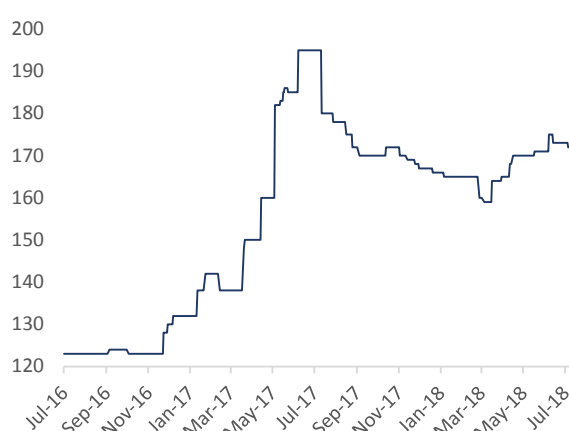
have resorted to price increase and cost optimization. We expect Berger to completely pass on cost inflation to consumers by end of Q2FY19 and report strong operational performance.

#### Brent crude (US\$/barrel)



Source: Bloomberg

#### Titanium dioxide imported from China (US\$/MT)



Source: Bloomberg

### Latest development – reduction in GST a big positive for the company

Paint industry was paying excise of 12.5% and 15% VAT under the old regime. So introduction of GST rate of 28% in July 2017 did not change the price at the consumer end with some adjustment happening only at the dealer end.

Post the current reduction of GST rate from 28% to 18% (from 27th July, 2018), we expect paint companies (they had shown intent earlier also) to reduce the prices and pass on the benefit partially to consumers which is estimated to boost the volumes for paint industry. Partially the benefit of lower GST may be retained by the paint companies as a cushion against rising raw material prices. Both the reactive steps by the industry would aid the margins and bottom line of paint companies going forward. It is important to note that Berger has already reduced product prices proportionate to decrease in GST rates.

### Stretch valuations compelled us to Recommend SELL

We believe that Berger will continue to gain market share with aggressive expansion of its dealer network (5-10% increase each year), aggressive sales push, higher dealer margins and focus on improving geographical reach. Reduction in GST rates can drive further improvement in demand. Berger's performance has been better than peers and is indicative of continued market share gains. Continued strong quarterly performance, ahead of the peers has impelled us to increase our estimates for Berger. For Berger, now we estimate 10% volume CAGR over FY18 – FY20E with improvement in operating margins and ROE of ~23.3% and ROCE of ~30.4% for FY20E. However, the valuations at the current price and factoring growth prospects looks stretched. Recommend SELL with an increased TP of Rs 305 (from Rs 280) at 45x FY20E earnings in line with valuation of peers.

### Change in estimates

(Rs mn)	FY19			FY20		
	Old	New	% chg	Old	New	% chg
Sales	56,442	57,676	2.2	62,198	64,332	3.4
EBIDTA	8,865	9,210	3.9	9,752	10,430	7.0
PAT	5,521	5,759	4.3	6,116	6,583	7.6

Source: Kotak Securities – Private Client Research

### **Company background**

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



## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

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

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

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

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

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

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	15.8	15.6	16.0	16.2
EBIT margin (%)	13.4	13.2	13.9	14.3
Net profit margin (%)	10.5	9.0	10.0	10.2
ROE (%)	27.3	22.8	24.2	23.3
ROCE (%)	33.9	29.7	30.6	30.4
DPS	1.8	1.8	1.8	1.8
Dividend payout (%)	42.1	43.1	34.8	30.5
Working capital turnover (days)	53.4	49.8	50.2	50.2
Debt Equity (x)	0.2	0.2	0.1	0.1
PER (x)	65.2	66.7	53.9	47.2
P/C (x)	51.1	50.6	43.0	38.4
Dividend yield (%)	0.5	0.5	0.5	0.5
P/B (x)	16.4	14.2	12.0	10.1
EV/Sales (x)	6.8	6.0	5.4	4.8
EV/ EBITDA (x)	37.5	36.4	31.9	28.4

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	58473
52-wk Hi/Lo (Rs)	:	142 / 78
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	11,143,330
Shares o/s (mn)	:	601

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	75,593	102,051	120,420
Growth (%)	(4.2)	35.0	18.0
EBITDA	8,549	10,205	12,042
EBITDA margin (%)	11.3	10.0	10.0
Net profit	2,868	4,393	4,910
EPS (Rs)	4.8	7.3	8.2
Growth (%)	17.7	53.2	11.8
BVPS (Rs)	70.6	76.9	84.1
DPS (Rs)	1.0	1.0	1.0
ROE (%)	7.5	9.9	10.2
ROCE (%)	14.1	17.7	18.2
P/E (x)	20.3	13.3	11.9
EV/EBITDA (x)	8.3	7.2	6.0
P/BV (x)	1.4	1.3	1.2

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	18.1	18.1	19.6
FII	16.4	17.7	19.9
DII	32.0	32.8	27.6
Others	33.5	31.5	32.9

Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Nagarjuna Cons	9.9	(20.1)	(17.9)
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Teena Virmani

teena.virmani@kotak.com

+91 22 6218 6432

## NAGARJUNA CONSTRUCTION CO LTD (NCC)

PRICE Rs.97

TARGET Rs.151

BUY

NCC's net profit for the quarter was ahead of our estimates led by better than expected execution and margins. Robust order book provides healthy visibility of future earnings and company maintains its revenue target of Rs 110 bn in FY19. Balance sheet is also much cleaner and company doesn't expect any large provisioning on pending cases where arbitration is going on with the client.

### Key highlights

- Revenues for Q1FY19 stood well ahead of our estimates. Operating margins witnessed an improvement and company expects to maintain margins around these levels. Net profit performance stood ahead of our estimates led by higher margins and improved execution despite higher tax rate for the quarter.
- Order inflow for the company stood healthy at Rs 41.7 bn during Q1FY19 taking the order book to Rs 328 bn. Healthy order inflows provide good visibility on revenue growth.
- Consolidated net profit is ahead of standalone net profit indicating that subsidiaries losses have reduced. No large provisioning for subsidiaries is required going ahead.

### Valuation and outlook

At Rs 97, stock is trading at 13.3x and 11.9x P/E and 7.2x and 6.0x EV/EBITDA on FY19 and FY20 estimates respectively. We maintain our estimates but reduce our valuation multiples to 17x versus 19x earlier to factor in delays in some projects and arbitration risks and arrive at a revised price target of Rs 151 based on sum of the parts valuation on FY20 estimates. (Rs 167 earlier). We maintain BUY recommendation on NCC Ltd. Key risk to our estimates and recommendation would come from adverse ruling on power project cases where arbitration is going on or delays in receivables.

