Morning Insight

AUGUST 16, 2018

	14-Aug	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	37,852	0.6	3.6	6.5
NIFTY Index	11,435	0.7	3.8	5.8
NSEBANK Index	28,022	0.8	4.0	5.8
NIFTY 500 Index	9,726	0.7	4.0	3.6
CNXMcap Index	19,239	1.2	5.3	(0.2)
BSESMCAP Index	16,743	0.5	3.4	(5.1)
World Indices				
Dow Jones	25,162	(0.5)	0.4	1.6
Nasdaq	7,774	(1.2)	(0.4)	5.1
FTSE	7,498	(1.5)	(1.3)	(3.1)
NIKKEI	22,204	(0.7)	(1.7)	(2.2)
Hangseng	22,204	(0.7)	(1.7)	(2.2)
Shanghai	27,324	(1.5)	(4.3)	(12.2)

Value traded (Rs cr)	14-Aug	% Chg Day
Cash BSE	2,773	3.1
Cash NSE	31,003	5.8
Derivatives	749,496	(44.6)

Net inflows (Rs cr)	13-Aug	MTD	YTD
FII	(926)	1,876	(1,534)
Mutual Fund	15	155	72,753

Nifty Gainers & Losers 14-Aug	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Sun Pharma	602	6.7	25.0
Yes Bank Ltd	383	3.2	12.4
Lupin Ltd	837	3.1	3.2
Losers			
UPL Ltd	610	(2.4)	2.6
Hero MotoCorp	3,266	(1.3)	0.2
L&T	1,253	(1.3)	2.2

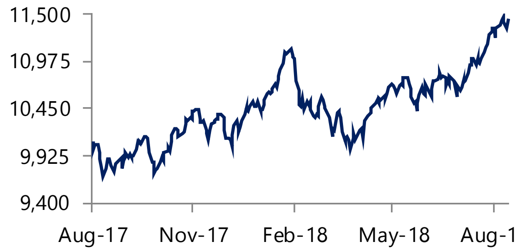
Advances / Declines (BSE)

14-Aug	A	B	T	Total	% total
Advances	254	471	51	776	100
Declines	174	585	65	824	106
Unchanged	4	16	15	35	5

Commodity	14-Aug	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (US$/BBL)	71.2	0.6	(0.9)	(10.2)
Gold (US$/OZ)	1,175	(1.6)	(5.6)	(9.2)
Silver (US$/OZ)	14.4	(4.1)	(8.3)	(11.6)

Debt / forex market	14-Aug	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.8	7.8	7.8
Re/US$	69.9	69.9	68.6	67.5

Nifty



Source: Bloomberg

News Highlights

- The trade deficit increased to US$18.02 billion in July, up from US$16.61 billion in June. This was primarily fuelled by a jump in the crude oil import bill, which rose more than 57 per cent. (BS)
- **Reliance Industries Limited** said it has undertaken a short shutdown of one of the units at its Jamnagar facility to 'assure reliability and integrity' of operations. While the company did not specify the nature of the issue, the development is understood to have prevented the company from meeting its gasoline exports contract from the Jamnagar facility. (ToI)
- **JSW Steel** has made the highest bid for **Bhushan Power & Steel** in the second round of bidding for the asset in going through the insolvency process. JSW's revised offer stands at Rs 193.5 billion, up from Rs 110 billion submitted in February. (BS)
- The much-touted deal between **Fortis Healthcare Ltd** and Malaysia-based IHH group will most likely go through, with 99.69 per cent of votes by shareholders in favour of the deal. (BL)
- **Siyaram Silk Mills** has commenced commercial production of Dyed Yarn (Indigo) at its Unit at Amravati having an installed annual production capacity of 2,500 MT. (BL)
- **Allcargo Logistics** is in initial round of talks to acquire a controlling stake in express logistics company Gati, As per news sources, talks on valuations are yet to reach final stages. (ET)
- **Jet Airways (India) Ltd** has approached a consortium of lenders led by the State Bank of India (SBI) to raise Rs 50 bn in order to pay off part of its foreign debt. (Mint)
- **IL&FS Transportation Networks (ITNL)** is looking at a mix of asset sale, fund raising, debt refinance and some renegotiated contracts to tide over its troubles. (BS)
- **MMTC Ltd** is aiming at trading in new commodities like engineering goods, drugs and pharmaceuticals as well as minor minerals. The planned foray into new commodities signals the company's diversification strategy to go beyond its proven strength. (BS)
- **ICICI Bank** has intensified efforts to settle the alleged conflict of interest issue involving Chanda Kochhar with Sebi and intends to file a consent application. (BS)
- **Monsanto India** has said that the lawsuit in the US will not have a material impact on the company. Earlier, BloombergQuint had reported that Monsanto was asked to pay $289 million in damages by the San Francisco State Court in the first trial over claims that its Roundup weed killer causes cancer. BL

What's Inside

- **Result Update:** FIEM Industries Ltd, Talbros Automotive Ltd, Cochin Shipyard Ltd, NBCC (India) Ltd, Oil India Ltd, Asian Granito India Ltd, Greaves Cotton

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)	:	9833
52-wk Hi/Lo (Rs)	:	1065 / 737
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	4,446
Shares o/s (mn)	:	13

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	12,384	14,683	16,619
Growth (%)	21.7	18.6	13.2
EBITDA	1,407	1,544	1,824
EBITDA margin (%)	11.4	10.5	11.0
Adjusted Net profit	491	567	713
Adjusted EPS (Rs)	37.3	43.1	54.2
Growth (%)	4.4	15.4	25.8
Book value (Rs/share)	341	384	428
Dividend per share (Rs)	9.0	9.0	9.0
ROE (%)	11.3	11.9	13.4
ROCE (%)	15.1	15.5	17.2
P/E (x)	20.1	17.4	13.8
EV/EBITDA (x)	8.0	7.6	6.2
P/BV (x)	2.2	2.0	1.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoter	63.6	63.6	63.6
FII	14.2	14.3	14.3
DII	8.1	8.0	8.3
Others	14.1	14.1	13.9

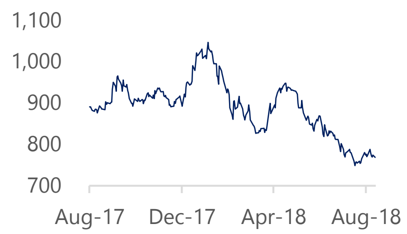
Source: Company

Price Performance (%)

(%)	1M	3M	6M
FIEM Industries	(3.5)	(12.9)	(18.4)
Nifty	3.8	5.8	8.9

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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FIEM INDUSTRIES LTD (FIEM)

PRICE RS.745 **TARGET RS.1030** **BUY**

FIEM reported strong revenue growth; however increase in raw material cost impacted operational performance in the quarter.

Key result highlights

FIEM reported revenue of Rs3,604mn, 24% higher over 1QFY18. Growth in revenue was ahead of 15% YoY production growth witnessed by two wheeler companies in 1QFY19. FIEM's top two customers by revenue – HMSI and TVSM reported 12% and 16% YoY increase in production respectively. Sharp increase in raw material prices led to YoY and QoQ decline in EBITDA margin in the quarter. FIEM's 1QFY19 PAT came in at Rs126mn, 22% growth YoY.

Outlook and Valuation

Two wheeler industry is witnessing strong demand, supported by continued demand for scooters and good monsoon leading to pick-up in motorcycle demand. With more than 90% of revenues coming by supplying products to the two wheeler segment, FIEM is expected to benefit from growing two wheeler demand. Further, over the medium to longer term, we expect company's clients to outperform industry growth and that is expected to be positive for FIEM. Over the next two-three years, we expect the two wheeler industry to witness meaningful shift from halogen headlamps getting to LED headlamps. FIEM's EBITDA margin in 1QFY19 was below expectation on account of steep impact of raw material cost increase and INR depreciation. As FIEM initiates price increase with the customers, we expect the impact of raw material cost on margins to subside. Given below expected EBITDA margin in 1QFY19, we lower our FY19/FY20 earnings estimate. We retain BUY on the stock with revised price target of Rs1,030 (earlier 1,214).

