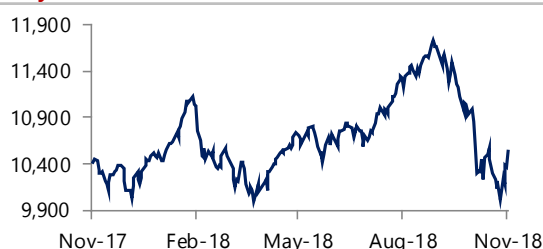


NOVEMBER 15, 2018

	14-Nov	% Chg			
		1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>					
SENSEX Index	35,142	(0.0)	1.2	(7.2)	
NIFTY Index	10,576	(0.1)	1.0	(7.5)	
NSEBANK Index	25,930	0.6	2.1	(7.5)	
NIFTY 500 Index	8,921	(0.0)	1.8	(8.3)	
CNXMcap Index	17,484	(0.0)	4.4	(9.1)	
BSESMCAP Index	14,548	(0.2)	2.7	(13.1)	
<b>World Indices</b>					
Dow Jones	25,081	(0.8)	(0.7)	(0.3)	
Nasdaq	7,136	(0.9)	(4.0)	(8.2)	
FTSE	7,034	(0.3)	0.1	(6.2)	
NIKKEI	21,846	0.2	(2.2)	(1.9)	
Hangseng	21,846	0.2	(2.2)	(1.9)	
Shanghai	25,654	(0.5)	1.0	(6.0)	
<b>Value traded (Rs cr)</b>					
	14-Nov	% Chg Day			
Cash BSE	3,308	45.2			
Cash NSE	35,974	31.6			
Derivatives	1,000,275	35.8			
<b>Net inflows (Rs cr)</b>					
	13-Nov	MTD	YTD		
FII	933	305	(42,380)		
Mutual Fund	411	(589)	111,711		
<b>Nifty Gainers &amp; Losers</b>					
	Price	Chg	Vol		
<b>14-Nov</b>	(Rs)	(%)	(mn)		
<b>Gainers</b>					
HPCL	244	4.7	29.8		
BPCL	316	4.2	14.8		
UPL	760	3.2	3.0		
<b>Losers</b>					
Sun Pharma	520	(7.4)	25.5		
Tech Mahindra	700	(3.8)	3.4		
Gail India	353	(3.5)	5.8		
<b>Advances / Declines (BSE)</b>					
14-Nov	A	B	T	Total	% total
Advances	194	430	61	685	100
Declines	233	601	46	880	128
Unchanged	5	20	10	35	5
<b>Commodity</b>					
	14-Nov	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	65.8	(0.4)	(18.5)	(7.0)	
Gold (US\$/OZ)	1,208.4	0.5	(1.4)	2.8	
Silver (US\$/OZ)	14.1	0.6	(3.8)	(2.3)	
<b>Debt / forex market</b>					
	14-Nov	1 Day	1 Mth	3 Mths	
10 yr G-Sec yield %	7.7	7.8	8.0	7.8	
Re/US\$	72.3	72.7	73.8	69.9	

## Nifty



Source: Bloomberg

## News Highlights

- ▶ The government and RBI seem to be veering around to reach an agreeable solution particularly with respect of relaxation of the Prompt Corrective Action (PCA) framework and easing of lending norms for the MSME sector ahead of the RBI board meeting on November 19. (BL)
- ▶ The National Company Law Appellate Tribunal (NCLAT) approved **UltraTech's** revised bid of Rs79.5 bn for debt laden Binani Cement, calling Dalmia Bharat's offer for the asset "discriminatory" against operational creditors and some financial creditors. (ET)
- ▶ Malaysian firm IHH Healthcare Berhad said its open offer for acquiring up to 26% stake in **Fortis Healthcare** is likely to be completed by December-end. (Mint)
- ▶ **Vodafone Idea Ltd** said its board is evaluating ways to raise the capital in which promoters Vodafone Group will chip in Rs110bn and Aditya Birla Group Rs72.5bn. (Mint)
- ▶ **Nalco** announced share buyback offer worth Rs5.05 bn. (Mint)
- ▶ **NBCC (India) Ltd** said it has bagged Rs1 bn order from Indian Institute of Technology (IIT), Mandi. (ET)
- ▶ **Kalpataru Power Transmission Ltd (KPTL)** said it has bagged orders worth Rs 13.22 bn in domestic and overseas markets. (ET)
- ▶ The Tata group and **Jet Airways** are inching towards a two-step transaction, the first leg of which could see the merger of Jet with Tata SIA Airlines, the joint venture between Tatas and Singapore Airlines. The second step of the deal could involve the purchase of the Goyal family's stake in the combined entity by Singapore Airlines. (ET)
- ▶ **GVK Power and Infrastructure Limited** sought approval to raise up to Rs80 bn from shareholders and an appropriate resolution was moved in the annual general meeting (AGM) (Mint)
- ▶ **Tata Power** and **ICICI Bank** backed Resurgent Power has acquired 75.01% stake in Jaiprakash Associates 1980-mw power plant, becoming the first of the nearly dozen stressed power plants proposed to be resolved by lenders outside insolvency court. (ET)
- ▶ **Gujarat Fluorochemicals** board approved a proposal to demerge chemical business of the company. The consideration for the resulting company will be 1:1. (Bloomberg Quint).
- ▶ **Yes Bank** said its non-executive Chairman Ashok Chawla has resigned with immediate effect. The bank also said that Independent Director Vasant Gujarathi too has tendered his resignation with immediate effect due to personal commitments. (Mint)
- ▶ Royal Enfield, motorcycle unit of **Eicher Motors Ltd**, launched the Interceptor 650 and Continental GT 650. The Interceptor 650 at Rs250,000 and the Continental GT 650 at Rs265,000 are now the cheapest twin-cylinder motorcycles available in the country. (Mint)

## What's Inside

- ▶ **Result Update:** NCC Ltd, Insecticides India Ltd, Engineers India Ltd, Sterling Tools Ltd, Talbros Automotive Components Limited, KNR Constructions Ltd

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

### Stock Details

Market cap (Rs mn)	:	52497
52-wk Hi/Lo (Rs)	:	142 / 63
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	10,291,560
Shares o/s (mn)	:	601

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	75,593	1,02,051	1,20,420
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)	18.2	11.9	10.6
EV/EBITDA (x)	7.6	6.6	5.5
P/BV (x)	1.2	1.1	1.0

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	18.1	18.1	18.1
FII	16.0	16.4	17.7
DII	30.5	32.0	32.8
Others	35.3	33.5	31.5

Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Nagarjuna Cons	19.6	(12.4)	(26.5)
Nifty	1.0	(7.5)	(2.1)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## NAGARJUNA CONSTRUCTION COMPANY LTD

PRICE Rs.87

TARGET Rs.135

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 extra-ordinary provisioning pertaining to an overseas project arbitration.
- Order inflow for the company stood healthy at Rs 41.9 bn during Q2FY19 taking the order book to Rs 329.5 bn. Healthy order inflows provide good visibility on revenue growth.

### Valuation and outlook

At Rs 87, stock is trading at 11.9x and 10.6x P/E and 6.5x and 5.5x EV/EBITDA on FY19 and FY20 estimates respectively. We maintain our estimates but reduce our valuation multiples to 15x versus 17x earlier to factor in delays in some projects and arbitration risks and arrive at a revised price target of Rs 135 based on sum of the parts valuation on FY20 estimates. (Rs 151 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)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
<b>Net Sales</b>	<b>31,048</b>	<b>13,001</b>	<b>139</b>	<b>23,596</b>	<b>32</b>
Expenditure	27,397	11,758		20,918	
<b>EBITDA</b>	<b>3,651</b>	<b>1,244</b>	<b>194</b>	<b>2,678</b>	<b>36</b>
EBITDA margin	11.76	9.56		11.35	
Depreciation	(357)	(290)		(343)	
<b>EBIT</b>	<b>3,294</b>	<b>953</b>	<b>246</b>	<b>2,334</b>	<b>41</b>
Interest	(1,082)	(888)		(1,016)	
EBT(exc other income)	2,212	66	3277	1,319	68
Other Income	(144)	422		295	
Exceptional item	(3)			(2)	
<b>EBT</b>	<b>2,065</b>	<b>488</b>	<b>323</b>	<b>1,612</b>	<b>28</b>
Tax	(811)	305		(577)	
Tax (%)	39.29	-62.49		35.82	
<b>PAT</b>	<b>1,254</b>	<b>793</b>	<b>58</b>	<b>1,035</b>	<b>21</b>
NPM (%)	4.04	6.10		4.39	
Other comp inc	(3)	(592)		(2)	
<b>Net profit</b>	<b>1,251</b>	<b>201</b>	<b>522</b>	<b>1,033</b>	<b>21</b>
Equity Capital	1201.3	1111.9		1201.3	
<b>EPS</b>	<b>2.09</b>	<b>1.43</b>		<b>1.72</b>	<b>21</b>

Source: Company

### **Revenue growth much ahead of our estimates**

Company's revenues for Q2FY19 were ahead of our estimates. Order inflow had also been robust during the quarter and stood at Rs 41.9 bn taking the total order book to Rs 329.5 bn. Change in the accounting stand has led to additional revenue booking of Rs 2 bn in H1FY19 in the form of unbilled revenue.

Order book is diversified across roads, building, oil and gas (Rs 220 bn), water and railways (Rs 42.55 bn), irrigation (Rs 18.8 bn), electrical (Rs 23.94 bn), international (Rs 6 bn) and remaining contributed by mining, metals and power. However, with strong order book built through FY18, it expects an inflow of Rs 120-140 bn for FY19.

There are some delays being witnessed in project awarded by NBCC owing to ban on cutting of trees. Regarding NBCC project awarded to NCC, tree cutting was already done earlier by NBCC so execution should not get impacted. However, a government hearing is expected by 28th Nov and clearance should come by then. NCC had initially targeted Rs 7.5 bn revenues from this project during FY19 but since it has not yet commenced, the shortfall is likely to get compensated from other projects.