### Financial highlights

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
<b>Net Sales</b>	<b>23,596</b>	<b>20,137</b>	<b>17%</b>	<b>23,948</b>	<b>-1%</b>
Expenditure	20,918	18,428		20,904	
<b>EBITDA</b>	<b>2,678</b>	<b>1,710</b>	<b>57%</b>	<b>3,044</b>	<b>-12%</b>
EBITDA margin	11.35	8.49		12.71	
Depreciation	(343)	(276)		(311)	
<b>EBIT</b>	<b>2,334</b>	<b>1,434</b>	<b>63%</b>	<b>2,733</b>	<b>-15%</b>
Interest	(1,016)	(861)		(997)	
EBT(exc other income)	1,319	573	130%	1,736	-24%
Other Income	295	333		246	
Exceptional item	(2)			(300)	
<b>EBT</b>	<b>1,612</b>	<b>906</b>	<b>78%</b>	<b>1,682</b>	<b>-4%</b>
Tax	(577)	(272)		(655)	
Tax%	35.82	29.99		38.93	
<b>PAT</b>	<b>1,035</b>	<b>634</b>	<b>63%</b>	<b>1,027</b>	<b>1%</b>
NPM%	4.39	3.15		4.29	
Other comp inc	(2)	(3)		(12)	
Net profit	1,033	632	64%	1,016	2%
Equity Capital	1201.3	1111.9		1201.3	
<b>EPS</b>	<b>1.72</b>	<b>1.14</b>		<b>1.71</b>	<b>1%</b>

Source: Company

## Revenue growth led by strong order book

Company's revenues for Q1FY19 were ahead of our estimates even on a strong base of Q1FY18. Also, NCC mentioned that with GST related adjustments, growth stood at 32% YoY as the revenues of current quarter excludes indirect taxes such as GST while revenues of Q1FY18 includes indirect taxes. Order inflow had also been robust during the quarter and stood at Rs 41.7 bn taking the total order book to Rs 328 bn.

Order book is diversified across roads, building, oil and gas (Rs 197 bn), water and railways (Rs 40.96 bn), irrigation (Rs 24.2 bn), electrical (Rs 30.2 bn), international (Rs 6.7 bn) and remaining contributed by mining, metals and power. However, with strong order book built through FY18, it expects an inflow of Rs 100-120 bn for FY19.

There are some delays being witnessed in project awarded by NBCC owing to ban on cutting of trees. However company's order inflow compensates for the delays seen in NBCC project execution. For AP projects, NCC is carrying out two types of projects – Affordable housing (from APTIDCO) and Capital city development project. For APTIDCO projects, payment cycle has improved and company doesn't foresee any issues in payments going forward. For Capital city development projects, payment cycle is around 2 months but still company doesn't see it as a major issue. Owing to elections in AP, if it sees delays in payments, then company may slow down on execution on these projects.

Better than expected order inflow and a robust order book provides healthy visibility of future earnings and company maintains its target to achieve Rs 110 bn of revenues in FY19. We also maintain our estimates and expect revenues to grow at a CAGR of 26% between FY18-20.

## Provisioning requirement of pending cases –

**Himachal Sorang power project:** During Q4FY18, NCC had lost an arbitration against TAQA, Abu-dhabi based utilities firm. Company had earlier sold its stake in 100MW hydro power project in Himachal Sorang to Taqa group and due to some dispute, an arbitration was going in a tribunal court in Singapore. NCC had already provided for Rs 810 mn against the total disputed amount of Rs 1.5 bn. It believes that company has strong grounds to prove that no further provisioning will be required but if the judgement goes against the company, we believe that Rs 700 mn will have to be provided for. Decision on this case is likely to come by Dec, 2018.

**Semcorp-Gayatri power project:** During Q2FY18, company had mentioned that bank guarantee worth Rs 2.91 bn has been revoked by the client for Nellore Power project. Company was involved in the development of 1320 MW Coal Based Thermal Power Project in Muthukur Mandal, Nellore District of Andhra Pradesh. Client had revoked the bank guarantee due to delays in execution. However, NCC had gone for arbitration for the case as already retention money worth Rs 3.6 bn and unbilled revenues worth Rs 1 bn is there with the client and there was no need to revoke the bank guarantee. Also, NCC is of the view that as per the contract, if the delay is on account of BTG supplier then NCC is not liable to pay for the delay and revenue loss. Correspondingly, it expects to recover the entire amount of Rs 7.5 bn from the client via arbitration project. Decision is likely to come by March, 2019.

**International subsidiaries:** Consolidated profit is ahead of standalone profits indicating that subsidiaries have become profitable. Majority of the provisioning losses have already been provided for.

**Urban infra projects:** Company expects to sell a few land parcels which will help in generating nearly Rs 1.5 bn.

**Dubai Real estate project:** NCC is in talks with a local developer to develop the project started by NCC. NCC is likely to get 1,60,000 sq ft of developed area after 2 years which will be worth Rs 2.7-2.8 bn as against its initial investment of Rs 2.25 bn in the project.

### **Strong execution and margins led to net profit coming ahead of our estimates**

Operating margin for Q1FY19 stood at 11.3%, ahead of our estimates. We believe that operating margin is likely to remain strong going forward as new order inflows are coming at higher margins. We maintain our margin assumptions and expect operating margin of 10% going forward for the company.

Current debt stands at Rs 18 bn as cash credit debt of Rs 14.9 bn, short term debt of Rs 500 mn and machinery debt of Rs 2.56 bn. Interest charges have moved up due to higher bank guarantee commission, higher interest on cash credit, working capital and mobilization advances. For FY19, capex is expected to be around Rs 2-2.5 bn.

Company is also raising an amount upto Rs 1.1 bn through issue of 9.2 convertible warrants at a price of Rs 119.4 per warrant to the promoters of the company. We currently do not factor in the conversion in our estimates as the current price is lesser than the conversion price and these warrants are likely to be converted after 18 months from the date of issue.

We maintain our estimates and expect net profits to grow at a CAGR of 31% between FY18-20.