Quarterly performance

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenues	**3,604**	**2,907**	**23.9**	**3,352**	**7.5**
Total expenditure	3,242	2,599	24.7	2,987	8.5
RM consumed	2,252	1,746	28.9	2,038	10.5
Employee cost	495	405	22.2	442	12.0
Other expenses	494	448	10.4	507	(2.4)
EBITDA	**362**	**308**	**17.5**	**365**	**(0.8)**
EBITDA margin (%)	10.0	10.6	-	10.9	-
Depreciation	119	107	11.1	112	6.8
Interest cost	54	60	(9.9)	50	8
Other Income	3	18	(83.1)	8	(63.2)
Exceptional gain / (loss)				34	
PBT	**192**	**159**	**20.9**	**245**	**(21.8)**
PBT margins (%)	5.3	5.5		7.3	
Tax	65	55	18.6	92	(29.1)
Tax rate (%)	34.1	34.8	-	37.6	-
Reported PAT	**126**	**103**	**22.1**	**153**	**(17.4)**
PAT margins (%)	3.5	3.6	-	4.6	-
EPS (Rs)	**9.6**	**7.9**		**11.6**	**(17.4)**

Source: Company

Result Highlights

FIEM's 1QFY19 stood at Rs3,604mn, 24% growth YoY. In the auto segment, revenue grew by 22% YoY to Rs3,581mn on the back of strong 15% YoY two wheeler production growth. TVSM's top two clients (accounting for ~70% revenues) – HMSI and TVSM reported 12% and 16% YoY increase in production. We believe program's to which FIEM is a supplier witnessed stronger growth and helped the company outpace OEM production growth. Other customers (individually accounting or 4-6% of FIEM's revenue) like Suzuki and Royal Enfield too reported robust YoY production growth of 37% and 22% respectively in the quarter. LED luminaries segment (revenue of Rs22mn in 1QFY19) performance continued to stay weak for the company.

EBITDA for the quarter came in at Rs362mn, 18% growth over 1QFY18. However, EBITDA was 5% below our estimate, impacted by sharp increase in raw material prices. In the quarter, raw material cost (as a % of sales) moved up from 60.1% in 1QFY18 and 60.8% in 4QFY18 to 62.5%. Increase in crude oil prices and INR depreciation led to higher raw material cost. Increase in employee cost relates to annual increment and manpower addition (to support high growth). Operating leverage benefit limited the impact of high raw material cost. EBITDA margin the quarter declined from 10.6% in 1QFY18 and 10.9% in 4QFY18 to 10% in 1QFY19.

PAT for the quarter stood at Rs126mn, growth of 22% over same period last year. Lower other income in the quarter impacted PAT growth to some extent. PAT was below our estimate on account of higher raw material cost and lower other income.

Outlook and Valuation

Two wheeler industry is witnessing strong demand, supported by continued demand for scooters and good monsoon leading to pick-up in motorcycle demand. Demand outlook for the two wheeler industry looks optimistic. With more than 90% of revenues coming by supplying products to the two wheeler segment, FIEM is expected to benefit from growing two wheeler demand. Further, over the medium to longer term, we expect company's clients to outperform industry growth and that is expected to be positive for FIEM. Over the next two-three years, we expect the two wheeler industry to witness meaningful shift from halogen headlamps getting to LED headlamps, with the process already started. FIEM is supplying LED headlamps to HMSI (Activa 5G) and Yamaha (FZ25, R15). Higher price of LED headlamp will contribute towards revenue and earnings growth, going ahead.

FIEM's EBITDA margin in 1QFY19 was below expectation on account of steep impact of raw material cost increase and INR depreciation. While the company compensated its vendors for higher input cost, the pass through with customers happens with a lag of 2-3 quarters. As FIEM initiates price increase with the customers, we expect the impact of raw material cost on margins to subside.

Given below expected EBITDA margin in 1QFY19, we lower our FY19/FY20 earnings estimate. We retain BUY on the stock with revised price target of Rs1,030 (earlier 1,214). We value the stock at a PE of 19x (earlier 20x) on FY20E earnings.

Change in estimates

	FY19			FY20		
Rs mn	**Old**	**New**	**% chg**	**Old**	**New**	**% chg**
Revenues	14,683	14,683	-	16,619	16,619	-
EBITDA margin (%)	11.5	10.5	-	11.7	11.0	-
Adjusted PAT	665	567	(14.7)	799	713	(10.7)

Source: Kotak Securities – Private Client Research

Risk and Concerns

Slowdown in two wheeler demand - For FIEM, majority revenues comes from two wheeler segment. Slowdown in two wheeler demand will have bearing on FIEM's revenues and earnings estimates.

High dependence on few clients - FIEM's revenue dependence is high on Honda Motorcycle and Scooters India (HMSI) and TVS Motors (TVSM). Slowdown in sales for HMSI and TVSM can have significant impact on FIEM's financial performance.

Company background

FIEM is one of the leading manufacturers of automotive lighting and signaling equipment for the two wheeler segment in India. Apart from automotive lighting, FIEM's product portfolio comprises of rear view mirrors, sheet metal parts and plastic components for two /four wheeler segment. FIEM generates ~95% of its revenues from the automotive business and ~5% comes from the LED segment. Within the automotive space, FIEM is largely an OEM focused company with 87% of revenues coming from domestic OEM's and two wheeler segment accounts for 95% of revenues. For FIEM, Honda Motorcycle and Scooters India Limited (HMSI) and TVS Motors (TVSM) are the top clients. In the LED business, the company has presence in LED luminaries and Integrated Passenger Information System (IPIS). FIEM has nine plants across India catering to various clients.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**10,174**	**12,384**	**14,683**	**16,619**
% change YoY	3.1	21.7	18.6	13.2
EBITDA	**1,174**	**1,407**	**1,544**	**1,824**
% change YoY	(7.5)	19.8	9.8	18.1
Depreciation	392	443	498	543
EBIT	**782**	**963**	**1,046**	**1,281**
% change YoY	(16.8)	23.2	8.6	22.5
Net interest	232	227	214	223
Other Income	47	45	48	50
Exceptional income/(loss)	(142)	34	-	-
Profit before tax	455	816	881	1,108
% change YoY	(42.5)	79.3	8.0	25.8
Tax	126	290	313	394
as % of PBT	27.7	35.6	35.6	35.6
Profit after tax	329	526	567	713
Adjusted PAT	**471**	**491**	**567**	**713**
% change YoY	(17.7)	4.4	15.4	25.8
Shares OS (mn)	13.2	13.2	13.2	13.2
Adjusted EPS (Rs)	**35.8**	**37.3**	**43.1**	**54.2**
DPS (Rs)	8.0	9.0	9.0	9.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,062	206	296	305
Accounts receivable	1,188	1,452	1,730	1,958
Inventories	1,024	1,403	1,614	1,826
Loans and Adv & Others	638	674	747	817
Current assets	3,912	3,735	4,386	4,906
LT investments	7	9	270	270
Net fixed assets	4,980	5,607	5,709	5,766
Total assets	**8,899**	**9,351**	**10,365**	**10,941**
Payables	1,504	2,197	2,092	2,368
Other liabilities	451	575	581	661
Current Liabilities	1,955	2,772	2,673	3,029
Provisions	65	64	83	83
Deferred Tax Liability	396	438	438	438
Debt	2,250	1,587	2,114	1,764
Equity	132	132	132	132
Reserves	4,102	4,358	4,925	5,496
Total liabilities	**8,899**	**9,351**	**10,365**	**10,941**
BVPS (Rs)	322	341	384	428