For AP projects, NCC is carrying out two types of projects – Affordable housing (from APTIDCO) and Capital city development project. Payments are on time from both these projects. 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.

### **Margins and net profit ahead of our estimates despite extra-ordinary write off**

Operating margin for Q2FY19 stood at 11.76%, 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 16.6 bn while consolidated debt stands at Rs 24.79 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 2.5-3 bn.

Company has also raised 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.

During the quarter, company has made a provision of Rs 475 mn towards adverse arbitration award in respect of a project undertaken by Dubai overseas subsidiary. This is related to a school project which NCC was executing.

In next 1-2 quarters, it is important to watch out for the developments on key cases under arbitration. Decision on Himachal Sorang case is likely to come by Dec, 2018-March 2019. 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 1.15bn 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.

Development on Semcorp-Gayatri power project arbitration is also important as its outcome is expected by June 2019. NCC expects to recover the entire amount of Rs 7.5 bn from the client via arbitration project.

On real estate monetization, for 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. On domestic project of Jubilee Hills and Telapur project, it expects to free up its investments and sell land parcels over next 1-2 years. Total real estate investment including Dubai currently stands at Rs 12 bn by NCC.

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

### Valuation and recommendation

At Rs 87, stock is trading at 11.9x and 10.6x P/E and 6.5x and 5.5x EV/EBITDA on FY19 and FY20 estimates respectively. We maintain our estimates but reduce our valuation multiples to 15x versus 17x earlier to factor in delays in some projects and arbitration risks and arrive at a revised price target of Rs 135 based on sum of the parts valuation on FY20 estimates. (Rs 151 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)	Rs per share	Rationale
Core business valuation	123	Based on 15x 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 0.3x of investments
International	6	Based on P/BV of 1x of investments
Total value per share	135	

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>1,02,051</b>	<b>1,20,420</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
Net profit	2,256	2,868	4,393	4,910
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)
Chg 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)/decrease 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	1,00,325	1,15,521
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>1,08,006</b>	<b>1,22,699</b>	<b>1,37,878</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>1,08,006</b>	<b>1,22,699</b>	<b>1,37,878</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)	0.8	0.9	0.7	0.5
EV/EBITDA (x)	9.8	7.6	6.6	5.5
Price to earnings (x)	21.4	18.2	11.9	10.6
Price to book value (x)	1.4	1.2	1.1	1.0
Price to Cash Earnings (x)	14.3	12.9	9.1	8.1

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	9828
52-wk Hi/Lo (Rs)	:	950 / 361
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	33,243
Shares o/s (mn)	:	21

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	10733	10925	11144
Growth (%)	8.0	1.8	2.0
EBITDA	1478	1606	1727
EBITDA margin (%)	13.8	14.7	15.5
PAT	840	965	1023
EPS	40.6	46.7	49.5
EPS Growth (%)	41.4	14.9	6.0
Book value (Rs/share)	265	308	353
Dividend per share (Rs)	3	3	3
ROE (%)	16.6	16.3	15.0
ROCE (%)	20.2	21.9	21.6
P/E (x)	11.6	10.1	9.6
EV/EBITDA (x)	7.3	6.4	5.7
P/BV (x)	1.8	1.5	1.3

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	68.8	68.8	
FII	2.9	2.9	
DII	11.7	11.7	
Others	16.3	16.3	

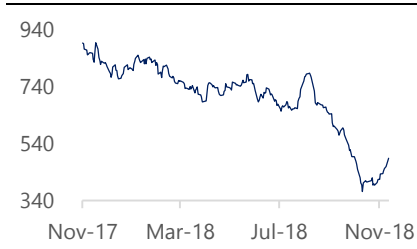
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Insecticides (India)	18.1	(30.4)	(35.9)
Nifty	1.0	(7.5)	(2.1)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Pankaj Kumar

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## INSECTICIDES INDIA LTD (IIL)

PRICE RS.476

TARGET RS.643

BUY

IIL Q2FY19 results was better than our estimates in terms of revenue and margins. The company expects to maintain growth into pline in the longer run despite its two major products will be phased out by 2020 due to ban, as it has strong product pipeline which will make up for the revenue losses.

### Key Highlights

- IIL reported better than estimated revenue of Rs 4.6 bn (Vs estimate of 4.2 bn) with 10% yoy growth driven by strong performance of B2C formulations, higher exports and increased contribution from high margin new branded products.
- EBITDA margin remain strong at 15.1% and was ahead of our estimates with growth of 170 bps yoy led by better product mix and reduced exposure to low margin old generic products.
- IIL has maintained guidance of 150 bps improvement EBITDA margins in FY19E. The company has launched 6 new products and has pipeline for 3 more products in FY19E, with most of them are 9(3) registrations.
- The company believes that the discontinuation of two major products due to ban contributing Rs 1.6 bn revenue, will not impact its revenue and will be compensated by new launches.

### Valuation & outlook

- We believe that IIL is well placed to grow in agro chemical sector in the longer run based on strong business model and robust pipeline of new products. We have cut our revenue and earnings estimates for FY19E and FY20E factoring in impact of discontinuation of two major products in our EPS estimates.
- The stock is presently trading at 10.1x/9.6x on FY19E/20E EPS of Rs 46.7/Rs49.5 (vs Rs 49.1/Rs 55.7 earlier) respectively. We maintain our Buy rating on the stock with revised target price of Rs 643 (Vs Rs 892 earlier), valuing the stock at 13x FY20E earnings vs 16x earlier factoring in increased risk on growth due to ban on certain products.

### Quarterly performance table (standalone)

Year to March (Rs Mn)	Q2FY19	Q2FY18	% Chg	Q1FY19	% Chg
<b>Operating Revenues</b>	<b>4,583</b>	<b>4,165</b>	<b>10.0</b>	<b>3,189</b>	<b>43.7</b>
Raw Materials Cost	3,211	3,105	3.4	2,203	45.8
<b>Gross Profit</b>	<b>1,372</b>	<b>1,060</b>	<b>29.5</b>	<b>986</b>	<b>39.1</b>
Employee Expenses	154	137	12.7	149	3.6
Other Expenses	526	367	43.5	282	86.7
Operating Expenses	3,891	3,609	7.8	2,633	47.8
<b>EBITDA</b>	<b>692</b>	<b>556</b>	<b>24.4</b>	<b>556</b>	<b>24.5</b>
EBITDA margin%	15.1	13.4		17.4	
Depreciation	49	39	27.5	48	2.2
Other income	3	24	(87.5)	2	65.5
Net finance expense	24	44	(44.8)	29	(15.8)
<b>Profit before tax</b>	<b>621</b>	<b>498</b>	<b>24.8</b>	<b>480</b>	<b>29.3</b>
Provision for taxes	192	136	40.5	141	36.4
<b>Reported net profit</b>	<b>430</b>	<b>361</b>	<b>18.9</b>	<b>340</b>	<b>26.4</b>
Net profit margin (%)	9.4	8.7		10.7	

Source: Company

### **Q2FY19 revenue above our estimates**

Operating revenue for the quarter grew by 10% yoy to Rs 4.5 bn (Vs estimates of Rs 4.2 bn) and was above our estimates driven by strong performance of B2C formulations and focus on high margin new branded products which resulted in value driven growth in the quarter. As per the company, due to delayed season, sales got extended to October. Further, there are expectations of strong Rabi season which help in maintaining healthy growth rate for the company in Q3FY19 as well.

### **EBITDA grew by 24% yoy on 170 bps improvement in margins**

EBITDA for the quarter grew by 24% yoy to Rs 692 mn (Vs estimates of Rs 620 mn) and was above our estimates due to 170 bps yoy improvement in margins. EBITDA margins at 15.1% yoy was ahead of our estimates (of 14.7%). Margins improved on favourable product mix and increasing focus on high margins products. The company reported 170 bps improvement in EBITDA margins despite sharp rise in raw material prices due to better product mix. The company would pass on the impact of raw material cost to consumer with some lag. The input prices have gone up on account of supply pressure for ingredient due to closure of units in China. PAT for the quarter grew by 18.9% yoy to Rs 430 mn (Vs estimates of Rs 364mn) and was above our estimates on lower interest expenses and higher margins.

### **Launched 4 new products with robust pipeline**

IIL has been focusing on R&D and plans to launch 3 new products in the next 2 to 3 months of FY19E (including reverse engineered product) and 9 new products in FY20E. The company has launched 6 new products till date FY19 with most of them were under 9(3) registrations. The new products launched by the company contributed Rs 550 mn in H1FY19. The new products launched by the company includes reverse engineered product, combination product, biological product and collaboration products. It has pipeline of collaboration products from Nissan which would be launched in the next year. This will strengthen its product portfolio for future and would drive profitability. Its patented product in JV is at final stage and has filed 10 patents. The product will undergo through field trail. This will take three years before commercialization.

### **Update on Capex**

IIL has incurred Rs 180 mn capex in H1FY19 and aims to incur Rs250-500 mn capex at existing units in FY19E which would cater to the new products expected to be launched by the company. Further in future, it is planning for phase 2 expansion at existing unit in Dahej and Rajasthan with capex of over Rs 1.5 bn based on approval and clearances. This capex would help the company to go further backward and increase capacity for new products. This would be funded through internal accruals.

### **Maintained guidance for 150 bps improvement in EBITDA margin**

IIL management has maintained guidance of growth in revenue with 150 bps improvement in margins at EBITDA level in FY19E. The growth would be driven by strong performance of new product and growth in B2C segment and exports. In the longer run the company targets to grow at 10% revenue growth which will be contributed by 10% growth from new product, 5% from previous launches in last 5 years and 5% reduction from discontinued products. The company guides for 100-150 bps improvement in margin every year in next 2-3 years led by increased contribution from high margin products and reduction in low margin old generic products. The company targets to cut revenue from low margin old

generic brands every year by 4-5%. It intends to move out of 60 such products in the next three years.