### **Valuation and recommendation**

At Rs 97, stock is trading at 13.3x and 11.9x P/E and 7.2x and 6.0x EV/EBITDA on FY19 and FY20 estimates respectively. We maintain our estimates but reduce our valuation multiples to 17x versus 19x earlier to factor in delays in some projects and arbitration risks and arrive at a revised price target of Rs 151 based on sum of the parts valuation on FY20 estimates. (Rs 167 earlier). We maintain BUY recommendation on NCC Ltd. Key risk to our estimates and recommendation would come from adverse ruling on power project cases where arbitration is going on or delays in receivables.

#### **Sum of the parts valuation (FY20)**

	<b>Rs per share</b>	<b>Rationale</b>
Core business valuation	139	Based on 17x one year forward P/E multiple
Road BOT	2	Based on NPV and P/BV methodology
Real estate and other inv	4	Based on P/BV of 0.75x of investments
International	6	Based on P/BV of 1x of investments
<b>Total value per share</b>	<b>151</b>	

*Source: Kotak Securities – Private Client Research*

### **Company background**

Nagarjuna Construction Company Limited (NCC), a construction and infrastructure company has evolved to a full-fledged infrastructure solutions provider. The Company's business divisions are categorized as Building & Housing, Transportation, Electrical, Water & Environment, Irrigation, International, Power, Metals and Oil & Gas Division.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>78,921</b>	<b>75,593</b>	<b>102,051</b>	<b>120,420</b>
% change YoY	(5.2)	(4.2)	35.0	18.0
<b>EBITDA</b>	<b>6,852</b>	<b>8,549</b>	<b>10,205</b>	<b>12,042</b>
% change YoY	(7.1)	24.8	19.4	18.0
Other Income	897	93	1,500	1,000
Depreciation	1,121	1,175	1,374	1,518
<b>EBIT</b>	<b>6,629</b>	<b>7,467</b>	<b>10,331</b>	<b>11,524</b>
Net interest	3,957	3,789	3,674	4,085
Profit before tax	2,672	3,678	6,657	7,439
% change YoY	(17.2)	37.6	81.0	11.8
Tax	417	809	2,263	2,529
as % of PBT	15.6	22.0	34.0	34.0
<b>PAT</b>	<b>2,256</b>	<b>2,868</b>	<b>4,393</b>	<b>4,910</b>
% change YoY	(6.1)	27.2	53.2	11.8
<b>Net profit</b>	<b>2,256</b>	<b>2,868</b>	<b>4,393</b>	<b>4,910</b>
Shares outstanding (m)	556.0	600.7	600.7	600.7
<b>EPS (reported) (Rs)</b>	<b>4.1</b>	<b>4.8</b>	<b>7.3</b>	<b>8.2</b>
CEPS (Rs)	6.1	6.7	9.6	10.7
DPS (Rs)	0.40	1.00	1.00	1.00

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	6,629	7,467	10,331	11,524
Depreciation	1,121	1,175	1,374	1,518
Change in working capital	1,649	(3,436)	(4,930)	(3,056)
Chgs in other net current assets (694)	(420)	-	-	-
Operating cash flow	8,705	4,785	6,775	9,986
Interest	(3,957)	(3,789)	(3,674)	(4,085)
Tax	(417)	(809)	(2,263)	(2,529)
<b>Cash flow from operations</b>	<b>4,331</b>	<b>187</b>	<b>838</b>	<b>3,371</b>
Capex	(1,263)	(3,069)	(2,500)	(1,500)
(Inc)/dec in investments	(717)	49	-	-
<b>Cash flow from investments (1,979)</b>	<b>(3,020)</b>	<b>(2,500)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Proceeds from issue of equity	-	89	-	-
Increase/(decrease) in debt	(3,194)	(2,729)	2,000	-
Proceeds from share premium	-	5,637	-	-
Dividends	(222)	(601)	(601)	(601)
<b>Cash flow from financing (3,416)</b>	<b>2,397</b>	<b>1,399</b>	<b>(601)</b>	<b>(601)</b>
Opening cash	2,158	1,095	659	396
Closing cash	1,094	659	396	1,666

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,095	659	396	1,666
Accounts receivable	37,035	46,889	52,455	58,597
Inventories	15,258	16,956	21,744	25,658
Others	16,858	22,253	25,730	29,600
Current assets	70,245	86,757	100,325	115,521
Other non current assets	2,210	2,701	2,701	2,701
LT investments, on a/c of BOT	10,287	10,237	10,237	10,237
Net fixed assets	6,403	8,294	9,420	9,402
<b>Total assets</b>	<b>89,158</b>	<b>108,006</b>	<b>122,699</b>	<b>137,878</b>
Payables	37,976	51,488	60,388	71,258
Others	532	532	532	532
Current liabilities	38,508	52,019	60,920	71,790
LT debt	15,859	13,131	15,131	15,131
Other liabilities	368	439	439	439
Equity	1,112	1,201	1,201	1,201
Reserves	33,311	41,215	45,008	49,317
<b>Total liabilities</b>	<b>89,158</b>	<b>108,006</b>	<b>122,699</b>	<b>137,878</b>
BVPS (Rs)	61.9	70.6	76.9	84.1

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	8.7	11.3	10.0	10.0
EBIT margin (%)	8.4	9.9	10.1	9.6
Net profit margin (%)	2.9	3.8	4.3	4.1
EPS growth (%)	-6.1	17.7	53.2	11.8
Receivables (days)	159.7	202.6	187.6	177.6
Inventory (days)	73.6	77.8	77.8	77.8
Payable (days)	130	154	154	154
Sales/net assets (x)	12.3	9.1	10.8	12.8
Debt/equity ratio (x)	0.52	0.38	0.32	0.31
ROE (%)	6.7	7.5	9.9	10.2
ROCE (%)	13.0	14.1	17.7	18.2
EV/ Sales (x)	0.9	0.9	0.7	0.6
EV/EBITDA (x)	10.7	8.3	7.2	6.0
Price to earnings (x)	23.9	20.3	13.3	11.9
Price to book value (x)	1.6	1.4	1.3	1.2
Price to Cash Earnings (x)	16.0	14.4	10.1	9.1

Source: Company, Kotak Securities – Private Client Research

## Result Update

# THE INDIA CEMENTS LTD

### Stock Details

Market cap (Rs mn)	:	33372
52-wk Hi/Lo (Rs)	:	206 / 97
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	4,770,205
Shares o/s (mn)	:	309