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	782	963	1,046	1,281
Depreciation	392	443	498	543
Change in working capital	(369)	51	(594)	(164)
Chg in other net current asset	(348)	88	(48)	10
Operating cash flow	458	1,545	902	1,670
Interest	(232)	(227)	(214)	(223)
Tax	(27)	(247)	(313)	(394)
Other Income	47	45	48	50
EO income	(142)	34	-	-
Others	43	(142)	142	-
CF from operations	**147**	**1,008**	**565**	**1,102**
Capex	(1,102)	(1,071)	(600)	(600)
(Inc)/dec in investments	(833)	640	(261)	-
CF from investments	**(1,936)**	**(431)**	**(861)**	**(600)**
Proceeds from issue of equities	12	(0)	0	-
Inc/(dec) in debt	850	(663)	528	(350)
Proceeds from share premium	1,162	-	-	-
Dividends	(43)	(127)	(143)	(143)
CF from financing	**1,981**	**(790)**	**385**	**(493)**
Opening cash	37	228	15	105
Closing cash	228	15	105	114

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	11.5	11.4	10.5	11.0
EBIT margin (%)	7.7	7.8	7.1	7.7
Adj. net profit margin (%)	4.6	4.0	3.9	4.3
Working capital days				
Inventory (days)	37	41	40	40
Receivable (days)	43	43	43	43
Payable (days)	54	50	52	52
Ratios				
Debt/equity ratio (x)	0.5	0.4	0.4	0.3
ROE (%)	13.5	11.3	11.9	13.4
ROCE (%)	14.7	15.1	15.5	17.2
Valuations				
EV/ Sales	1.1	0.9	0.8	0.7
EV/EBITDA	9.4	8.0	7.6	6.2
Price to earnings (P/E)	21.0	20.1	17.4	13.8
Price to book value (P/B)	2.3	2.2	2.0	1.8

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	3589
52-wk Hi/Lo (Rs)	:	354 / 181
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	18,527
Shares o/s (mn)	:	12

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	3,930	4,566	5,150
Growth (%)	21.0	16.2	12.8
EBITDA	408	494	591
EBITDA margin (%)	10.4	10.8	11.5
Adjusted Net profit	207	266	349
Adjusted EPS (Rs)	17	22	28
Growth (%)	69.7	28.1	31.5
Book value (Rs/share)	145	162	188
Dividend per share (Rs)	1.5	1.5	1.5
ROE (%)	12.4	14.0	16.1
ROCE (%)	11.5	12.5	14.1
P/E (x)	17.3	13.5	10.3
EV/EBITDA (x)	11.5	9.8	7.8
P/BV (x)	2.0	1.8	1.5

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	56.6	56.6	56.6
FII	0.1	0.1	0.1
DII	2.0	2.0	2.0
Others	41.2	41.3	41.3

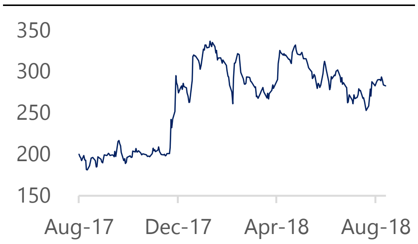
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Talbros Automotive	4.8	(2.9)	(9.2)
Nifty	3.8	5.8	8.9

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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TALBROS AUTOMOTIVE LTD (TBA)

PRICE RS.291 **TARGET RS.396** **BUY**

TBA reported robust revenue growth and strong EBITDA margin YoY. Robust demand and execution of recent order wins helped the company report significant growth in net profit.

Key Highlights

Consolidated revenue for TBA grew by 54% YoY to Rs1,232mn. 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. Consolidated EBITDA grew by 91% YoY to Rs134mn. Strong revenue growth coupled with operating leverage led to EBITDA margin expand from 8.8% in 1QFY18 to 10.9% in 1QFY19 – in line with our estimate of 11%. Consolidated PAT grew from Rs27mn in 1QFY18 to Rs62mn in 1QFY19.

Outlook and Valuation

TBA's revenue growth outlook is looking strong on the back of healthy auto demand across segments and new order wins by the company. TBA is expected to witness high revenue growth in forging division and MMT JV. We expect strong revenue growth to translate into operating leverage benefit for the company and thereby factor in gradual improvement in EBITDA margin. At the CMP, the stock is available at attractive valuation. We retain BUY on the stock with unchanged price target of Rs396.

Quarterly performance - Consolidated

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Revenues	**1,232**	**800**	**53.9**	**1,102**	**11.8**
Total expenditure	1,098	730	50.3	973	12.8
RM consumed	688	426	61.6	622	10.7
Employee cost	151	124	21.2	131	15.2
Other expenses	259	180	43.7	221	17.2
EBITDA	**134**	**70**	**91.3**	**128**	**4.6**
EBITDA margin (%)	10.9	8.8	-	11.6	-
Depreciation	39	33	17.4	41	(3.2)
Interest cost	38	34	13.7	35	8
Other Income	9	15	(39.5)	21	(57.6)
Exceptional gain / (loss)					
PBT	**66**	**18**	**270.1**	**73**	**(10.4)**
PBT margins (%)	5.3	2.2		6.6	
Tax	24	6	310.3	14	70.1
Tax rate (%)	37.1	33.5	-	19.5	-
Share of profit in JV	21	16	34.5	17	25.4
Reported PAT	**62**	**27**	**127.5**	**76**	**(55)**
PAT margins (%)	5.0	3.4	-	6.9	-
EPS (Rs)	**5.0**	**2.2**	**127.5**	**6.1**	**(17.8)**

Source: Company

Consolidated Result Highlight

Consolidated revenue for TBA grew by 54% YoY to Rs1,232mn. 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 revenue grew from Rs617mn in 1QFY18 to Rs825mn in 1QFY19. Growth in the gasket business can be attributed to 15% and 68% YoY volume growth in two wheeler and commercial vehicle segment respectively in 1QFY19. For the standalone gasket business, two wheeler and commercial vehicle segment contributed to 31% and 44% of revenue respectively. OEM's accounted for 74% of standalone gasket revenue. Forging business revenue more than doubled YoY from Rs201mn in 1QFY18 to Rs417mn in 1QFY19. Forging segment revenue growth is driven by execution of orders won by the company in the past 12 months. During the quarter, 50% forging revenue came from domestic OEM, 45% from exports and balance 5% from other segments.

Consolidated EBITDA grew by 91% YoY to Rs134mn. Strong revenue growth coupled with operating leverage led to EBITDA margin expand from 8.8% in 1QFY18 to 10.9% in 1QFY19 – in line with our estimate of 11%. On a QoQ basis, EBIDTA margin contracted by 70bps due to increase in other expenses.

Consolidated PAT grew from Rs27mn in 1QFY18 to Rs62mn in 1QFY19. In comparison with 4QFY18, PAT declined due to lower other income (down from Rs21mn to Rs9mn) and higher tax rate (37.1% in 1QFY19 vs 19.5% in 4QFY18). Joint venture (JV) profit share in the quarter stood at Rs21mn, 35% / 25% higher YoY / QoQ respectively.

Nippon Leakless Talbros (NLT) JV revenue increased YoY from Rs300mn to Rs324 (TBA share was Rs130mn). 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. EBITDA for this JV grew by 11% YoY, from Rs53mn to Rs59mn and PAT increased from Rs32mn to Rs40mn YoY.