### Other highlights

- Debt increased to Rs 1.35 bn in Q2FY19 as against Rs 1.15 bn at the end of FY18.
- B2C business contributed 75% to its topline and 25% is contributed by B2B in Q2FY19. In-house consumption of technical was at 58% in Q2FY19.
- Green Label business remain same in terms of topline and bottomline. Price has declined in B2B but volume grew in B2C.
- Exports grew from Rs 60 mn in Q2FY18 to Rs 160 mn in Q2FY19. Exports is expected to double in FY20 as well.

### Outlook and valuation

We believe that IIL is well placed to grow in agro chemical sector which has positive growth outlook for long term. Further, IIL is aiming to position itself as niche player by moving up in the value chain and adding new products which will drive growth in long term. We believe that the company would be able to achieve better margins in next two years led by change in product mix. We have cut our revenue and earnings estimates for FY19E and FY20E factoring in impact of discontinuation of two major products in our EPS estimates.

The stock is presently trading at 10.1x/9.6x on FY19E/20E EPS of Rs 46.7/Rs49.5 (vs Rs 49.1/Rs 55.7 earlier) respectively. We maintain our Buy rating on the stock with revised target price of Rs 643 (Vs Rs 892 earlier), valuing the stock at 13x FY20E earnings vs 16x earlier factoring in increased risk on growth due to ban on certain products.

### Change in Estimates

Particulars (Rs mn)	Previous		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	12042	13460	10925	11144	-9.3%	-17.2%
EBITDA margin (%)	13.9	14.2	14.7	15.5	80 bps	70 bps
PAT	1015	1152	965	1023	-4.9%	-11.2%
EPS	49.1	55.7	46.7	49.5	-4.9%	-11.2%

Source: Kotak Securities – Private Client Research

### Company background

Insecticides (India) Limited (IIL) is amongst the top 10 Indian agrochemical companies having ~7% market share of the Indian domestic agrochemical market. IIL has a fully integrated business model right from manufacturing of technicals and branded formulations to sale of generic and inlicensed agrichemical products. IIL has a pan India presence with network of 5000 plus distributors. The company has a portfolio of successful brands and has international tie-ups with AMVAC and Nissan Chemicals for brand licensing and marketing rights.



## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>9,942</b>	<b>10,733</b>	<b>10,925</b>	<b>11,144</b>
% change yoy	0.6	8.0	1.8	2.0
<b>EBITDA</b>	<b>1,114</b>	<b>1,478</b>	<b>1,606</b>	<b>1,727</b>
% change yoy	22.2	32.7	8.6	7.5
Depreciation	160	170	148	187
<b>EBIT</b>	<b>954</b>	<b>1,308</b>	<b>1,458</b>	<b>1,540</b>
Other Income	68	32	30	30
Interest	202	159	109	109
Profit Before Tax	820	1,181	1,379	1,461
% change yoy	64.3	44.1	16.8	6.0
Tax	226	341	414	438
as % of EBT	27.5	28.9	30.0	30.0
<b>PAT</b>	<b>594</b>	<b>840</b>	<b>965</b>	<b>1,023</b>
% change yoy	51.2	41.4	14.9	6.0
Shares outstanding (mn)	21	21	21	21
<b>Adj EPS (Rs)</b>	<b>28.7</b>	<b>40.6</b>	<b>46.7</b>	<b>49.5</b>
DPS (Rs)	2	3	3	3
CEPS(Rs)	36	49	54	59
BVPS(Rs)	225	265	308	353

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	820	1,181	1,379	1,461
Depreciation	160	170	148	187
Change in WC	(799)	484	(373)	(70)
Other operating activities	(199)	(355)	(414)	(438)
<b>Operating Cash Flow</b>	<b>(18)</b>	<b>1,480</b>	<b>740</b>	<b>1,140</b>
Capex	(136)	(227)	(129)	(700)
Free Cash Flow	(154)	1253	611	440
Change in Investments	0	-51.8	0	0
<b>Investment cash flow</b>	<b>(136)</b>	<b>(278)</b>	<b>(129)</b>	<b>(700)</b>
Equity Raised & Others	0	0	0	0
Debt Raised	166	(1066)	0	0
Dividend & others	(38)	(8)	(78)	(83)
<b>CF from Financing</b>	<b>128</b>	<b>(1074)</b>	<b>(78)</b>	<b>(83)</b>
Change in Cash	(26)	127	533	357
Opening Cash	95	68	196	729
Closing Cash	68	196	729	1085

Source: Company, Kotak Securities – Private Client Research

### Balance Sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	207	207	207	207
Reserves	4,438	5,269	6,157	7,097
Net worth	4,645	5,476	6,363	7,303
Borrowings	2,216	1,150	1,150	1,150
Net Deferred tax	203	188	188	188
<b>Total Liabilities</b>	<b>7,063</b>	<b>6,815</b>	<b>7,702</b>	<b>8,642</b>
Net block	1,858	2,357	2,338	2,852
Capital work in progress	569	127	127	127
Total fixed assets	2,428	2,484	2,465	2,978
Investments	111	163	163	163
Inventories	4,258	4,073	4,146	4,229
Sundry debtors	2,146	2,348	2,125	2,168
Cash and equivalents	68	196	729	1,085
Loans and advances & Others	1,055	837	837	837
Total current assets	7,528	7,454	7,837	8,320
Sundry creditors and others	2,793	3,277	2,754	2,809
Provisions	210	9	9	9
Total CL & provisions	3,003	3,286	2,763	2,818
Net current assets	4,525	4,168	5,075	5,501
<b>Total Assets</b>	<b>7,063</b>	<b>6,815</b>	<b>7,702</b>	<b>8,642</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Profitability Ratios</b>				
EBITDA margin (%)	11.2	13.8	14.7	15.5
EBIT margin (%)	9.6	12.2	13.3	13.8
Net profit margin (%)	6.0	7.8	8.8	9.2
Adjusted EPS growth (%)	51.2	41.4	14.9	6.0
<b>Balance Sheet Ratios:</b>				
Receivables (days)	79	80	71	71
Inventory (days)	156	139	139	139
Loans & Advances	3	2	2	2
Payable (days)	103	111	92	92
Cash Conversion Cycle	133	107	118	118
Asset Turnover	1.4	1.6	1.4	1.3
Net Debt/ Equity	0.5	0.2	0.1	0.0
<b>Return Ratios:</b>				
RoCE (%)	14.3	18.8	20.1	18.8
Core RoCE (%)	15.1	20.2	21.9	21.6
RoE (%)	13.6	16.6	16.3	15.0
<b>Valuation Ratios:</b>				
P/E (x)	16.5	11.6	10.1	9.6
P/BV (x)	2.1	1.8	1.5	1.3
EV/EBITDA (x)	10.7	7.3	6.4	5.7
EV/Sales (x)	1.2	1.0	0.9	0.9

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	73934
52-wk Hi/Lo (Rs)	:	206 / 100
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	3,167,949
Shares o/s (mn)	:	632

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	17,876	25,247	28,081
Growth (%)	23.4	41.2	11.2
EBITDA	4,131	5,554	6,964
EBITDA margin (%)	23.1	22.0	24.8
PAT	3,779	4,837	5,789
EPS	6.0	7.7	9.2
EPS Growth (%)	16.3	28.0	19.7
BV (Rs/share)	36	36	36
Dividend/share (Rs)	4.0	6.1	7.3
ROE (%)	15.0	21.2	25.2
ROCE (%)	14.9	21.1	25.0
P/E (x)	19.6	15.3	12.8
EV/EBITDA (x)	11.9	8.8	7.1
P/BV (x)	3.3	3.2	3.2

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	52.0	52.0	52.0
FII	4.4	4.3	5.6
DII	26.9	27.3	26.6
Others	16.6	16.4	15.7

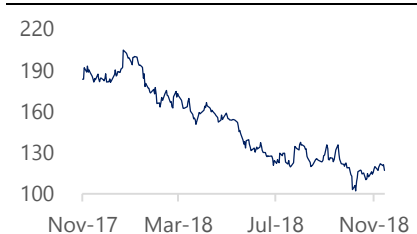
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Engineers India	0.7	(2.4)	(23.1)
Nifty	1.0	(7.5)	(2.1)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

## ENGINEERS INDIA LTD (EIL)

PRICE RS.117

TARGET RS.155

BUY

EIL Q2FY19 result met our estimates on improved execution in LSTK (Lump sum turnkey division) division. Order inflows remained strong in the quarter; current order backlog reported at record Rs 114.6 Bn imply four to five years of revenue visibility.

### Key Highlights

- Revenue grew 58.8% y/y, reported at Rs 6.8 Bn in Q2FY19 driven by the LSTK (Lumpsum turnkey projects) division. This led to sharp contraction in EIL reported EBITDA margin to 13.4% vis-à-vis 32.4% in Q2FY18. Also, Q2FY18 EBITDA included provision write back of Rs 374 mn which is not present in Q2FY19.
- In Q2FY19, PMC division reported sales at Rs 3.3 Bn (flat y/y). EBIT margin for the segment contracted to 29% vis-à-vis 31.8% in Q2FY18. LSTP division revenues grew substantially to Rs 3.4 Bn in Q2FY19 vis-à-vis Rs 960 mn in Q2FY18.

### Valuation & Outlook

We believe that EIL stock is trading at extremely cheap valuation at PER 10.8x FY20 core earnings. Broadly maintain estimates and reiterate BUY with unchanged target price of Rs 155.