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	51,609	57,208	59,488
Growth (%)	1.9	10.8	4.0
EBITDA	6,928	8,308	9,688
EBITDA margin (%)	13.4	14.5	16.3
Net profit	1,006	1,407	2,173
EPS (Rs)	3.5	4.6	7.1
Growth (%)	-36.3	31.6	54.5
BVPS (Rs)	168.8	172.5	178.8
DPS (Rs)	0.8	0.8	0.8
ROE (%)	2.1	2.7	4.0
ROCE (%)	5.4	6.6	8.0
P/E (x)	31.1	23.7	15.3
EV/EBITDA (x)	8.9	7.2	6.0
P/BV (x)	0.6	0.6	0.6

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	28.3	28.4	28.4
FII	15.8	18.2	20.3
DII	28.6	28.3	26.6
Others	27.3	25.1	24.7

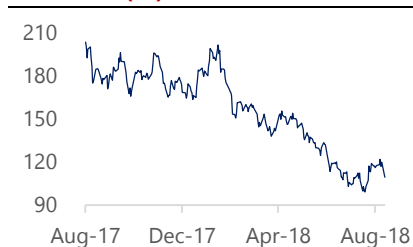
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
India Cements	1.0	(21.4)	(33.4)
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE RS.108

TARGET RS.112

REDUCE

India Cements results were ahead of our estimates led by better than expected dispatches and lower costs. Demand has improved sharply by nearly 20% YoY in the southern region which has aided the volume growth. Growth going ahead is likely to be led by improved dispatches and prices from the levels of Q1FY19.

### Key highlights

Revenue growth for the quarter was led by volume gain of 15.8% YoY. Margins witnessed a decline due to pressure on realizations and higher power and fuel while freight and other expenses per tonne have declined sequentially during the quarter. Net profit performance was impacted by fall in margins but boosted by lower tax expense.

### Financial highlights

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
<b>Net Sales(adj with excise)</b>	<b>13,607</b>	<b>12,818</b>	<b>6%</b>	<b>13,978</b>	<b>-3%</b>
Expenditure	12,046	10,962		12,393	
Inc/Dec in trade	-210	199		-37	
RM	2,545	2,071		2,507	
As a % of net sales	18.7	16.2		17.9	
Staff cost	938	1,147		996	
As a % of net sales	6.9	8.9		7.1	
Power and fuel	4,004	2,858		3,492	
As a % of net sales	29.4	22.3		25.0	
Transportation & Handling	3,217	2,847		3,315	
As a % of net sales	23.6	22.2		23.7	
Other expenditure	1,552	1,840		2,119	
As a % of net sales	11.4	14.4		15.2	
Operating Profit	1,561	1,856	-16%	1,585	-2%
Operating Profit Margin	11.5	14.5		11.3	
Depreciation	616	630		664	
<b>EBIT</b>	<b>945</b>	<b>1,226</b>	<b>-23%</b>	<b>921</b>	<b>3%</b>
Interest	733	874		718	
EBT (exc other income)	212	353		203	
Other Income	55	52		39	
Exceptional gains	0	0		0	
<b>EBT</b>	<b>267</b>	<b>405</b>	<b>-34%</b>	<b>242</b>	<b>10%</b>
Tax	57	140		-110	
Tax Rate%	21.2	34.6		-45.5	
<b>PAT</b>	<b>210</b>	<b>265</b>	<b>-21%</b>	<b>353</b>	<b>-40%</b>
Extraordinary Items	0	0		63	
Net Profit	210	265		415	
NPM%	1.5	2.1		3.0	
Equity Capital	3,081.5	3,081.5		3,081.5	
<b>EPS</b>	<b>0.7</b>	<b>0.9</b>	<b>-21%</b>	<b>1.3</b>	<b>-49%</b>

Source: Company

### Teena Virmani

teena.virmani@kotak.com

+91 22 6218 6432

### **Valuation and outlook**

At current market price of Rs 108, stock is trading at 7.2x and 6.0x EV/EBITDA on FY19 and FY20 estimates respectively. We believe that India Cements is adequately positioned to cater to upcoming demand with incremental volumes. However, after the NCLAT decision on penalty on cement companies, we had revised our rating to REDUCE on India Cements owing to poorer cash flows as compared to peers. Company's debt repayment is also not as per initial plans. We marginally tweak our estimates and arrive at a revised price target of Rs 112 (Rs 115 earlier) based on average of 6x EV/EBITDA on FY20 estimates. We maintain REDUCE recommendation on the stock.

### **Revenue growth led by volume gains**

Revenue growth of 6% YoY was led by 15.8% YoY growth in cement dispatches but impacted by 10% YoY decline in cement realizations. Cement dispatches (including clinker) in Q1FY19 stood at 3.075 MT (up 15.8% YoY). Company has achieved a capacity utilization of 80% during the quarter as compared to 67% in Q1FY18.

As per DIPP data, southern region, which had witnessed a negative growth in the first half of last year has turned around in the second half and registered a growth of over 20% in the first quarter of the current fiscal primarily driven by the infrastructure push given by the Governments of Andhra Pradesh and Telangana and also due to lifting of sand mining ban in Tamil Nadu. But cement prices were impacted by supply overhang and declined by 10% YoY. Company expects prices to recover from the current levels going forward.

We maintain our estimates and expect revenues to grow at a CAGR of 7.6% between FY18-20.

### **Operating margins impacted by higher power and fuel costs as well as decline in realization**

For Q1FY19, margins witnessed a decline led by pressure on realizations and higher power costs. Realization decline of 10% YoY as well as higher power and fuel costs per tonne was witnessed during the quarter. Power costs have moved up due to higher pet coke prices as well as unexpected shutdown in Shankarnagar captive power plant so company had to buy power from the grid at a higher rate of Rs 6 per unit. Company has now reduced the usage of pet coke to now 31% and is procuring imported coal.

Overall costs have come down due to rationalization of other expenses as well as reduction of freight cost per tonne. Other expenses are down due to lower selling and distribution expenses, policy changes as well as lower administrative heads.