Marelli Talbros Chassis Systems (MMT) JV revenue grew by 38% YoY, from Rs229mn to Rs315mn. Strong volume growth from Maruti Suzuki and JLR order execution is expected to have driven growth in this JV. MMT JV has significant share of control arms business with Maruti Suzuki and Tata Motors. Led by strong revenue growth, EBITDA grew by 40% YoY (from Rs20mn to Rs28mn) and PAT increased by 81% YoY (from Rs8mn to Rs15mn).

Talbros Marugo Rubber (TMR) revenue grew by 30% YoY, from Rs90mn in 1QFY18 to Rs117mn in 1QFY19, driven by improved volumes for hoses from Maruti Suzuki and start of hoses supply to Marugo Rubber, Japan. With higher volumes, the JV reported turnaround in the quarter. EBITDA increased from Rs6mn to Rs10mn. From loss of Rs3mn in 1QFY18, the JV reported profit of Rs1mn in 1QFY19.

Outlook and Valuation

In the gasket business, growth for the company will be driven by healthy volume growth in domestic demand and new business in exports. In the past few quarters, the company has announced orders from Cummins US, Zetor tractors (Czech Republic) and a non-auto business from Austria. In the heat shield segment, the company has won an order from a European OEM and the same will be executed by end FY19. While this order size is small ($1mn), the development is positive for the company as it has been marketing this product with various OEM's and expects more orders in the future.

Forging business has been one of the fast growing business for the company and the same is expected to continue in the coming quarters as the order book is strong. Going ahead, order from Dana Spicer (annual revenue of Rs350mn) and other new orders (recently won Rs120mn annual revenue order) will drive growth in the forging segment.

In the MMT JV, revenue growth is expected to be driven by volume growth and new business from Maruti Suzuki, improved order visibility from Bajaj Auto for its quadricycle, scale-up of JLR order and other new businesses.

We expect strong revenue growth to translate into operating leverage benefit for the company and thereby factor in gradual improvement in EBITDA margin.

We retain BUY on the stock with unchanged price target of Rs396. We value the stock at a PE of 14x (unchanged) on FY20E earnings.

Company background

Talbros 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 Talbros Pvt. Ltd (JV partner - Leakless Corporation – Japan), Magneti Marelli Talbros Chassis Systems Pvt. Ltd. (JV partner - Magneti Marelli - Italy) and Talbros Marugo Rubber Pvt. Ltd. (JV partner - Marugo Rubber - Japan). In terms of revenue (as per Indian Gaap), 64% of revenues comes from gaskets, 22% 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
Revenues	**3,249**	**3,930**	**4,566**	**5,150**
% change YoY	-17.1	21.0	16.2	12.8
EBITDA	**315**	**408**	**494**	**591**
% change YoY	-27.2	29.8	20.9	19.8
Depreciation	123	142	158	170
EBIT	**191**	**266**	**336**	**421**
% change YoY	-31.4	39.1	26.3	25.2
Net interest	159	139	150	149
Other Income	64	63	66	70
Exceptional income/(loss)	0	22	0	0
Profit before tax	96	211	253	342
% change YoY	-32.1	119.4	19.5	35.4
Tax	21	52	70	92
as % of PBT	22.3	24.4	27.7	27.0
Profit share from JV/associate	47.4	69.2	83.1	99.7
Profit after tax	122	229	266	349
Adjusted PAT	**122**	**207**	**266**	**349**
% change YoY	5.0	69.7	28.1	31.5
Shares outstanding (m)	12	12	12	12
Adjusted EPS (Rs)	**9.9**	**16.8**	**21.5**	**28.3**
DPS (Rs)	1.5	1.5	1.5	1.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	66	78	139	129
Accounts receivable	897	1,242	1,314	1,481
Inventories	988	1,092	1,248	1,405
Loans and Adv & Others	241	296	325	349
Current assets	2,191	2,708	3,026	3,365
LT investments	537	632	632	632
Net fixed assets	1,204	1,310	1,474	1,454
Total assets	**3,933**	**4,650**	**5,132**	**5,451**
Payables	931	1,372	1,439	1,622
Other liabilities	247	223	231	242
Current Liabilities	1,178	1,595	1,670	1,865
Provisions	39	46	46	52
Deferred Tax Liability	27	42	42	42
Debt	1,134	1,173	1,375	1,165
Equity	123	123	123	123
Reserves	1,431	1,671	1,876	2,203
Total liabilities	**3,933**	**4,650**	**5,132**	**5,451**
BVPS (Rs)	126	145	162	188

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	191	266	336	421
Depreciation	123	142	158	170
Change in working capital	187	(8)	(161)	(141)
Chg in other net current asset	206	(72)	(21)	(7)
Operating cash flow	708	328	312	444
Interest	(159)	(139)	(150)	(149)
Tax / Deferred tax	(65)	(37)	(70)	(92)
Other Income	64	63	66	70
EO income / Others	137	55	(38)	-
Profit from JV	47	69	83	100
Cash flow from operations	**732**	**339**	**203**	**372**
Capex	(145)	(248)	(321)	(150)
(Inc)/dec in investments	(465)	(95)	-	-
Cash flow from investments	**(610)**	**(343)**	**(321)**	**(150)**
Proceeds from issue of equities	-	-	-	-
Increase/(decrease) in debt	(121)	39	202	(210)
Proceeds from share premium	-	-	-	-
Dividends	(22)	(22)	(22)	(22)
Cash flow from financing	**(143)**	**17**	**180**	**(232)**
Opening cash	86	66	78	139
Closing cash	66	78	139	129

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	9.7	10.4	10.8	11.5
EBIT margin (%)	5.9	6.8	7.4	8.2
Adj. net profit margin (%)	3.8	5.3	5.8	6.8
Working capital days				
Inventory (days)	111	101	100	100
Receivable (days)	101	115	105	105
Payable (days)	105	127	115	115
Ratios				
Debt/equity ratio (x)	0.7	0.7	0.7	0.5
ROE (%)	8.5	12.4	14.0	16.1
ROCE (%)	9.5	11.5	12.5	14.1
Valuations				
EV/ Sales	1.4	1.2	1.1	0.9
EV/EBITDA	14.8	11.5	9.8	7.8
Price to earnings (P/E)	29.4	17.3	13.5	10.3
Price to book value (P/B)	2.3	2.0	1.8	1.5

Source: Company, Kotak Securities – Private Client Research

Result Update

COCHIN SHIPYARD LTD

PRICE RS.440 **TARGET RS.610** **BUY**

Strong orderbook, strong outlook – Stable performance in the shipbuilding segment, strong performance in the ship-repair segment, marginal weak operational performance and strong order-book were the highlights of the performance of COSH in Q1FY19

Stock Details

Market cap (Rs mn)	:	59961
52-wk Hi/Lo (Rs)	:	599 / 424
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	132,658
Shares o/s (mn)	:	136

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	20,594	23,922	26,735
Growth (%)	3.5	16.2	11.8
EBITDA	3,801	4,979	5,482
EBITDA margin (%)	18.5	20.8	20.5
PAT	3,121	3,701	4,036
EPS	29.4	30.5	33.9
EPS Growth (%)	16.2	11.8	11.7
BV (Rs/share)	235.4	254.1	276.2
Dividend/share (Rs)	12.0	10.0	10.0
ROE (%)	12.5	12.0	12.3
ROCE (%)	13.5	13.5	14.2
P/E (x)	15.0	14.4	13.0
EV/EBITDA (x)	5.7	5.4	4.8
P/BV (x)	1.9	1.7	1.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	75.0	75.0	75.0
FII	3.2	3.5	3.5
DII	11.0	11.1	9.8
Others	10.9	10.4	11.7