### Quarterly financials

(Rs mn)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
<b>Revenues</b>	<b>6814</b>	<b>4291</b>	<b>58.8</b>	<b>5733</b>	<b>18.9</b>
Employee expenses	1834	1888	(2.8)	1847	(0.7)
Sub-Contract Payments	1298	138	842.4	777	67.1
Construction Material	2014	110	1724.5	1586	27.0
Other expenses	753	766	(1.6)	660	14.1
Total Expenses	5899	2901	103.3	4870	21.1
<b>EBITDA</b>	<b>915</b>	<b>1390</b>	<b>(34.2)</b>	<b>864</b>	<b>5.9</b>
Other income	614	467	31.7	522	17.7
Depreciation	57	62	(7.9)	55	3.6
<b>EBIT</b>	<b>1472</b>	<b>1794</b>	<b>(18.0)</b>	<b>1331</b>	<b>10.6</b>
Net Interest	4	1		2	
<b>PBT</b>	<b>1468</b>	<b>1793</b>	<b>(18.1)</b>	<b>1329</b>	<b>10.5</b>
Total tax	491	602	(18.5)	462	6.2
<b>PAT</b>	<b>978</b>	<b>1191</b>	<b>(17.9)</b>	<b>867</b>	<b>12.8</b>
<b>EPS (Rs)</b>	<b>1.5</b>	<b>1.9</b>	<b>(17.9)</b>	<b>1.4</b>	<b>12.8</b>
EBITDA (%)	13.4	32.4		15.1	(10.9)
Tax Rate (%)	33.4	33.6		34.8	(3.9)

Source: Company

### Result Highlights

Revenue grew 58.8% y/y, reported at Rs 6.8 Bn in Q2FY19 driven by the LSTK (Lumpsum turnkey projects) division. This led to sharp contraction in EIL reported EBITDA margin to 13.4% vis-à-vis 32.4% in Q2FY18. We highlight that LSTK is a high volume/ low margin business for the company. Also, Q2FY18 EBITDA included provision write back of Rs 374 mn which is not present in Q2FY19.

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In Q2FY19, PMC division reported sales at Rs 3.3 Bn (flat y/y). EBIT margin for the segment contracted to 29% vis-à-vis 31.8% in Q2FY18. Within PMC division, domestic and overseas business accounted to revenues of Rs 2.9 Bn and c. Rs 434 mn respectively. LSTP division revenues grew substantially to Rs 3.5 Bn in Q2FY19 vis-à-vis Rs 960 mn in Q2FY18.

EBIT margin in LSTK division reported at c.5% (quarterly aberration, we do not read much into the y/y margin contraction) in the quarter. Q2FY18 financials included Rs 374 mn write back w.r.t contractual obligations (one-off item). Other income reported at Rs 614 mn in the quarter against Rs 467 mn in Q2FY18.

### Segment Results

(Rs mn)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Consultancy & Engineering projects	3323	3330	(0.2)	3223	3.1
Lumpsum Turnkey Projects	3490	960	263.6	2510	39.0

#### Consultancy & Engineering projects

Consultancy & Engineering projects	965	1057	(8.7)	900	7.2
Lumpsum Turnkey Projects	175	486	(64.0)	147	18.8

#### Segment Margins %





Consultancy & Engineering projects	29.0	31.8		27.9	
Lumpsum Turnkey Projects	5.0	50.6		5.9	

Source: Company

EIL's order backlog, reported at Rs 114.6 Bn at the end of 1HFY19 (+29% y/y). EIL recently won Rs 50 Bn order from HPCL for execution of Barmer Rajasthan Greenfield refinery project. The order is split into Rs 11.8 Bn of PMC (Project management & consulting) job and balance into LSTK (Lump sum turnkey project). As per management, execution of this order would start in the Q4FY19 and major revenue shall flow in FY20/21.

Currently, PMC order book amounts to Rs 48.9 Bn (42.7% of total order book) and turnkey orders amounts to Rs 65.7 Bn. In the quarter, order inflows remained robust, reported at Rs 56 Bn- RS 13.2 Bn in the consulting division and Rs 42.9 Bn in the LSTK division.

### Key orders secures in 1HFY19

Domestic					
	Project scope	Client	Contract Value (Rs. Million)	Award Date	Completion Date
<b>TURNKEY</b>					
	Execution of Residual Utilities and Offsites for Rajasthan Refinery Project on Open Book Estimate(OBE) Basis	HPCL Rajasthan Refinery Limited (HRRL)	42920	Q2, FY18 -19	Q3 FY22-23
<b>CONSULTANCY</b>					
	PMC Services for Execution of Rajasthan Refinery Project (RRP)	HPCL Rajasthan Refinery Limited (HRRL)	11822	Q2, FY18 -19	Q4 FY23-24
<b>ABRPL</b>	EPCM Services for Bio-Refinery Project at Numaligarh	Assam Bio-Refinery Pvt Ltd (ABRPL)	440	Q2, FY18 -19	Q4 FY20-21
<b>Overseas</b>					
<b>CONSULTANCY</b>					
	PMC Services for Hail- Full Field Development -FFD	ADOC, Japan	40.5	Q2, FY18 -19	Q1 FY19-20
	Quantitative Risk Analysis for Suhar Refinery New Crude Oil Tank and Single Buoy Mooring	ORPIC, Oman	34.8	Q2, FY18 -19	Q1 FY18-19

Source: Company

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

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

Source: Company, Kotak Securities – Private Client Research

### Acquisition of PDIL to bring synergy in the fertilizer business; management dismisses the threat of misuse of its cash reserves

EIL has recently made a bid for acquiring 100% stake in another public undertaking-PDIL Ltd. Currently PDIL is under the Ministry of Chemicals & Fertilizers. Founded in 1978, PDIL provides design engineering and consultancy services. It serves fertilizer and allied chemical industries, oil and gas sector, power and infrastructure sectors in India and internationally.

Without divulging the valuation details, EIL management has posed confidence in PDIL being value accretive in the long term. As per management, PDIL has an efficient employee base and EIL could enhance PDIL's reach into new geographies.

EIL other investments till date includes: 1/ Rs 3.4 Bn for 26% stake in Ramagundam Fertilizer plant (as of date Rs 2.4 Bn in already infused) 2/ Rs 600 mn in oil blocks (Rs 220 mn written off against this investment). Management stated that the company is not looking for major acquisitions in the near term and has reassured that the inorganic initiatives would be in line with company's core operations in-Hydrocarbons, Fertilizers, Water Management and Smart Cities.

We believe that the street has been skeptical about company's cash reserves (amounting to c. Rs 25 Bn), getting diverted towards recapitalization of other government owned sick companies. Management, however has dismissed any such threat to its cash reserves and has maintained that the company shall maintain its dividend payout at current 80% level.

### Valuation and Recommendation

We believe that EIL stock is trading at extremely cheap valuation at PER 10.8x FY20 core earnings. Broadly maintain estimates and reiterate BUY with unchanged target price of Rs 155.

#### Valuation Table

	Rs mn (FY20)
Core PAT	4,565
PER (x)	16
Net Cash	24816
Target valuation	97855
Target Valuation (Target Price) per share (Rs)	155

Source: Kotak Securities – Private Client Research

**Company background**

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

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>14,486</b>	<b>17,876</b>	<b>25,247</b>	<b>28,081</b>
% change yoy	(4.1)	23.4	41.2	11.2
<b>EBITDA</b>	<b>3,022</b>	<b>4,131</b>	<b>5,554</b>	<b>6,964</b>
% change yoy	53.3	36.7	34.5	25.4
Depreciation	225	238	236	245
<b>EBIT</b>	<b>2,797</b>	<b>3,892</b>	<b>5,318</b>	<b>6,719</b>
% change yoy	62.3	39.2	36.6	26.3
Net Interest	32	6	6	6
Other Income	2236.6	1795	1800	1800
Earnings Before Tax	5,002	5,682	7,113	8,513
% change yoy	16.5	13.6	25.2	19.7
Tax	1,751	1,902	2,276	2,724
as % of EBT	35.0	32.0	32.0	32.0
Extraordinary Income	0	0	0	0
<b>Recurring PAT</b>	<b>3,250</b>	<b>3,779</b>	<b>4,837</b>	<b>5,789</b>
% change yoy	10.0	16.3	28.0	19.7
<b>EPS (Rs)</b>	<b>5.1</b>	<b>6.0</b>	<b>7.7</b>	<b>9.2</b>
DPS (Rs)	3.2	4.0	6.1	7.3
CEPS	5.5	6.4	8.0	9.5

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBT	5,002	5,682	7,113	8,513
Depreciation	225	238	236	245
Current liabilities incl provisions	2,071	6,185	1,070	1,912
Increase in inventory	10	-	-	-
Increase in sundry Debtors	(67)	(1,619)	(914)	(714)
Increase in advances	14	4	(7)	(8)
Other Current Assets	(121)	(487)	(1,977)	(776)
Tax Paid	(1,751)	(1,902)	(2,276)	(2,724)
Other Adjustments	(801)	689	0	0
<b>Net cash from operations</b>	<b>4,582</b>	<b>8,790</b>	<b>3,244</b>	<b>6,448</b>
Purchase of fixed Assets	(55)	(212)	(386)	(395)
Net investments	(4,943)	2,967	-	-
Other investment activities	(655)	(285)	1272	(1)
<b>Net cash from investing</b>	<b>(5,652)</b>	<b>2,470</b>	<b>886</b>	<b>(396)</b>
Change in Borrowings	0	0	0	0
Dividend Paid	(2,438)	(3,048)	(4,666)	(5,585)
Issue of common equity	-	(6,500)	-	-
<b>Net Cash from financing act</b>	<b>(2,438)</b>	<b>(9,548)</b>	<b>(4,666)</b>	<b>(5,585)</b>
Net Cash Flow	(3,509)	1,711	(537)	466
<b>Cash at the end of year</b>	<b>23,105</b>	<b>24,816</b>	<b>24,279</b>	<b>24,746</b>