### Sales and cost per tonne

	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Dispatches(mn tonne)	3.075	2.656	15.8%	3.087	-0.4%
YoY					
Pure Grey cem realisation/tonne	4313	4795	-10.0%	4421	-2.4%
YoY					
<b>Cost Per tonne</b>					
Inc/dec in material	-68	75		-12	
Raw material	828	780		812	
Staff cost	305	432		323	
Power and fuel	1302	1076	21.0%	1131	15.1%
Transportation & Handling	1046	1072	-2.4%	1074	-2.6%
Other expenditure	505	693	-27.1%	686	-26.5%
<b>Total cost per tonne</b>	<b>3917</b>	<b>4127</b>	<b>-5.1%</b>	<b>4014</b>	<b>-2.4%</b>
Cement EBITDA per tonne	489	697		491	

Source: Company, Kotak Securities – Private Client Research

We tweak our estimates and expect margins of 14.5%/16.3% for FY19/20 respectively. Company plans to reduce the debt from the current levels going forward. It also plans to increase the capacity as well as set up waste heat recovery plants details of which would be discussed by Q2FY19. We tweak our estimates and expect net profits to grow at a CAGR of 42.6% between FY18-20.

### Valuation and outlook

At current market price of Rs 108, stock is trading at 7.2x and 6.0x EV/EBITDA on FY19 and FY20 estimates respectively. We believe that India Cements is adequately positioned to cater to upcoming demand with incremental volumes. However, after the NCLAT decision on penalty on cement companies, we had revised our rating to REDUCE on India Cements owing to poorer cash flows as compared to peers. Company's debt repayment is also not as per initial plans. We marginally tweak our estimates and arrive at a revised price target of Rs 112 (Rs 115 earlier) based on average of 6x EV/EBITDA on FY20 estimates. We maintain REDUCE recommendation on the stock.

### Company background

India Cements Limited is a cement manufacturing company in India, headed by Mr N. Srinivasan. It was established in 1946 by S. N. N. Sankaralinga Iyer and the first plant was set up at Thalaiyuthu in Tamil Nadu in 1949. It has 7 integrated cement plants in Tamil Nadu, Telangana and Andhra Pradesh, one in Rajasthan (through its subsidiary, Trinetra Cement Ltd) and two grinding units, one each in Tamil Nadu and Maharashtra with a capacity of 15.5 million tonnes per annum. Sankar, Coramandel and Raasi Gold are the brands owned by India Cements.



## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>50,669</b>	<b>51,609</b>	<b>57,208</b>	<b>59,488</b>
% change YoY	19.9	1.9	10.8	4.0
<b>EBITDA</b>	<b>8,610</b>	<b>6,928</b>	<b>8,308</b>	<b>9,688</b>
% change YoY	12.0	(19.5)	19.9	16.6
Other Income	165	194	150	150
Depreciation	2,571	2,559	2,752	2,927
<b>EBIT</b>	<b>6,205</b>	<b>4,563</b>	<b>5,706</b>	<b>6,911</b>
% change YoY	8.8	(26.5)	25.0	21.1
Net interest	3,605	3,402	3,606	3,667
<b>Profit before tax</b>	<b>2,600</b>	<b>1,161</b>	<b>2,100</b>	<b>3,244</b>
% change YoY	30.0	(55.3)	80.9	54.5
Tax	867	155	693	1,071
as % of PBT	33.3	13.3	33.0	33.0
<b>Profit after tax</b>	<b>1,733</b>	<b>1,006</b>	<b>1,407</b>	<b>2,173</b>
Net extra-ordinary income	(55)	63	-	-
<b>Net income</b>	<b>1,679</b>	<b>1,069</b>	<b>1,407</b>	<b>2,173</b>
% change YoY	22.0	(36.3)	31.6	54.5
Shares outstanding (m)	308.2	308.2	308.2	308.2
<b>EPS (reported) (Rs)</b>	<b>5.4</b>	<b>3.5</b>	<b>4.6</b>	<b>7.1</b>
CEPS (Rs)	13.8	11.8	13.5	16.6
DPS (Rs)	0.01	0.80	0.80	0.80

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	6,150	4,563	5,706	6,911
Depreciation	2,571	2,559	2,752	2,927
Change in working capital	(1,873)	(1,899)	151	(44)
Chgs in other net curmt assets	(1,860)	(2,048)	52	(460)
Operating cash flow	4,988	3,175	8,660	9,334
Interest	(3,605)	(3,402)	(3,606)	(3,667)
Tax	(867)	(155)	(693)	(1,071)
<b>Cash flow from operations</b>	<b>517</b>	<b>(382)</b>	<b>4,362</b>	<b>4,597</b>
Capex	(827)	(1,228)	(2,500)	(2,500)
(Inc)/dec in investments	(683)	307	-	-
<b>Cash flow from investments (1,510)</b>	<b>(921)</b>	<b>(2,500)</b>	<b>(2,500)</b>	<b>(2,500)</b>
Proceeds from issue of equity	-	-	-	-
Increase/(decrease) in debt	1,393	1,321	(1,500)	(1,500)
Proceeds from share premium	(387)	-	-	-
Dividends	(2)	(2)	(247)	(247)
<b>Cash flow from financing</b>	<b>1,005</b>	<b>1,319</b>	<b>(1,747)</b>	<b>(1,747)</b>
Opening cash	57	68	84	199
Closing cash	68	84	199	549

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	68	84	199	549
Accounts receivable	5,089	6,295	6,309	6,561
Inventories	7,450	6,723	8,620	8,964
Others	16,649	15,395	15,588	16,048
Current assets	29,256	28,496	30,717	32,122
Misc exp.	-	-	-	-
LT investments	6,190	5,884	5,884	5,884
Net fixed assets	69,488	69,675	69,423	68,996
<b>Total assets</b>	<b>106,453</b>	<b>104,055</b>	<b>106,023</b>	<b>107,001</b>
Payables	13,180	11,759	13,822	14,373
Others	-	-	-	-
Current liabilities	13,180	11,759	13,822	14,373
LT debt	32,814	34,135	32,635	31,135
Other liabilities	9,359	6,158	6,403	6,403
Equity	3,082	3,082	3,082	3,082
Reserves	48,018	48,922	50,082	52,009
<b>Total liabilities</b>	<b>106,453</b>	<b>104,055</b>	<b>106,023</b>	<b>107,001</b>
BVPS (Rs)	166	169	173	179