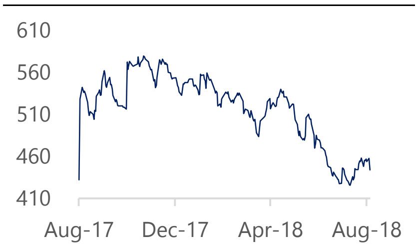
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Cochin Shipyard	0.6	(11.5)	(17.5)
Nifty	3.8	5.8	8.9

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Key Highlights

- Total sales was reported at Rs 6.6 Bn (+9.7% QoQ and +16.5% YoY) with increased contribution of high margin ship-repair business in the total revenues which is healthy for the company. Share of ship-repair was reported at 31% in total revenues (from 28.4% YoY)
- Execution remains strong in the shipbuilding segment, while the ship-repair business remains strong with over 100% utilization of the current facilities.
- EBIDTA margin was under pressure and was reported at 17.5% (down 170bps QoQ and down 430 bps YoY) which is a cause of concern despite shipbuilding contracts having cost escalation clause. Even though the margins have fallen, we believe the current level of operating margins to be healthy for a shipbuilding company with significant government orders.
- Depreciation and interest cost remains low for the company. Both these elements of cost are estimated to increase as COSH constructs a new shipyard and an international ship-repair center.
- Consequently PAT was reported at Rs 1.06 bn (+15.8% QoQ and +16.4% YoY), marginally above aggressive estimate of Rs 1.02 bn. We interpret the results as strong and expect the strong performance to continue in future quarters as well.

Quarterly performance

(Rs mn)	Q1FY18	Q4FY18	Q1FY19	QoQ (%)	YoY (%)
Sales	**5,654**	**6,006**	**6,587**	**9.7**	**16.5**
Raw Material	2,904	2,761	4,423	60.2	52.3
Employee cost	579	829	659	(20.5)	13.8
Other expenditure	939	1,264	353	(72.1)	(62.4)
Total expense	4,422	4,854	5,435	12.0	22.9
EBIDTA	**1,232**	**1,152**	**1,152**	**0.0**	**(6.5)**
EBIDTA (%)	21.8	19.2	17.5		
Depreciation	98	90	84	(6.7)	(14.3)
Interest	26	26	32	23.1	23.1
Other income	297	381	576	51.2	93.9
PBT	**1,405**	**1,417**	**1,612**	**13.8**	**14.7**
Taxes	492	499	549		
PAT	**913**	**918**	**1,063**	**15.8**	**16.4**
Equity	1360	1360	1360		
EPS (Rs)	**6.7**	**6.8**	**7.8**	**15.8**	**16.4**

Source: Company, Kotak Securities – Private Client Research

Valuation & outlook

We believe that COSH is well placed and is ahead of the curve to exploit the massive opportunity that India's defense sector offers in the next few years. Commercial shipbuilding, offshore vessels and ship-repair helps the company beat the cyclicality associated with any one sector. It also has the requisite and

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best-in-class tie-ups. Also, COSH offers the only credible shipyard for investors to India's defense business. We are positive on the company for 1) Recurring orders from Navy and Coast guard and 2) Improvement in the prospects of commercial shipbuilding segment.

However, high bureaucracy/slowness in awarding defense orders from the government, continued weakness in the commercial shipbuilding space, higher commodity prices, INR depreciation and healthy correction in defense stocks in the last 6 months prompt us to lower the multiple awarded to COSH from 21x to 18x on FY20 earnings. Maintain estimates and BUY rating with a revised TP of Rs 610 (from Rs 715).

Segmental performance

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Revenue (Rs mn)					
Shipbuilding	3,983	4,224	4,077	5,035	4,544
Ship repair	1,580	1,609	2,073	971	2,043
Total	5,563	5,833	6,150	6,006	6,587
EBIT (Rs mn)					
Shipbuilding	969	497	1319	1361	775
Ship repair	213	630	287	175	438

Source; Company, Kotak

Shipbuilding has not done well during the quarter, while ship-repair remains strong for the company, both at revenue as well as EBIT level.

Order-book situation is not healthy

COSH currently has a shipbuilding order book of Rs 19.62 bn which gives investors revenue visibility of only one year. Almost 80% of the order-book involves complex work refurbishment of an aircraft carrier, which is a high margin business, estimated to be completed by December 2020.

The company is also a L1 bidder for an order worth Rs 54 bn for 8 Anti-Submarine Warfare- Shallow water vessel from the Indian navy. Management of COSH expects to convert this L1 bid to actual orders within FY19 post completion of formalities with the Indian Navy. This would give revenue visibility upto FY22 for the COSH. Conversion of this L1 order to executable order for COSH is very critical for revenue visibility and we perceive this to be a political risk for the company.

Current order book

Segment	(Rs bn)
Confirmed shipbuilding order book	19.6
Ship-repair order book	3.5
L1 Bid	54.0

Source: Company

Focus on Ship-repair segment

COSH currently has an order-book of Rs 3.5 bn in the ship-repair segment. The company intends to expand in ship-repair segment with an international ship-repair center and increased geographical reach. It has signed up MOUs with various port trust for creation of captive ship-repair facilities in the respective ports with a revenue potential of Rs 10 bn.

MOUs signed by COSH

Partner	Location	For	Investment By COSH	Revenue potential per annum
Mumbai Port trust	Mumbai	Ship-repair	Rs.750 mn	Rs 5 bn
Andaman and Nicobar administration	Andaman	Ship-repair	Rs.1000 mn	Rs 10 bn
Hooghly Dock & Port	Kolkata	Ship-repair	Rs.250 mn	Rs 1 bn

Source: Company. Kotak Securities – Private Client Research

Current capacity to double in 3 years

COSH currently has two docks – dock number one, primarily used for ship repair (Ship Repair Dock) and dock number two, primarily used for shipbuilding (Shipbuilding Dock). The Ship Repair Dock is one of the largest in India and is capable of accommodating vessels with a maximum capacity of 125,000 DWT. While the Shipbuilding Dock can accommodate vessels with a maximum capacity of 110,000 DWT.

The company has raised Rs 9.8 bn through fresh issue of shares leading to 17% dilution. The company would be ramping up its capacity with a third dry-dock (measuring 310 x 75 x 13 Meters) and an international ship-repair center. The capacity addition will enable the company to construct bigger and complex vessels as well as undertake repairs of vessels like LNG carriers, semi-submersibles, jack up rigs, and drill ships. We estimate the new facilities to come-up in the 3 to 5 years and double the capacity of the company. We have drawn a capex plan of Rs 15 bn for the company over FY18 to FY20E for the same. We estimate the balance capex to spill-over beyond FY20E.

Outlook and valuation

COSH is one of the best companies to invest to play in the India's defence sector. We estimate company to report sales CAGR of 11.5% over FY18 to FY20E to Rs 29.87 bn and report earnings CAGR of 7.5% over the same period to Rs 4.68 bn.

However, we are concerned with the high bureaucracy/slowness in awarding defense orders. For instance, COSH is still L1 for eight anti-submarine shallow water craft ships worth Rs 54 bn (since October 2017) and still awaiting final confirmation on the order from the government. Also recently, we have seen de-rating of the stocks catering to the defense sector. Accordingly, we lower the multiple awarded to COSH from 21x to 18x on FY20 earnings. Maintain estimates and BUY rating with a revised TP of Rs 610 (from Rs 715). Lack of fresh orders is the biggest risk for the company.