Source: Company, Kotak Securities – Private Client Research

### Balance Sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	23,105	24,816	24,279	24,746
Accounts receivable	3,831	5,449	6,364	7,078
Loans & advances	108	103	111	118
Other current assets	4,454	4,940	6,917	7,693
Current Assets	8,392	10,493	13,391	14,890
Net fixed assets	2,231	2,204	2,354	2,504
Investments	5,695	2,728	2,728	2,728
Other non-current assets	3763	4062	2790	2791
<b>Total Assets</b>	<b>43,186</b>	<b>44,303</b>	<b>45,543</b>	<b>47,659</b>
Debt	-	-	-	-
Equity & reserves	27,760	22,679	22,849	23,053
Other liabilities	211	224	224	224
Current Liabilities	15,216	21,400	22,470	24,382
<b>Total Liabilities</b>	<b>43,186</b>	<b>44,303</b>	<b>45,543</b>	<b>47,659</b>
BVPS	43.9	35.9	36.2	36.5

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	20.9	23.1	22.0	24.8
EBIT margin (%)	19.3	21.8	21.1	23.9
Net profit margin (%)	22.4	21.1	19.2	20.6
Adjusted EPS growth (%)	10.0	16.3	28.0	19.7
Receivables (days)	96.5	111.3	92.0	92.0
Sales / Net Fixed Assets (x)	6.1	7.2	9.8	10.5
Debt/ equity ratio	-	-	-	-
ROE (%)	11.6	15.0	21.2	25.2
ROCE (%)	11.6	14.9	21.1	25.0
EV/ Sales	3.4	2.7	1.9	1.7
EV/EBITDA	16.3	11.9	8.8	7.1
Price to earnings (P/E)	22.7	19.6	15.3	12.8
Price to book value (P/B)	2.7	3.3	3.2	3.2
Price to cash earnings	21.3	18.4	14.6	12.3

Source: Company, Kotak Securities – Private Client Research

## Company Update

### Stock Details

Market cap (Rs mn)	:	12252
52-wk Hi/Lo (Rs)	:	478 / 262
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	15,488
Shares o/s (mn)	:	36

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	4,529	5,475	6,175
Growth (%)	22.1	20.9	12.8
EBITDA	907	1,014	1,188
EBITDA margin (%)	20.0	18.5	19.2
Net profit (adjusted)	487	561	650
Adjusted EPS (Rs)	13.5	15.6	18.1
Growth (%)	17.9	15.3	15.9
Book value (Rs/share)	68.9	82.0	97.7
Dividend per share (Rs)	2.0	2.0	2.0
ROE (%)	23.6	20.7	20.1
ROCE (%)	30.4	28.2	28.3
P/E (x)	24.8	21.5	18.6
EV/EBITDA (x)	13.1	12.1	10.0
P/BV (x)	4.9	4.1	3.4

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	65.3	65.3	65.3
FII	0.0	0	0.0
DII	6.7	6.7	5.6
Others	28.0	28.0	29.0

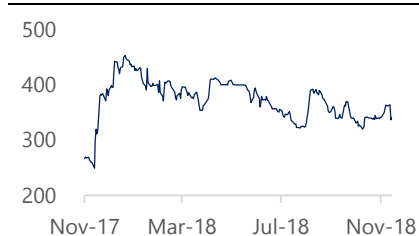
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Sterling Tools	(0.2)	(11.7)	(15.0)
Nifty	1.0	(7.5)	(2.1)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## STERLING TOOLS LIMITED (STL)

PRICE Rs.335

TARGET Rs.361

ACCUMULATE

STL reported strong YoY growth in revenues. However, rising raw material prices impacted EBITDA and PAT. Company's 2QFY19 results came in better than estimated on account of healthy revenue growth.

### Key result highlights

STL reported revenue of Rs1,393 mn, 21% growth over corresponding period last year. Volume growth in the commercial vehicle/ two wheeler segment and higher demand for models catered to by the company (in the passenger vehicle segment) supported growth. On the back of steep increase in raw material prices (in the past 12 months), EBITDA margin declined from 22.9% in 2QFY18 to 19.2% in 2QFY19. Given subdued EBITDA growth, PAT in the quarter grew by mere 3.5% as against 21% increase in revenue.

### Outlook and Valuation

For STL, majority revenue comes from supplying fasteners to the domestic OEM's across segments. Companies in the commercial vehicle and the tractor segment has indicated towards positive demand sentiments. While growth has slowed down in the two wheeler and passenger vehicle segment, we expect the same to improve gradually in the coming quarters. Overall, we expect positive YoY revenue growth trend for the company to continue going ahead. Given input cost pressures, we expect EBITDA margin for the company to witness contraction in FY19. We retain ACCUMULATE rating on the stock with revised price target of Rs361 (earlier Rs418).

### Quarterly performance

(Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)
<b>Revenues</b>	<b>1,393</b>	<b>1,150</b>	<b>21.2</b>	<b>1,313</b>	<b>6.2</b>
Total expenditure	1,126	887	27.0	1,060	6.2
RM consumed	565	413	37.0	538	5.1
Employee cost	83	80	3.3	93	(10.6)
Power & Fuel Charges	104	89	17.2	88	17.6
Consumption of stores and spares	115	91	26.1	107	7.3
Other expenses	259	214	21.1	234	10.7
<b>EBITDA</b>	<b>267</b>	<b>263</b>	<b>1.7</b>	<b>252</b>	<b>5.9</b>
EBITDA margin (%)	19.2	22.9	-	19.2	-
Depreciation	46	43	6.2	46	1.3
Interest cost	7	9	(25.6)	7	(6)
Other Income	17	21	(18.5)	19	(9.8)
Exceptional gain / (loss)					
<b>PBT</b>	<b>231</b>	<b>231</b>	<b>0.1</b>	<b>218</b>	<b>5.9</b>
PBT margins (%)	16.6	20.1		16.6	
Tax	79	84	(5.8)	78	1.3
Tax rate (%)	34.1	36.3	-	35.7	-
<b>Reported PAT</b>	<b>152</b>	<b>147</b>	<b>3.5</b>	<b>140</b>	<b>8.4</b>
PAT margins (%)	10.9	12.8	-	10.7	-
<b>EPS (Rs)</b>	<b>4.2</b>	<b>4.1</b>	<b>3.5</b>	<b>3.9</b>	<b>8.4</b>

Source: Company

## Result Highlights

- Revenue in the quarter grew by 21% YoY from Rs1,150mn in 2QFY18 to Rs1,393mn in 2QFY19. During the quarter, vehicle production growth for the commercial vehicle segment, three wheeler and two wheeler segment grew by 36%, 35% and 10% respectively. Commercial vehicle and two wheeler segments accounts for more than 40% of the revenues. On a QoQ basis, revenue grew by 6%. Sequentially vehicle production across two wheeler, passenger vehicle and commercial vehicle segment grew by 5-6%.
- Despite robust growth in revenue, EBITDA growth in the quarter remained muted. On the back of increased raw material cost, gross margins in the quarter declined from 64.1% in 2QFY18 to 59.4% in 2QFY19. While the company has input cost increase pass through clause with the clients, the same happens with a lag and in some instances the company has to absorb a part of cost increase. In 2QFY19, the company took price increase with majority of its customers.
- Other income witnessed decline YoY and QoQ. Company reported flat PBT in the quarter. PAT for the quarter came in at Rs152mn, grew 3.5% YoY. Sequentially, PAT grew by 8.4%.

## Outlook and Valuation

In 2QFY19, YoY production growth for the commercial vehicle segment remained high and the three wheeler segment. Two wheeler segment too posted double-digit YoY vehicle production growth in 2QFY19. Companies in the commercial vehicle and the tractor segment has indicated towards positive demand sentiments. While growth has slowed down in the two wheeler and passenger vehicle segment, we expect the same to improve gradually in the coming quarters.

As compared with 1HFY19; we expect YoY revenue growth for STL to be lower. Overall, we expect positive YoY revenue growth trend for the company to continue going ahead. Given input cost pressures, we expect EBITDA margin for the company to witness contraction in FY19. While the company has input cost increase pass through clause with the clients, the same happens with a lag and in some instances the company has to absorb a part of cost increase. We revise our estimates lower to factor in cost pressure and company's capex plan.

STL is in the process of setting up its fourth manufacturing plant in Bangalore. For the plant, the company has already acquired 10 acres and the total initial investment will be Rs900mn for an initial capacity of 5,000-6,000 MT per annum. Company's current installed plant capacity stands at ~50,000-55,000 MT and the existing plant is operational at optimal utilization (40,000-44,000 MT per annum).

We retain ACCUMULATE rating on the stock with revised price target of Rs361 (earlier Rs418). We value the stock at PE of 20x (earlier 22x) FY20E earnings. We cut our multiples in view of higher cost pressure and cut in earnings growth.

## Change in estimates

Rs mn	FY19			FY20		
	Old	New	% chg	Old	New	% chg
Revenues	5,129	5,475	6.7	5,822	6,175	6.1
EBITDA margin (%)	20.3	18.5	-	20.7	19.2	-
Adjusted PAT	581	561	(3.4)	685	650	(5.0)

Source: Kotak Securities – Private Client Research



### Key Risk

- **Slowdown in automobile demand** – STL's sales is largely dependent on OEM's. Any slowdown in sales will impact STL's financial performance,
- **Raw material cost increase** – STL has cost pass through clause with its customers but negotiation time-frame varies between 3 months to 12 months. Thereby in an event of increasing raw material price, the pass through will likely happen with a lag, thereby impacting margins and earnings in the intermediate term. Furthermore, some customers does not pass on full increase in input cost and the same needs to be absorbed by the company.