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	17.0	13.4	14.5	16.3
EBIT margin (%)	12.2	8.8	10.0	11.6
Net profit margin (%)	3.3	2.1	2.5	3.7
Receivables (days)	37.6	40.3	40.3	40.3
Inventory (days)	48	50	55	55
Sales/Net assets (x)	0.7	0.7	0.8	0.9
Interest coverage (x)	0.5	0.3	0.4	0.6
Debt/equity ratio (x)	0.6	0.6	0.6	0.6
ROE (%)	3.3	2.1	2.7	4.0
ROCE (%)	7.5	5.4	6.6	8.0
EV/Tonne (\$)	55.8	57.3	55.8	54.1
EV/ Sales (x)	1.2	1.2	1.0	1.0
EV/EBITDA (x)	6.9	8.9	7.2	6.0
Price to earnings (x)	19.8	31.1	23.7	15.3
Price to book value (x)	0.7	0.6	0.6	0.6

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	55861
52-wk Hi/Lo (Rs)	:	1345 / 730
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	29,264
Shares o/s (mn)	:	45

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	31,077	38,080	42,213
Growth (%)	0.9	22.5	10.9
EBITDA	3,700	4,911	5,847
EBITDA margin (%)	11.9	12.9	13.9
PAT	2,465	3,303	4,014
EPS	53.7	72.6	88.6
EPS Growth (%)	1.6	35.2	22.1
BV (Rs/share)	371	431	507
Dividend/share (Rs)	12.0	11.0	11.0
RONW (%)	15.4	18.1	18.9
ROCE (%)	22.6	25.8	26.8
P/E (x)	23.3	17.2	14.1
EV/EBITDA (x)	14.6	11.1	9.1
P/BV (x)	3.4	2.9	2.5

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	48.9	48.9	48.6
FII	7.5	6.1	2.5
DII	11.4	11.7	13.6
Others	32.3	33.3	35.3

Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Zensar Tech	0.8	0.8	33.2
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Nipun Gupta

nipun.gupta@kotak.com  
+91 22 6218 6433

## ZENSAR TECHNOLOGIES LTD

PRICE RS.1249

TARGET RS.1373

ACCUMULATE

Zensar's 1Q revenue grew by 6.6% QoQ (2% without Cynosure) in USD terms to USD135mn, higher than our estimate of USD 129mn largely due to integration of Cynosure. EBITDA margins expanded by ~140bps QoQ to 13.6% led by higher utilization and integration of high margin Cynosure.

### Key Highlights

- Digital has been the key focus area for the company and grew by 12.8% sequentially and now stands at 43% of the total revenue. Growth was led by Analytics, Cloud, Mobility and Automation. Digital has been gaining momentum on back of several solutions built over last year.
- Company won three large (USD 50mn+) deals during the quarter. Digital deal sizes are increasing and the overall deal pipeline remains healthy for the company at USD 600mn. Company is working with advisors and has a differentiated strategy of platform plus services which is helping in gaining traction and company being invited for more RFPs.
- Zensar has been aggressively consolidating its non core verticals and service lines. Company now focus on strategic accounts which have a capability to scale up digital. Digital deal sizes are small currently, but nearly 50% of new deal wins are from area of digital which indicates good progress towards adoption of digital.
- Zensar acquired four companies in the last two years. Keystone, Fullproof, Cynosure are fully integrated and the latest Indigo Slate is expected to be integrated in next two quarters. New and existing engagements are both contributing to the revenue growth. The acquisitions have also been an integral part of new deal wins.

### Quarterly Performance

(Rs.mn)	4QFY18	1QFY19	% QoQ	1QFY18	% YoY
<b>Income in USD</b>	<b>127</b>	<b>135</b>	<b>7</b>	<b>114</b>	<b>18</b>
Income	8146	9047	11	7367	23
Expenditure	7148	7815		6619	
<b>EBIDTA</b>	<b>998</b>	<b>1232</b>	<b>23</b>	<b>748</b>	<b>65</b>
Depreciation	139	182		181	
<b>EBIT</b>	<b>859</b>	<b>1050</b>	<b>22</b>	<b>567</b>	<b>85</b>
Interest	50	59		62	
Other inc	233	169		202	
<b>PBT</b>	<b>1042</b>	<b>1160</b>	<b>11</b>	<b>707</b>	<b>64</b>
Tax	301	322		227	
Minority Interest	14	17		9	
<b>PAT</b>	<b>727</b>	<b>821</b>	<b>13</b>	<b>471</b>	<b>74</b>
E.O items	0	0		0	
Shares (mns)	45	45		45	
<b>EPS (Rs)</b>	<b>16</b>	<b>18</b>		<b>11</b>	
<b>Margins (%)</b>					
Operating Profit	12.2	13.6		10.2	
Gross Profit	10.5	11.6		7.7	
Net Profit	8.9	9.1		6.4	

Source: Company

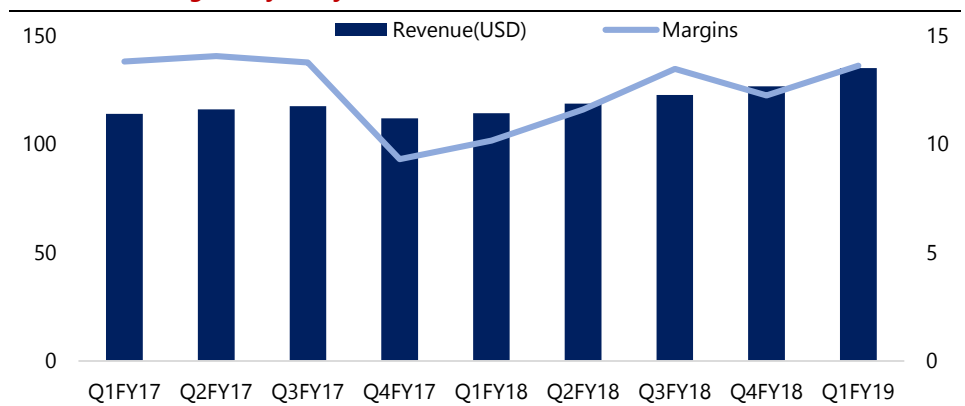
## Valuation & Outlook

At current price of Rs.1249, stock is trading at 17.2/14 P/E on FY19/FY20 estimates. We raise our estimates for FY19-20E EPS due to integration of Indigo Slate, organic revenue acceleration and higher EBITDA margins on better than expected management of operations and change in currency assumption. We raise our target price to Rs.1373, valuing the stock at 15.5x (same as earlier) FY 2020E EPS. Maintain ACCUMULATE.