Company background

Cochin Shipyard (COSH) is wholly-owned Government company, incorporated on March 29, 1972 and were conferred the 'Miniratna' status in 2008, by the Department of Public Enterprise. It is the largest public sector shipyard in India in terms of dock capacity. The company caters to clients engaged in the defence sector in India and clients engaged in the commercial sector worldwide. In addition to shipbuilding and ship repair, COSH also offer marine engineering training.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**20,594**	**23,922**	**26,735**	**29,867**
% change YoY	3.5	16.2	11.8	11.7
Raw material cost	13,141	14,407	16,375	18,219
Employee cost	2,167	2,714	2,807	2,987
Other expenses	1,485	1,822	2,071	2,287
Total Operating expd	16,793	18,943	21,253	23,493
EBITDA	**3,801**	**4,979**	**5,482**	**6,375**
Depreciation	385	759	750	775
EBIT	**3,416**	**4,220**	**4,732**	**5,600**
Other income	1,490	1,600	1,500	1,500
Interest expense	105	95	93	93
Profit before tax	4,801	5,725	6,139	7,006
Tax	1,680	2,023	2,102	2,330
ETR (%)	35.0	35.3	34.2	33.3
Profit after tax	3,121	3,701	4,036	4,676
Minorities& Associates	0	0	0	0
Net income	**3,121**	**3,701**	**4,036**	**4,676**
% change YoY	7.0	28.1	3.9	10.8
Shares outstanding (m)	113	136	136	136
EPS (Rs)	**27.5**	**29.4**	**30.5**	**33.9**

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	21,523	28,379	26,396	24,844
Debtors	3,611	5,020	5,610	5,924
Inventory	1,865	3,178	3,029	3,352
Other current assets	5	5	5	5
Total current assets	5,481	8,203	8,644	9,281
LT investments	2,327	2,500	2,500	2,500
Net fixed assets	4,245	8,783	15,152	20,306
Total assets	**33,576**	**47,866**	**52,692**	**56,932**
Creditors	1,613	2,326	2,505	2,681
Provisions	2,496	3,150	3,301	3,747
Other current liabilties	7,665	8,914	10,833	11,449
Total current liabilities	11,774	14,391	16,638	17,877
LT debt	1,491	1,467	1,495	1,496
Minority Interest	0	0	0	0
Equity Capital	1,133	1,360	1,360	1,360
Reserves	19,177	30,648	33,198	36,198
Networth	20,310	32,008	34,558	37,558
Total liabilities	**33,576**	**47,866**	**52,692**	**56,932**
BVPS (Rs)	179.3	235.4	254.1	276.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	3,121	3,998	4,155	4,605
Depreciation+DTL	385	462	631	846
Change in working capital	(328)	(106)	1,807	601
Cash flow from operations	**3,178**	**4,355**	**6,593**	**6,052**
Capex	(686)	(5,000)	(7,000)	(6,000)
Investments	521	(173)	-	-
Cash flow from investments	**(165)**	**(5,173)**	**(7,000)**	**(6,000)**
Equity issuance	-	9,625	-	-
Debt raised	-	(24)	28	0
Dividend Paid	(1,199)	(1,926)	(1,605)	(1,605)
Miscellanous items	-	-	-	-
Cash flow from financing	**(1,199)**	**7,675**	**(1,576)**	**(1,604)**
Net cash flow	1,813	6,856	(1,983)	(1,552)
Opening cash	19,710	21,523	28,379	26,396
Closing cash	**21,523**	**28,379**	**26,396**	**24,844**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	18.5	20.8	20.5	21.3
EBIT margin (%)	16.6	17.6	17.7	18.7
Net profit margin (%)	15.2	15.5	15.1	15.7
ROE (%)	15.4	12.5	12.0	12.3
ROCE (%)	15.7	13.5	13.5	14.2
DPS	9.0	12.0	10.0	10.0
Dividend payout (%)	38.4	48.2	38.6	34.9
WC turnover (days)	(114.5)	65.2	63.7	65.9
Debt Equity (x)	0.1	0.0	0.0	0.0
PER (x)	16.0	15.0	14.4	13.0
P/C (x)	14.2	13.4	12.5	11.0
Dividend yield (%)	2.0	2.7	2.3	2.3
P/B (x)	2.5	1.9	1.7	1.6
EV/Sales (x)	1.8	1.6	1.4	1.3
EV/ EBITDA (x)	7.1	5.7	5.4	4.8

Source: Company, Kotak Securities – Private Client Research

Result Update

NBCC (INDIA) LTD (NBCC)

PRICE RS.72 **TARGET RS.95** **BUY**

NBCC Q1FY19 results disappointed at operating level though PMC revenue was ahead of our estimates.

Stock Details

Market cap (Rs mn)	:	130230
52-wk Hi/Lo (Rs)	:	146 / 61
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	5,368,003
Shares o/s (mn)	:	1800

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	59,050	75,867	100,972
Growth (%)	(6.0)	28.5	33.1
EBITDA	3,994	5,073	6,576
EBITDA margin (%)	6.8	6.7	6.5
PAT	3,336	4,161	5,247
EPS	1.9	2.3	2.9
EPS Growth (%)	(5.0)	24.7	26.1
Book value (Rs/share)	10.1	11.2	12.6
Dividend per share (Rs)	1.0	1.2	1.5
ROE (%)	19.1	21.7	24.5
ROCE (%)	24.2	28.0	32.3
P/E (x)	38.8	31.1	24.7
EV/EBITDA (x)	28.2	21.5	15.7
P/BV (x)	7.1	6.4	5.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	73.7	74.3	74.5
FII	4.9	4.4	5.8
DII	9.9	10.6	9.9
Others	11.5	10.7	9.8

Source: Company

Price Performance (%)

(%)	1M	3M	6M
NBCC India Ltd	10.5	(26.4)	(30.9)
Nifty	3.8	5.8	8.9

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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Key Highlights

- The standalone net revenue for the quarter grew by 29% yoy to Rs 16.3 bn (Vs our estimates of 20% yoy growth to Rs 15.2 bn) on strong revenue from PMC segment. PMC segment which contributes the largest pie, reported 21% yoy growth as against our estimates of 15% yoy growth.
- EBITDA for the quarter was Rs 629 mn, declined by 3% yoy despite strong execution, due to decline in EBIT margin in PMC segment. PAT for the quarter grew by 21% yoy to Rs 677 mn due to higher other income.
- NBCC has a robust total order book of Rs 800 bn which gives strong revenue growth visibility for the next 5 years. The company is targeting to add Rs 250 bn of new orders in FY19E.

Valuation & outlook

The company has maintained guidance of 30% yoy growth in revenue despite challenged faced by its large size redevelopment project. We have cut our earnings estimates for FY19E and FY20E factoring in execution delay redevelopment of 3 colonies in Delhi due to legal hurdles. The stock is presently trading at PE of 31.1x and 24.7x based on FY19E & FY20E revised EPS of Rs 2.3 and Rs 2.9 respectively. We maintain Buy on the stock with revised target price of Rs 95 (Vs Rs 108 earlier).

Quarterly performance table (standalone)

Year to March (Rs mn)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Net Revenues	**16,335**	**12,666**	**29**	**21,842**	**(25)**
Materials/Work consultancy Cost	14,484	10,777	34	18,874	(23)
Gross Profit	1,850	1,889	(2)	2,968	(38)
Employee Expenses	724	885	(18)	605	20
Other Expenses	497	355	40	548	(9)
Operating Expenses	15,706	12,017	31	20,027	(22)
EBITDA	**629**	**649**	**(3)**	**1,815**	**(65)**
EBITDA margin	3.9%	5.1%		8.3%	
Depreciation	7	7	(4)	6	4
Other income	379	198	92	391	(3)
Net finance expense	1	0		(1)	
Profit before tax	1,001	839	19	2,201	(55)
Provision for taxes	324	280	16	784	(59)
Reported net profit	**677**	**559**	**21.0**	**1,417**	
As % of net revenues					
COGS	88.7	85.1		86.4	
Employee cost	4.4	7.0		2.8	
Other Expenses	3.0	2.8		3	
Operating expenses	96.1	94.9		91.7	
Reported net profit	4.1	4.4		6.5	
Tax rate (% of PBT)	32.4	33.4		35.6	

Source: Company

Revenue ahead of estimates

The standalone net revenue for the quarter grew by 29% yoy to Rs 16.3 bn (Vs our estimates of 20% yoy growth) on strong execution in PMC segment. PMC segment which contributes the largest pie, reported 21% yoy growth as against our estimates of 15% yoy growth. Real estate business reported strong revenue in the quarter at Rs 1.29 bn driven by sale of commercial inventory. EPC segment witnessed flattish revenue in the quarter and was below our estimates of 10% yoy growth. There was also an impact of change in accounting policy on revenue growth. As per management, change in accounting policy also resulted in exclusion of indirect taxes in Q1FY19 revenue which also has a negative impact on its revenue growth. The company expects revenue to grow at over 30% in the next three quarters.