### Company background

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

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>3,709</b>	<b>4,529</b>	<b>5,475</b>	<b>6,175</b>
% change YoY	0.4	22.1	20.9	12.8
<b>EBITDA</b>	<b>757</b>	<b>907</b>	<b>1,014</b>	<b>1,188</b>
% change YoY	22.3	19.8	11.8	17.2
Depreciation	166	176	183	224
<b>EBIT</b>	<b>590</b>	<b>731</b>	<b>831</b>	<b>964</b>
% change YoY	21.8	23.8	13.8	16.0
Net interest	56	38	30	25
Other Income	69	56	62	61
Exceptional income/(loss)	0	0	0	0
<b>Profit before tax</b>	<b>604</b>	<b>749</b>	<b>864</b>	<b>1,001</b>
% change YoY	38.9	24.1	15.3	15.9
Tax	212	263	302	350
as % of PBT	35.1	35.1	35.0	35.0
Profit after tax	392	487	561	650
<b>Adjusted PAT</b>	<b>392</b>	<b>487</b>	<b>561</b>	<b>650</b>
% change YoY	36.1	24.1	15.3	15.9
Shares outstanding (m)	34	36	36	36
<b>Adjusted EPS (Rs)</b>	<b>11.5</b>	<b>13.5</b>	<b>15.6</b>	<b>18.1</b>
DPS (Rs)	2.0	2.0	2.0	2.0

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	590	731	831	964
Depreciation	166	176	183	224
Change in working capital	(10)	(119)	(90)	(88)
Change in other net current asset	168	(86)	22	4
Operating cash flow	915	702	946	1,104
Interest	(56)	(38)	(30)	(25)
Tax	(202)	(267)	(302)	(350)
Other Income	69	56	62	61
EO income	-	-	-	-
Others	(1)	(5)	1	-
<b>Cash flow from operations</b>	<b>725</b>	<b>448</b>	<b>677</b>	<b>790</b>
Capex	(319)	(213)	(952)	(400)
(Increase)/decrease in investments	(120)	(545)	435	(250)
<b>Cash flow from investments</b>	<b>(439)</b>	<b>(759)</b>	<b>(517)</b>	<b>(650)</b>
Proceeds from issue of equities	-	4	-	-
Increase/(decrease) in debt	(290)	(59)	(78)	(50)
Proceeds from share premium	0	439	-	-
Dividends	(82)	(87)	(87)	(87)
<b>Cash flow from financing</b>	<b>(372)</b>	<b>298</b>	<b>(165)</b>	<b>(137)</b>
Opening cash	115	28	15	10
<b>Closing cash</b>	<b>28</b>	<b>15</b>	<b>10</b>	<b>13</b>

Source: Company, Kotak Securities – Private Client Research

### Balance Sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	28	550	110	363
Accounts receivable	342	455	525	592
Inventories	459	545	650	729
Loans and Adv & Others	154	225	243	263
Current assets	984	1,774	1,528	1,948
LT investments	179	189	189	189
Net fixed assets	1,546	1,584	2,353	2,530
<b>Total assets</b>	<b>2,709</b>	<b>3,547</b>	<b>4,070</b>	<b>4,666</b>
Payables	286	365	450	508
Other liabilities	205	182	200	220
Current Liabilities	491	547	650	728
Provisions	18	25	48	53
Deferred Tax Liability	157	152	152	152
Debt	402	343	265	215
Equity	68	72	72	72
Reserves	1,574	2,408	2,883	3,446
<b>Total liabilities</b>	<b>2,709</b>	<b>3,547</b>	<b>4,070</b>	<b>4,666</b>
BVPS (Rs)	48	69	82	98

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Margins</b>				
EBITDA margin (%)	20.4	20.0	18.5	19.2
EBIT margin (%)	15.9	16.1	15.2	15.6
Adj. net profit margin (%)	10.6	10.7	10.3	10.5
<b>Working capital days</b>				
Inventory (days)	45	44	43	43
Receivable (days)	34	37	35	35
Payable (days)	28	29	30	30
<b>Ratios</b>				
Debt/equity ratio (x)	0.2	0.1	0.1	0.1
ROE (%)	26.4	23.6	20.7	20.1
ROCE (%)	30.2	30.4	28.2	28.3
<b>Valuations</b>				
EV/ Sales	3.2	2.6	2.2	1.9
EV/EBITDA	15.9	13.1	12.1	10.0
Price to earnings (P/E)	29.2	24.8	21.5	18.6
Price to book value (P/B)	7.0	4.9	4.1	3.4

Source: Company, Kotak Securities – Private Client Research

## Result Update

# TALBROS AUTOMOTIVE LIMITED (TBA)

### Stock Details

Market cap (Rs mn)	:	2928
52-wk Hi/Lo (Rs)	:	354 / 195
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	20,460
Shares o/s (mn)	:	12

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	3,930	4,919	5,528
Growth (%)	21.0	25.2	12.4
EBITDA	408	554	649
EBITDA margin (%)	10.4	11.3	11.7
Adjusted Net profit	207	278	353
Adjusted EPS (Rs)	16.8	22.5	28.6
Growth (%)	69.7	33.8	27.1
Book value (Rs/share)	145	166	193
Dividend per share (Rs)	1.5	1.5	1.5
ROE (%)	12.4	14.4	15.9
ROCE (%)	11.2	12.9	14.0
P/E (x)	14.1	10.5	8.3
EV/EBITDA (x)	10.0	7.7	6.3
P/BV (x)	1.6	1.4	1.2

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	56.6	56.6	56.6
FII	0.1	0.1	0.1
DII	2.0	2.0	2.0
Others	41.2	41.2	41.3

Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Talbro Automotive	0.8	(18.6)	(20.8)
Nifty	1.0	(7.5)	(2.1)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE Rs.237

TARGET Rs.400

BUY

TBA reported robust growth in revenue, EBITDA and net profit. Volume growth coupled with new order execution translated into strong growth for the company. Overall results came in ahead of our estimates.

### Key Highlights

Consolidated revenue for the company grew by 27% YoY, to Rs1,283mn. Despite input cost pressure, the company reported YoY and QoQ improvement in EBITDA margin. Led by 49% increase in EBITDA, TBA reported 60% YoY growth in adjusted net profit. Consolidated revenue only includes standalone gasket and forging revenue; as for joint venture, under IndAS, the net profit is taken in share of profit from JV/associates.

### Outlook and Valuation

Company's revenue growth looks strong with contribution from all businesses/joint ventures. In the gasket business, increasing auto sales coupled with BSVI is expected to drive revenue. In the forging business and Marelli Talbro Chassis Systems (MMT) JV, various order wins is expected to translate into high revenue growth. EBITDA margin is expected to improve on the back of cost control measures and operating leverage benefits. At the CMP, the stock is available at a PE of 8.3x on FY20E earnings. We maintain BUY rating on the stock with revised price target of Rs400 (earlier Rs396).

### Quarterly performance - Consolidated

(Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)
<b>Revenues</b>	<b>1,283</b>	<b>1,008</b>	<b>27.3</b>	<b>1,232</b>	<b>4.2</b>
Total expenditure	1,136	909	25.0	1,098	3.5
RM consumed	724	590	22.7	688	5.1
Employee cost	147	126	17.2	151	(2.3)
Other expenses	265	194	36.7	259	2.5
<b>EBITDA</b>	<b>147</b>	<b>99</b>	<b>48.6</b>	<b>134</b>	<b>9.6</b>
EBITDA margin (%)	11.5	9.8	-	10.9	-
Depreciation	45	35	30.3	39	15.4
Interest cost	39	35	11.3	38	3
Other Income	9	8	22.5	9	4.9
Exceptional gain / (loss)		22			
<b>PBT</b>	<b>72</b>	<b>58</b>	<b>23.5</b>	<b>66</b>	<b>9.5</b>
PBT margins (%)	5.6	5.8		5.3	
Tax	24	11	121.2	24	(0.3)
Tax rate (%)	33.8	18.8	-	37.1	-
Share of profit in JV	29	22	29.6	21	38.3
<b>Reported PAT</b>	<b>76</b>	<b>69</b>	<b>10.0</b>	<b>62</b>	<b>48.1</b>
PAT margins (%)	6.0	6.9	-	5.0	-
<b>EPS (Rs)</b>	<b>6.2</b>	<b>5.6</b>	<b>10.0</b>	<b>5.0</b>	<b>23.0</b>

Source: Company

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## Consolidated Result Highlight

- TBA's consolidated revenue in the quarter stood at Rs1,283mn, 27% higher over 2QFY18. Consolidated revenue only includes standalone gasket and forging revenue; as for joint venture, under IndAS, the net profit is taken in share of profit from JV/associates. Standalone gasket business revenue in 2QFY19 stood at Rs852mn. In the forgings business, revenue grew by 58% YoY to Rs460mn, led by execution of orders won by the company in recent past. During the quarter under review, commercial vehicle and two wheeler vehicle production grew by 36% and 10% respectively. In 1HFY19, 64% of domestic revenues came from the commercial vehicle and two wheeler segment.
- Consolidated EBITDA in 2QFY19 came in at Rs147mn, 49% growth over same quarter last year. Growth in EBITDA came in from 27% revenue growth and 164bps expansion in EBITDA margin. Gross margins increased YoY on account of price hikes taken with the OEM's, improved internal efficiencies and lower 2QFY18 base. Consolidated adjusted PAT in the quarter grew by 60% YoY to Rs76mn. Share of profit from JV's increased YoY from Rs22mn to Rs30mn.
- Nippon Leakless Talbros (NLT) JV revenue in the quarter increased 8% YoY to Rs338mn (TBA's share is 40% in the JV). EBITDA declined by 4% YoY and PAT grew by 4% YoY. NLT JV revenue JV comes primarily from selling gasket to two wheeler segment with Hero Moto Corp and Honda Motorcycle and Scooters India as their key customers.
- Marelli Talbros Chassis Systems (MMT) JV reported 40% YoY growth in revenue led by volume growth at Maruti Suzuki and new business wins. EBITDA doubled YoY to Rs38mn for the JV (includes other income) and PAT for the JV grew by 132% YoY.
- Talbros Marugo Rubber (TMR) revenue grew by 40% YoY, supported by Japanese partner buy back of JV's product. EBITDA for this JV increased by 71% YoY and the JV posted net profit of Rs2mn as against loss of Rs2mn in 2QFY18.