## Robust quarter both on revenue and margin front

Zensar reported revenues of USD135m ahead of our estimate of USD 129m largely due to earlier than expected integration of Cynosure. EBITDA margins at 13.6% was too ahead of our estimates, led by higher utilization (+200 bps QoQ), integration of higher margin Cynosure. Margins were impacted during the quarter due to provisioning for a bankrupt client. We believe margin improvement from here on would be a function of growth in revenue as increasing utilization would be difficult as the same has been maxed out in our view. MVS business is expected to remain flattish in the range of USD10-15mn as the management doesn't intent to invest any further in this business. Post the leadership change company has launched many new solutions/services which has helped in reviving revenue growth trajectory. It now focus on large deals which is visible in improving deal wins and steady TCV wins. Company added 1 client in USD 10m+ bracket and 1 client in USD 5m+ bracket taking the total client count to 291. Company won two large deals in the emerging vertical which will witness strong growth in coming quarters. Most of the TCV wins of USD100mn are from Digital space. IMS which contributed 10% of total revenue in 1Q is well positioned to deliver its clients a wide range of infrastructure services. It is seeing good traction in cloud migration projects within the IMS segment. Management continues to focus on Retail, Insurance, Hi tech and manufacturing vertical, investments too are being made in these verticals only.

## Revenue & Margin Trajectory



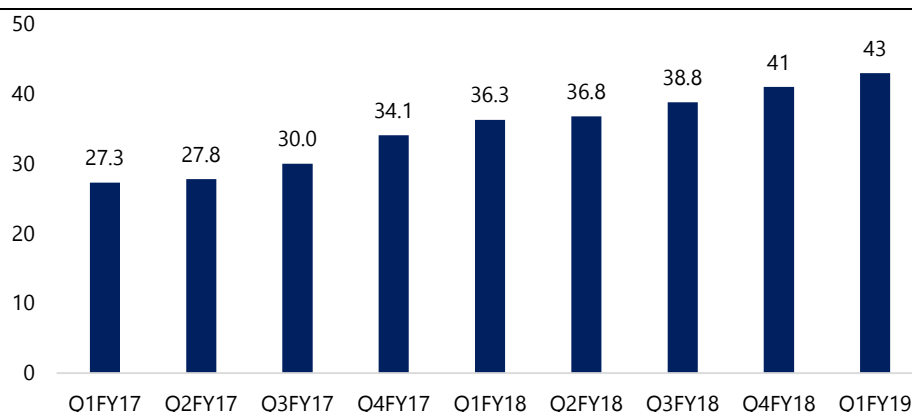
Source: Company

## Strengthening its Digital proposition

Revenues from Digital formed 43% of 1QFY19 revenues v/s 41% in previous quarter leading to a sequential growth of 13.8% in CC Terms. Within Digital, Zensar is focused on the following areas - e-commerce, customer experience, analytics, digital marketing, cloud, cyber security and IoT. Company has built about 30 platforms on for its Return on Digital strategy. Company would continue its investment in Digital through acquisition. Management guided that it is currently selling atleast one Digital service to ~60 clients. It has strengthened its Digital practice with acquisitions. Management would also focus on setting up Digital center in USA. However, the Digital space remains competitive and it

would be challenging to maintain growth unless the offerings are a key differentiator from the rest.

### Digital contribution to revenue in %



Source: Company

### Conference Call Highlights

- Growth was strong in both Application and Infrastructure. Application growth was driven by Digital and ramp up of large deals. IMS growth was driven by new services and new sales team.
- Wage hikes to be given in next quarter would have an impact on the margins. However for full year this would be mitigated through higher revenue and other operational efficiency.
- All geographies reported strong growth except ROW which is no more a focus area for the management. North America business had a turnaround due to Hitech and Cynosure. US to remain a key geography with heavy investments in SG&A already made.
- Growth was reported across verticals except for retail which was impacted due to one large client exit. Hi tech growth has been robust since the last two quarters. The latest acquisition Indigo Slate is also primarily Hi Tech focused.
- Tax rate is expected to be in range of 28-29 % for FY19.

### Financial prospects

We have made changes to our earnings estimates. We assume the rupee to average at Rs67.4/USD in FY19 and Rs.67.8/USD in FY20. We expect USD revenues to grow by 17% and 10% in FY19 and FY20 respectively. Consequently, PAT is expected to work out to Rs.3.3bn and Rs.4 bn for FY19 and FY20 respectively. The EPS works out to about Rs.72.6 and Rs.88.6 for FY19 and FY20 respectively.

### Company background

Zensar is a leading digital solutions and technology services company that specializes in partnership with global organizations across industries on their Digital Transformation journey. The company has complete technology services portfolio which includes Applications, Infrastructure, Digital and Industry specific solutions lineage. Zensar is a part of the USD \$3bn RPG Enterprises and the US \$40bn APAX portfolio of companies. Digital business is 34% of Zensar revenue and has shown strong growth.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>30,806</b>	<b>31,077</b>	<b>38,080</b>	<b>42,213</b>
% change YoY	3.2	0.9	22.5	10.9
Cost of Sales	26,874	27,377	33,170	36,366
% of Net Sales	87.2	88.1	87.1	86.1
<b>EBITDA</b>	<b>3,932</b>	<b>3,700</b>	<b>4,911</b>	<b>5,847</b>
EBITDA Margin (%)	12.8	11.9	12.9	13.9
Depreciation	486	650	737	752
<b>EBIT</b>	<b>3,446</b>	<b>3,050</b>	<b>4,174</b>	<b>5,095</b>
Interest Exps.	88	228	234	226
<b>EBT</b>	<b>3,358</b>	<b>2,822</b>	<b>3,939</b>	<b>4,869</b>
Exceptional Items	0	0	0	0
Other Income	153	695	669	705
<b>PBT</b>	<b>3,511</b>	<b>3,517</b>	<b>4,608</b>	<b>5,574</b>
Tax-Total	1,104	1,052	1,305	1,561
Profit after tax	2,407	2,465	3,303	4,014
% change YoY	-24	2.4	34.0	21.5
PAT Margin (%)	7.8	7.9	8.7	9.5