EBITDA declined due to lower PMC margins

EBITDA for the quarter was Rs 629 mn, declined by 3% yoy and was below our estimates of Rs 1 bn. The EBITDA margin disappointed at 3.9% declined by 120 bps yoy (Vs estimates of 6.6%) on account of lower gross margins and higher provisions for expected credit loss. The margins in PMC division was below our estimates at 4.9%, declined by 850 bps yoy due to quarterly variations. As per the management, EBIT margins in PMC segment is expected to be maintained at previous levels on full year basis. PAT for the quarter grew by 21% yoy to Rs 677 mn as against estimates of Rs 806 mn. Its subsidiary, HSL reported improvement in PAT for the quarter from Rs 45 mn in Q1FY18 to Rs 70 mn in Q1FY19 while revenue declined from Rs 2.9 bn to Rs 1.8 bn. The company is in process of cleaning balance sheet and improving operating efficiency of HSL.

Segmental Performance

Year to March (INR mn)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Segmental Sales					
Real Estate	1,297	88	1,371	0	0
EPC	1,028	1,027	0	1,739	(41)
PMC	13,928	11,491	21.2	19,963	(30)
Total Sales	16,252	12,606	29	21,701	(25)
Segmental EBIT					
Real Estate	681.1	15.7	4,249	(53)	-
EPC	14.6	45.8	(68)	149	(90)
PMC	682	1,537	(56)	1,287	(47)
Unallocated	(376)	(759)		817	
Total EBIT	1,001	839	19	2,199	
Segmental Margins (%)					
Real Estate	52.5	17.8		17,262.4	
EPC	1.4	4.5		8.5	
PMC	4.9	13.4		6.4	

Source: Company

Maintained 30% revenue growth guidance for FY19E despite challenges in a large size redevelopment project

NBCC has strong order book of Rs 800 bn which includes Rs 500 bn of self-revenue generating project (Redevelopment project). The present order book gives very strong revenue growth visibility for the next 5 years. The company management has targeted for over 30% revenue growth in FY19E despite its large size project of Rs 250 bn got stuck due to NGT raising issue related to large scale tree cutting at the site. The matter is presently under hearing by Delhi High court and till that time there is stay order on the project. The litigation is due to local protest related to large scale tree cutting on the site. The company is positive on resolution of the issue in its favour. The company had targeted Rs 17-20 bn of revenue from the execution of this project in FY19E. It has already booked Rs 1.5-2 bn revenue from the project. Any delay in execution of the project due to this will impact growth in FY19E. The management is confident of achieving its guidance of 30% growth in revenue even without contribution from this projects in FY19E as other large size projects are moving on expected line.

Status of projects

Out of Rs 800 bn order book, the company has awarded order worth Rs 350 bn and targets to award Rs 100 bn of work in FY19E. The company has awarded Rs 45-50 bn of work related to Nauroji Nagar project and expects to award fresh order post clearance from the court. Further, the company expects Rs 250 bn of new orders in FY19E which will strengthen its order book. The company has been awarded to complete real estate projects of Amrapali group which has ~Rs 52 bn of construction work to be executed. The company would be doing this project on PMC basis and is not required to invest any amount in the same.

Other highlights

- The company intends to buy 2 PSU companies with specialized expertise in EPC segment. Based on its past track record of acquisition of Hindustan Steel work, the company is confident of positive synergy from the project.
- The company has already secured Rs 40 bn of work till date and is well positioned in 2-3 projects of value Rs 150 bn in 9MFY19.
- The company is expecting approval for large size redevelopment project at Ghitorni in Delhi.

Outlook and valuation

Based on strong current order book of Rs 800 bn and robust pipeline for future projects, we expect high growth in NBCC's revenue in next 5 years. But its large size project (of Rs 250 bn) related to redevelopment of 3 government colonies in Delhi is under litigation due to local protest on account of large scale tree cutting on the site. Any delay in execution of the project due to this will impact its revenue growth in FY19E and FY20E. We have cut our earnings estimates for FY19E and FY20E factoring in execution delay in large size redevelopment project in Delhi due to legal hurdles. The stock is presently trading at PE of 31.1 and 24.7x based on FY19E & FY20E revised EPS of Rs 2.3 and Rs 2.9 respectively. We maintain Buy on the stock with revised target price of Rs 95 (Vs Rs 108 earlier).

Valuation summary

SOTP	Basis	Per share
PMC Other	DCF	28
PMC Redevelopment	DCF	56
Real estate	1x Capital	9
EPC	8x EBIT	2
Total Value		**95**

Source: Kotak Securities – Private Client Research

Change in Estimates

Particulars	Revised		Previous		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	75,867	100,972	76,227	112,499	(0.5)	(10.2)
EBITDA	5,073	6,576	5,199	7,870	(2.4)	(16.4)
EBITDA margin (%)	6.7	6.5	6.8	7	(11)	(49)
PAT	4,161	5,247	4,246	6,114	(2.0)	(14.2)
EPS	2.3	2.9	2.4	3.4	(3.7)	(14.3)

Source: Kotak Securities – Private Client Research

Company background

NBCC (India) Ltd is a Navratna PSU company engaged in the business of project management consultancy (PMC), EPC contract and Real Estate development. The PMC business involves concept to commissioning of civil construction projects from various government departments. The company gets PMC contracts mostly on nomination basis as it has been notified as Public Work Organization under revised Rule 126 (2) of General Financial Rules (GFR). The real estate business involves development of residential and commercial projects on government or PSUs land through Joint Development or Land bank based development model. The company has 150 acres land parcels spread across cities such as Delhi, Gurgaon, Kolkata, Kochi, Alwar, Meerut, Ghaziabad, Faridabad, Lucknow, Patna, etc. The company has a very small presence in EPC business where it undertakes EPC contracts involving civil structural work in power BOP space. The company is not much focused on this division. NBCC is designated as the implementing agency for executing projects under various government program such as Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Pradhan Mantri Gram Sadak Yojna (PMGSY), Solid Waste Management (SWM) and developmental work in North Eastern Region.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**62,794**	**59,050**	**75,867**	**100,972**
% change yoy	8.0	(6.0)	28.5	33.1
EBITDA	**4,024**	**3,994**	**5,073**	**6,576**
% change yoy	31.1	(0.7)	27.0	29.6
Depreciation	26	27	27	27
EBIT	**3,998**	**3,967**	**5,045**	**6,549**
Other Income	886	1,061	1,167	1,284
Interest	7	2	2	3
Profit Before Tax	4,877	5,026	6,211	7,831
% change yoy	20.7	3.1	23.6	26.1
Tax	1,366	1,690	2,049	2,584
as % of EBT	28.0	33.6	33.0	33.0
PAT	**3,511**	**3,336**	**4,161**	**5,247**
% change yoy	22.3	(5.0)	24.7	26.1
Shares outstanding (mn)	1,800	1,800	1,800	1,800
EPS (Rs)	**2.0**	**1.9**	**2.3**	**2.9**
DPS (Rs)	1.0	1.0	1.2	1.5
CEPS (Rs)	2.0	1.9	2.3	2.9
BVPS (Rs)	9.3	10.1	11.2	12.6