## Outlook and Valuation

In the gasket business, the company remains the market leader with ~40 % market share. Management believes that investment in technology is giving the company edge over competitors. In this business, the company is working on BSVI compliant engine gasket. With BSVI, the content per vehicle of gasket is expected to increase by ~25-30% for the CV segment. In exports, the company expects growth to come from various orders won by the company (order win to supply has a lead time of 18-24 months). Company is working on reducing import dependence of raw material by working on post coated gasket. In heat shield the company won an order of USD2mn from a European OEM and the same is expected to start getting executed in CY19.

Forging business has been growing at a high rate in the past few quarters and we expect strong order book to translate into robust revenue growth in 2HFY19 and FY20. Company recently installed the 500 ton press and 2500 ton press is expected to be commissioned in 1QFY20. Execution of new orders is expected to drive revenue in this business (eg. Dana Spicer).

For MMT JV, execution of JLR order, new business with Maruti Suzuki and other domestic OEM's is expected to lead to revenue growth for the JV. Further, management highlighted about improved visibility on the RE60 offtake from CY2019.

EBITDA margin is expected to improve on the back of cost control measures and operating leverage benefits.

We revise our revenue estimates upwards to factor in update on new orders. We also revise our below EBITDA line items in line with 1HFY19 performance.

At the CMP, the stock is available at a PE of 8.3x on FY20E earnings. We maintain BUY rating on the stock with revised price target of Rs400 (earlier Rs396).

### Change in estimates

(Rs mn)	FY19			FY20		
	Old	New	% chg	Old	New	% chg
Revenues	4,566	4,919	7.7	5,150	5,528	7.4
EBITDA margin (%)	10.8	11.3	-	11.5	11.7	-
Adjusted PAT	266	278	4.4	349	353	0.9

Source: Kotak Securities – Private Client Research

### Company background

Talbro Automotive Components Limited, the flagship manufacturing company of the Group, manufactures automotive & industrial Gaskets in collaboration with Coopers Payen of UK. Currently company manufactures gaskets & heat shields, forgings, suspension systems, anti-vibration components and hoses. TBA has three joint ventures – Nippon Leakless Talbro Pvt. Ltd (JV partner - Leakless Corporation – Japan), Magneti Marelli Talbro Chassis Systems Pvt. Ltd. (JV partner - Magneti Marelli - Italy) and Talbro Marugo Rubber Pvt. Ltd. (JV partner - Marugo Rubber - Japan). In terms of revenue (as per Indian Gaap), 60% of revenues comes from gaskets, 26% from forging, 10% from MMT JV and 4% from TMR JV.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>3,249</b>	<b>3,930</b>	<b>4,919</b>	<b>5,528</b>
% change YoY	-17.1	21.0	25.2	12.4
<b>EBITDA</b>	<b>315</b>	<b>408</b>	<b>554</b>	<b>649</b>
% change YoY	-27.2	29.8	35.8	17.0
Depreciation	123	142	170	187
<b>EBIT</b>	<b>191</b>	<b>266</b>	<b>385</b>	<b>462</b>
% change YoY	-31.4	39.1	44.5	20.0
Net interest	159	139	162	166
Other Income	64	63	42	48
Exceptional income/(loss)	0	22	0	0
<b>Profit before tax</b>	<b>96</b>	<b>211</b>	<b>265</b>	<b>344</b>
% change YoY	-32.1	119.4	25.5	29.7
Tax	21	52	88	111
as % of PBT	22.3	24.4	33.1	32.4
Share of profit/(loss) from asso	47.4	69.2	100.0	120.0
Profit after tax	122	229	278	353
<b>Adjusted PAT</b>	<b>122</b>	<b>207</b>	<b>278</b>	<b>353</b>
% change YoY	5.0	69.7	33.8	27.1
Shares outstanding (m)	12	12	12	12
<b>Adjusted EPS (Rs)</b>	<b>9.9</b>	<b>16.8</b>	<b>22.5</b>	<b>28.6</b>
DPS (Rs)	1.5	1.5	1.5	1.5

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	191	266	385	462
Depreciation	123	142	170	187
Change in working capital	187	(8)	(248)	(160)
Chg in other net current asset	127	(62)	(6)	(5)
Operating cash flow	629	337	300	484
Interest	(159)	(139)	(162)	(166)
Tax / Deferred tax	(65)	(37)	(88)	(111)
Other Income	64	63	42	48
EO income / Others	137	54	-	-
Profit from JV	47	69	100	120
<b>Cash flow from operations</b>	<b>653</b>	<b>347</b>	<b>193</b>	<b>375</b>
Capex	(114)	(249)	(339)	(150)
(Inc)/decrease in investments	(496)	(94)	-	-
<b>Cash flow from investments</b>	<b>(610)</b>	<b>(343)</b>	<b>(339)</b>	<b>(150)</b>
Proceeds from issue of equities	-	-	-	-
Increase/(decrease) in debt	(42)	30	179	(100)
Proceeds from share premium	-	-	-	-
Dividends	(22)	(22)	(22)	(22)
<b>Cash flow from financing</b>	<b>(64)</b>	<b>8</b>	<b>157</b>	<b>(122)</b>
Opening cash	86	66	78	88
<b>Closing cash</b>	<b>66</b>	<b>78</b>	<b>88</b>	<b>191</b>

Source: Company, Kotak Securities – Private Client Research

### Balance Sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	66	78	88	191
Accounts receivable	897	1,242	1,482	1,666
Inventories	988	1,092	1,345	1,522
Loans and Adv & Others	241	296	320	345
Current assets	2,191	2,708	3,235	3,723
LT investments	568	662	662	662
Net fixed assets	1,173	1,281	1,451	1,413
<b>Total assets</b>	<b>3,933</b>	<b>4,650</b>	<b>5,348</b>	<b>5,799</b>
Payables	931	1,372	1,617	1,818
Other liabilities	168	153	167	182
Current Liabilities	1,099	1,526	1,784	1,999
Provisions	39	46	50	55
Deferred Tax Liability	27	42	42	42
Debt	1,213	1,243	1,422	1,322
Equity	123	123	123	123
Reserves	1,431	1,671	1,926	2,256
<b>Total liabilities</b>	<b>3,933</b>	<b>4,650</b>	<b>5,348</b>	<b>5,799</b>
BVPS (Rs)	126	145	166	193

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Margins</b>				
EBITDA margin (%)	9.7	10.4	11.3	11.7
EBIT margin (%)	5.9	6.8	7.8	8.4
Adj. net profit margin (%)	3.8	5.3	5.6	6.4
<b>Working capital days</b>				
Inventory (days)	111	101	100	100
Receivable (days)	101	115	110	110
Payable (days)	105	127	120	120
<b>Ratios</b>				
Debt/equity ratio (x)	0.8	0.7	0.7	0.6
ROE (%)	8.5	12.4	14.4	15.9
ROCE (%)	9.4	11.2	12.9	14.0
<b>Valuations</b>				
EV/ Sales	1.3	1.0	0.9	0.7
EV/EBITDA	12.9	10.0	7.7	6.3
Price to earnings (P/E)	23.9	14.1	10.5	8.3
Price to book value (P/B)	1.9	1.6	1.4	1.2

Source: Company, Kotak Securities – Private Client Research

## Result Update

### Stock Details

Market cap (Rs mn)	:	26584
52-wk Hi/Lo (Rs)	:	349 / 163
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	1,82,671
Shares o/s (mn)	:	141

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	19,317	18,468	23,436
Growth (%)	25.3	(4.4)	26.9
EBITDA	3,861	3,372	3,869
EBITDA margin (%)	20.0	18.3	16.5
PAT	2,718	1,710	1,893
EPS	18.1	12.2	13.5
EPS Growth (%)	51.7	(33.0)	10.7
BV (Rs/share)	82	94	107
Dividend/share (Rs)	0.9	0.6	0.7
ROE (%)	24.8	13.8	13.4
ROCE (%)	22.5	13.5	14.7
P/E (x)	10.5	15.6	14.1
EV/EBITDA (x)	7.4	8.5	7.4
P/BV (x)	2.3	2.0	1.8

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	55.4	55.4	55.4
FII	3.4	3.8	4.3
DII	28.0	28.1	28.7
Others	13.3	12.8	11.7

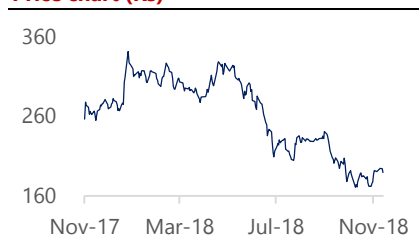
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
KNR Constructions	6.4	(17.4)	(38.1)
Nifty	1.0	(7.5)	(2.1)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

## KNR CONSTRUCTIONS LTD

PRICE Rs.190

TARGET Rs.235

BUY

KNR Q2FY19 results was ahead of our estimates led by better than estimated execution in old projects and strong margins.

### Key Highlights

- Revenue for the quarter grew by 5.8% yoy to Rs 4.1 bn (Vs estimates of Rs 3.5 bn) led by better than estimated execution in its older road and irrigation projects which boost revenue for the quarter.
- EBITDA margin at 20% was ahead of our estimates on account of higher margin in EPC projects and contribution from projects nearing completion.
- KNR has an order book of Rs 56.1 bn (including estimated EPC component of 5 HAM projects). The company has maintained its target to add Rs 20-25 bn of new projects from road space in FY19E.

### Outlook and Valuation

- The company management has maintained its revenue guidance for FY19E at over Rs18bn and guided for over Rs 23 bn revenue in FY20E, and guided for EBITDA margins of 14-15% in the longer run.
- We have upgraded our EPS estimates for FY19E based on good execution in Q2FY19 and cut estimates for FY20E factoring in delay in land acquisition related risks. The EPC business (adjusted for Rs 33 per share value of BOT) is available at a PE of 12.9x and 11.7x based on FY19E and FY20E revised EPS of Rs 12.2 and Rs 13.5 per share, respectively. We maintain our Buy rating on the stock with revised SOTP based target price of Rs 235 (Vs Rs 283 earlier).