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net profit before tax	3,511	3,517	4,608	5,574
Depreciation	486	650	737	752
Interest	88	228	234	226
Other Income	(153)	(695)	(669)	(705)
Opt Profit before WC Changes	3,932	3,700	4,911	5,847
WC Changes	(281)	(494)	(1,816)	(688)
Cash Gene from Op.	3,651	3,206	3,095	5,159
Direct Taxes Paid	(1,024)	(954)	(1,174)	(1,556)
<b>Cash from Ope act</b>	<b>2,627</b>	<b>2,252</b>	<b>1,921</b>	<b>3,603</b>
Purchases of F.A /CWIP	(954)	(2,119)	(161)	-
Investment	(978)	(319)	(1,654)	(2,137)
Others	-	-	-	-
<b>Cash from Inv Act</b>	<b>(1,933)</b>	<b>(2,438)</b>	<b>(1,815)</b>	<b>(2,137)</b>
Proc from Issue of Eq Shares	46	189	-	-
Net loans	(198)	(1,220)	1,491	30
Interest paid	(46)	-	(234)	(226)
Dividend paid & Others	(261)	(621)	(569)	(569)
Others	317	605	675	673
<b>Cash from Fin Act</b>	<b>(142)</b>	<b>(1,046)</b>	<b>1,362</b>	<b>(92)</b>
Net Increase in Cash	553	(1,232)	1,468	1,375
Cash at Beginning	2,749	3,301	2,069	3,536
Cash at End	3,301	2,069	3,536	4,911

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Equity Capital	449	450	450	450
Reserves and Surplus	14,257	16,239	18,935	22,354
Shareholders' Funds	14,705	16,689	19,385	22,804
Minority Interest	74	137	40	40
Total Loan Funds	1,305	60	1,800	1,900
<b>Total Liabilities</b>	<b>16,085</b>	<b>16,885</b>	<b>21,225</b>	<b>24,744</b>
Gross Block	1,467	2,206	2,926	3,426
Accumulated Depn.	553	1,203	1,940	2,692
Net Fixed Assets	915	1,003	986	734
Capital WIP	26	59	0	0
Goodwill	3,566	4,914	4,414	3,914
Investment	2,688	2,746	4,400	6,537
Inventories	1,127	1,060	1,100	1,100
Sundry Debtors	5,327	6,423	7,120	7,564
Cash and Bank Bal	3,301	2,069	3,536	4,911
Loans and Advances	3,695	4,691	5,029	5,629
Total Current Assets	13,450	14,242	16,786	19,204
Current Liabilities	4,560	6,079	5,360	5,645
Net Current Assets	8,890	8,163	11,426	13,559
<b>Total assets</b>	<b>16,085</b>	<b>16,885</b>	<b>21,226</b>	<b>24,744</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Per Share (Rs)</b>				
EPS	52.8	53.7	72.6	88.6
Cash EPS	63.6	68.1	89.0	105.3
Book value	327.7	370.9	430.9	506.8
<b>Margin (%)</b>				
EBITDA	12.8	11.9	12.9	13.9
EBIT	11.2	9.8	11.0	12.1
PAT	7.7	7.8	8.6	9.4
<b>Balance sheet Ratios</b>				
Receivable (days)	63.1	75.4	68.2	65.4
Inventories (days)	15.3	14.1	12.1	11.0
Payables (days)	21.0	21.6	20.1	19.9
Debt equity ratio (x)				
<b>Return ratios (%)</b>				
RONW	16.4	15.4	18.1	18.9
RoCE	23.8	22.6	25.8	26.8
<b>Valuation (x)</b>				
P/E	23.6	23.3	17.2	14.1
Price/Book value	3.8	3.4	2.9	2.5
EV/EBITDA	13.7	14.6	11.1	9.1
EV/Sales	1.8	1.7	1.4	1.3

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

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

## FUNDAMENTAL RESEARCH TEAM

<b>Rusmik Oza</b> Head of Research rusmik.oza@kotak.com +91 22 6218 6441	<b>Arun Agarwal</b> Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	<b>Amit Agarwal</b> Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	<b>Nipun Gupta</b> Information Tech, Midcap nipun.gupta@kotak.com +91 22 6218 6433	<b>Krishna Nain</b> Special Situations krishna.nain@kotak.com +91 22 6218 7907
<b>Sanjeev Zarbade</b> Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	<b>Ruchir Khare</b> Cap. Goods & Cons. Durables ruchir.khare@kotak.com +91 22 6218 6431	<b>Jatin Damania</b> Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	<b>Cyndrella Carvalho</b> Pharmaceuticals cyndrella.carvalho@kotak.com +91 22 6218 6426	<b>K. Kathirvelu</b> Support Service k.kathirvelu@kotak.com +91 22 6218 6427
<b>Teena Virmani</b> Construction, Cement, Building Mat teena.virmani@kotak.com +91 22 6218 6432	<b>Sumit Pokharna</b> Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	<b>Pankaj Kumar</b> Midcap pankajr.kumar@kotak.com +91 22 6218 6434	<b>Jayesh Kumar</b> Economist kumar.jayesh@kotak.com +91 22 6218 5373	

## TECHNICAL RESEARCH TEAM

<b>Shrikant Chouhan</b> shrikant.chouhan@kotak.com +91 22 6218 5408	<b>Amol Athawale</b> amol.athawale@kotak.com +91 20 6620 3350
---	---

## DERIVATIVES RESEARCH TEAM

<b>Sahaj Agrawal</b> sahaj.agrawal@kotak.com +91 79 6607 2231	<b>Malay Gandhi</b> malay.gandhi@kotak.com +91 22 6218 6420	<b>Prashanth Lalu</b> prashanth.lalu@kotak.com +91 22 6218 5497	<b>Prasenjit Biswas, CMT, CFTe</b> prasenjit.biswas@kotak.com +91 33 6625 9810
---	---	---	--

## Disclosure/Disclaimer

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house. Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/deficiency letters/ or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on [www.kotak.com](http://www.kotak.com)

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report. Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: Berger Paint, KNR Construction, NCC - Yes

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

"A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com) and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart)."

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: [www.kotak.com/www.kotaksecurities.com](http://www.kotak.com/www.kotaksecurities.com). Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSE INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com). In case you require any clarification or have any concern, kindly write to us at below email ids:

- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at [ks.demat@kotak.com](mailto:ks.demat@kotak.com) or call us on: Toll free numbers 18002099191 / 1800222299, Offline Customers - 18002099292
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at [ks.escalation@kotak.com](mailto:ks.escalation@kotak.com) or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at [ks.servicehead@kotak.com](mailto:ks.servicehead@kotak.com) or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com) or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at [ceo.ks@kotak.com](mailto:ceo.ks@kotak.com) or call on 91- (022) 4285 8301.