### Quarterly performance

Year to March (INR mn)	Q2FY19	Q2FY18	% Chg	Q1FY19	% Chg
<b>Net Revenues</b>	<b>4,163</b>	<b>3,933</b>	<b>5.8</b>	<b>5,564</b>	<b>(25.2)</b>
Raw Materials & Construction Cost	2,630	2,511	4.7	3,585	(26.6)
Gross Profit	1,533	1,422	7.8	1,978	(22.5)
Employee Expenses	249	193	29.4	196	27.2
Other Expenses	452	405	11.8	684	(33.9)
Operating Expenses	3,331	3,109	7.2	4,465	(25.4)
<b>EBITDA</b>	<b>831</b>	<b>825</b>	<b>0.8</b>	<b>1,099</b>	<b>(24.3)</b>
EBITDA margin (%)	20.0	21.0		19.7	
Depreciation	393	235	66.9	360	9.1
Other income	88	27	227.6	178	(50.4)
Net finance expense	74	43	74.3	72	3.2
Profit before tax	453	574	(21.1)	844	(46.4)
Provision for taxes	3	(17)	(115.8)	104	-
<b>Net profit</b>	<b>450</b>	<b>591</b>	<b>(23.8)</b>	<b>740</b>	<b>(39.2)</b>
Net Profit Margins (%)	10.8	15.0		13.3	
Tax rate (% of PBT)	0.6	(2.9)		12.3	

Source: Company

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### **Q2FY19 revenue ahead of estimates**

The standalone net revenue for the quarter was ahead of our estimates and grew at 5.8% yoy to Rs 4.2 bn as against estimates of Rs 3.5 bn. The growth in revenue for the quarter was driven by better than estimated execution in its older road and irrigation projects which boost revenue for the quarter.

Based on execution timeline of its old projects in the order book (excluding HAM), the company expects Rs 9 bn of revenue in H2FY19 which will include Rs 2 bn revenue from HAM projects which is expected to start in Q4FY19. Based on this, the company has maintained its revenue guidance for FY19E at over Rs 18bn and guides for a sharp growth in FY20E with Rs 23 bn plus revenue (Vs earlier guidance of Rs 25 bn plus).

### **EBITDA above estimates due to contribution from near completion projects**

EBITDA margin at 20% was ahead of our estimates of 16% on account of higher margin in EPC projects and contribution from projects nearing completion. As a result, EBITDA for the quarter stood at Rs 831 mn, up 0.8% yoy on a high base of last year. The company expects EBITDA margins to be in the range of 14-15% in the longer run. PAT for the quarter declined by 23.8% yoy to Rs 450 mn (vs our estimates of Rs 155 mn). The company targets for lower tax rate of 10% and 15% in FY19E and FY20E respectively as it would continue to claim 80IA tax benefits on its older projects and has deferred tax assets.

### **Order book at Rs 56 bn gives strong revenue growth visibility in FY20E**

KNR has robust order book of Rs 56 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 18.3 bn is expected to be completed in next 12-18 months. The present order book is largely concentrated in southern region comprising 90% 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 1.7 to 1.8 mn per day (Vs Rs 1.5 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 has received sanction letter from banks for its four NHAI HAM projects and is confident of achieving financial closure of its HAM projects in next three to 6 months. The company is required to infuse ~Rs 4.4 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. 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

### Concall highlights

- The company has Rs 2.4 bn of standalone debt at the end of the quarter which includes Rs 2.13 bn of promoter debt.
- The working capital cycle at the end of the quarter was 25 days
- The company expect awarding of KSHIP HAM project in next one month. This is 75: 25 project (75% grant) hence achieving financial closure is not an issue.
- All 5 HAM projects require Rs 4.4 equity infusion. Of this Rs 3.88 bn is required in NHAH HAM project. By March 2019, the company is required to infuse 200 bn equity infusion and balance depends upon execution. The company can fund the same with internal accruals and investment.

### Outlook and valuation

KNR has track record of generating positive operating cash flows which would help it in funding HAM projects. The company management has maintained its revenue guidance for FY19E at over Rs18bn and guided for over Rs 23 bn revenue in FY20E and guided for EBITDA margins of 14-15% in the longer run. We have upgraded our EPS estimates for FY19E based on good execution in Q2FY19 and cut estimates for FY20E factoring in some delay in appointed date due to land acquisition hurdles. The EPC business (adjusted for Rs 33 per share value of BOT) is available at a PE of 12.9x and 11.7x based on FY19E and FY20E revised EPS of Rs 12.2 and Rs 13.5 per share, respectively. We have valued KNR's EPC business at 15x FY20E EPS (Vs 16x 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 235 (Vs Rs 283 earlier).

### Revision in Estimates

Particulars Rs Mn	Previous		Revised		Chg %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	18400	26540	18468	23436	0.4	(11.7)
EBITDA	2906	4105	3372	3869	16.1	(5.8)
EBITDA Margin%	15.2	15.7	18.3	16.5	306 bps	81 bps
Adj PAT	1415	2192	1710	1893	20.8	(13.6)
Adj EPS (Rs)	10.1	15.6	12.2	13.5	20.8	(13.6)

Source: Kotak Securities Private Client Research

### Valuation Table

Segment	Parameter	Multiple (x)	Per Share (Rs)
Standalone Construction Business	PE	15	202
Road BOT	BV of equity	1	33
Consol KNR	Value		235

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>18,468</b>	<b>23,436</b>
% change yoy	70.7	25.3	(4.4)	26.9
Direct Cost	11,145	12,854	12,220	16,211
Employee Cost	552	721	901	1,028
Other Expenses	1,417	1,880	1,974	2,329
Total Expenses	13,115	15,455	15,095	19,568
<b>EBITDA</b>	<b>2,296</b>	<b>3,861</b>	<b>3,372</b>	<b>3,869</b>
% change yoy	47.7	68.2	(12.7)	14.7
Depreciation	639	1,344	1,548	1,616
<b>EBIT</b>	<b>1,657</b>	<b>2,517</b>	<b>1,824</b>	<b>2,252</b>
Other Income	303	393	393	393
Interest	219	231	318	337
Profit Before Tax	1,741	2,679	1,900	2,309
% change yoy	34	54	(29)	22
Tax	60	(39)	190	416
as % of EBT	3.4	(1.5)	10.0	18.0
<b>PAT</b>	<b>1,790</b>	<b>2,718</b>	<b>1,710</b>	<b>1,893</b>
% change yoy	4.3	61.7	(37.1)	10.7
Shares outstanding (mn)	141	141	141	141
<b>EPS (Rs)</b>	<b>12.0</b>	<b>18.1</b>	<b>12.2</b>	<b>13.5</b>
DPS (Rs)	0.6	0.9	0.6	0.7
CEPS (Rs)	15.7	27.7	23.2	25.0
BVPS (Rs)	63.7	82.3	93.9	106.6

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	1,900	2,309
Depreciation	639	1,344	1,548	1,616
Change in WC	788	(1,511)	(1,063)	(704)
Other operating activities	(346)	(1,005)	(190)	(416)
<b>Operating Cash Flow</b>	<b>2,605</b>	<b>1,338</b>	<b>2,195</b>	<b>2,806</b>
Capex	(1,439)	(2,658)	(1,200)	(1,000)
Free Cash Flow	1,165	(1,319)	995	1,806
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)	(89)	(98)
Other Financing activity	(22)	276	-	-
<b>CF from Financing</b>	<b>170</b>	<b>903</b>	<b>511</b>	<b>(398)</b>
Change in Cash	(132)	193	306	(92)
Opening Cash	378	246	438	745
<b>Closing Cash</b>	<b>246</b>	<b>439</b>	<b>745</b>	<b>652</b>

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	12,918	14,713
Net worth	8,955	11,578	13,199	14,994
Borrowings	1,441	2,200	2,800	2,500
<b>Total Liabilities</b>	<b>10,395</b>	<b>13,778</b>	<b>15,999</b>	<b>17,494</b>
Gross Block	6,403	9,076	10,276	11,276
Accumulated Depreciation	3,796	5,140	6,688	8,304
Net block	2,607	3,936	3,588	2,971
Capital work in progress	15	0	0	0
Total fixed assets	2,622	3,936	3,588	2,971
Investments	5,966	5,356	6,556	8,056
Inventories	574	712	1,012	1,605
Sundry debtors	1,640	2,320	2,218	2,815
Cash and equivalents	246	439	745	652
Loans and advances & Others	3,465	4,499	4,999	4,999
Total current assets	5,924	7,969	8,974	10,071
Sundry creditors and others	5,341	5,696	5,313	5,779
Provisions	128	184	203	223
Total CL & provisions	5,470	5,880	5,515	6,002
Net current assets	455	2,089	3,458	4,070
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>15,999</b>	<b>17,494</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	14.9	20.0	18.3	16.5
EBIT margin (%)	10.8	13.0	9.9	9.6
Net profit margin (%)	11.6	14.1	9.3	8.1
Adjusted EPS growth (%)	80.0	51.7	(33.0)	10.7
Receivables (days)	39	44	44	44
Inventory (days)	14	13	20	25
Loans & Advances (days)	82	85	99	78
Payable (days)	127	108	105	90
Net Working Capital (days)	8	35	58	57
Asset Turnover	1.5	1.6	1.3	1.5
Net Debt/ Equity	0.1	0.2	0.2	0.1
RoCE (%)	18.3	22.5	13.5	14.7
RoE (%)	19.3	24.8	13.8	13.4
P/E (x)	15.9	10.5	15.6	14.1
P/BV (x)	3.0	2.3	2.0	1.8
EV/EBITDA (x)	12.2	7.4	8.5	7.4
EV/Sales (x)	1.8	1.5	1.6	1.2

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
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