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	1,800	1,800	1,800	1,800
Reserves	14,936	16,414	18,381	20,862
Net worth	16,736	18,214	20,181	22,662
Borrowings	-	-	-	-
Total Liabilities	**16,736**	**18,214**	**20,181**	**22,662**
Net block	650	635	708	781
Capital work in progress	-	-	-	-
Total fixed assets	650	635	708	781
Investments	1,048	586	586	586
Inventories	15,704	16,575	21,295	28,342
Sundry debtors	21,866	22,585	29,016	38,618
Cash and equivalents	15,530	17,135	20,644	26,447
Loans and advances & Others	9,039	17,400	20,879	25,055
Total current assets	62,138	73,695	91,835	118,463
Sundry creditors and others	47,453	56,781	72,952	97,093
Provisions	1,040	1,505	1,581	1,660
Total CL & provisions	48,493	58,287	74,533	98,752
Net current assets	13,645	15,408	17,303	19,711
Net Deferred tax	995	1,157	1,157	1,157
Total Assets	**16,736**	**18,214**	**20,181**	**22,662**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	4,877	5,026	6,211	7,831
Depreciation	26	27	27	27
Change in WC	1,901	(157)	1,614	3,395
Other operating activities	(1,745)	(1,882)	(2,049)	(2,584)
Operating Cash Flow	**5,059**	**3,014**	**5,802**	**8,669**
Capex	(58)	(12)	(100)	(100)
Free Cash Flow	**5,001**	**3,002**	**5,702**	**8,569**
Change in Investments	1,259	462	-	-
Investment cash flow	**1,201**	**450**	**(100)**	**(100)**
Equity Raised	-	-	-	-
Debt Raised/Repaid	(116)	-	-	-
Dividend & Others	(2,021)	(1,858)	(2,193)	(2,766)
CF from Financing	**(2,137)**	**(1,858)**	**(2,193)**	**(2,766)**
Change in Cash	4,123	1,606	3,509	5,803
Opening Cash	11,406	15,530	17,135	20,644
Closing Cash	15,530	17,135	20,644	26,447

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	6.4	6.8	6.7	6.5
EBIT margin (%)	6.4	6.7	6.7	6.5
Net profit margin (%)	5.6	5.6	5.5	5.2
EPS growth (%)	22.3	(5.0)	24.7	26.1
Balance Sheet Ratios				
Receivables (days)	127	140	140	140
Inventory (days)	91	102	102	102
Payable (days)	276	351	351	351
Cash Conversion Cycle (days)	(57)	(109)	(109)	(109)
Asset Turnover (x)	4.0	3.5	4.0	4.7
Net Debt/ Equity (x)	(0.9)	(0.9)	(1.0)	(1.2)
Return Ratios				
RoCE (%)	26.5	24.2	28.0	32.3
RoE (%)	22.0	19.1	21.7	24.5
Valuation Ratios				
P/E (x)	36.9	38.8	31.1	24.7
P/BV (x)	7.7	7.1	6.4	5.7
EV/EBITDA (x)	28.3	28.2	21.5	15.7
EV/Sales (x)	1.8	1.9	1.4	1.0

Source: Company, Kotak Securities – Private Client Research

Result Update

OIL INDIA LTD (OINL)

PRICE RS.207 **TARGET RS.245** **BUY**

Stock Details

Market cap (Rs mn)	:	235606
52-wk Hi/Lo (Rs)	:	259 / 180
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	937,795
Shares o/s (mn)	:	1135

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	106,978	127,950	129,382
Growth (%)	11.8	19.6	1.1
EBITDA	39,275	49,281	50,385
EBITDA margin (%)	36.7	38.5	38.9
PAT	27,346	30,755	31,801
EPS	24.1	27.1	28.0
EPS Growth (%)	71.3	12.5	3.4
BV (Rs/share)	256	265	275
Dividend/share (Rs)	15.0	15.0	15.0
ROE (%)	8.9	9.7	9.7
ROCE (%)	6.0	8.8	9.1
P/E (x)	8.6	7.6	7.4
EV/EBITDA (x)	5.9	4.4	4.5
P/BV (x)	0.8	0.8	0.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	66.1	66.1	66.1
FII	4.2	3.8	3.8
DII	14.3	13.6	13.6
Others	15.3	16.4	16.5

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Oil India Ltd	1.3	(12.3)	(13.3)
Nifty	3.8	5.8	8.9

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

Higher crude oil/natural gas realization, weaker currency and higher gas sales volume led to significant jump in operating profit. Reported PAT is better than our estimate but sequentially lower on account of lower other income (base effect), higher exploration cost written off and higher insurance, rent, CSR, sundry expenses. Going forward, higher international crude oil price and weaker currency will support future earnings, we opine.

Key Highlights

- OIL's PAT for Q1FY19 is marginally better than our estimates. It has reported a PAT of Rs. 7 bn against our expectation of Rs.6.6 bn mainly on account of higher revenue.
- We expect the stock to remain in focus due to couple of triggers – rising international crude oil prices resulting in better realization, weak currency improves realization for all products, potential increase in domestic natural gas price in H2FY19 and news flow of merger with IOC. However, key headwind remains uncertainty regarding subsidy burden imposed by the government on upstream companies. OIL India is available at less than its book value due to subsidy concern.

Valuation & outlook

We expect OINL to report an EPS of Rs. 27.1 FY19E and Rs.28 in FY20E reflecting higher oil and gas realization, rupee depreciation and higher sales volume. On the basis of our estimates, we believe the stock is now attractively valued at 0.8x P/BV and 7.4x P/E on the basis of FY20E. We now recommend BUY on OINL with an unchanged price target of Rs. 245. Improvement in crude oil/gas prices, production ramp-up and weak rupee due to geo-political risk will be key positives for the company which will improve the earnings going forward.

Quarterly performance table

Particulars (Rs Mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Revenue	**33,905**	**29,984**	**23,317**	**45**	**13**
Incr/(Decr) in stock	281	(218)	(171)		
Total Expenditure	20,102	21,761	14,405	40	(8)
EBIDTA	**14,084**	**8,006**	**8,741**	**61**	**76**
Depreciation + Depletion & Write-offs	3,372	2,998	2,903	16	12
EBIT	**10,712**	**5,007**	**5,838**	**83**	**114**
Other income	1,268	7,865	1,540	(18)	(84)
Interest-net	1,124	1,077	999	13	4
PBT	**10,855**	**11,795**	**6,379**	**70**	**(8.0)**
Extra ordinary Exp/(Inc)					
Tax	3,823	3,130	1,877	104	22
PAT	**7,032**	**8,665**	**4,502**	**56**	**(19)**
Equity Capital	11,349	11,349	11,349		
Basic EPS	**6.2**	**7.6**	**4.0**	**56**	**(19)**

Source: Company

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Quarterly result analysis – Q1FY19

- **Revenue growth** – Higher crude oil/natural gas realization, weaker currency and higher gas sales volume led to revenue growth of 13% qoq and 45% yoy to Rs.33.91 bn (v/s our estimate of Rs.34 bn).
- **Production volume details:** OINL's crude oil production stood marginally higher at 0.84 mmt, 1% qoq. Natural gas production also stood higher at 696 MMSCM, 1% qoq.
- **Sales volume details:** Crude oil sales stood lower at 0.81 mmt, -2% qoq reflects build-up of inventory due to lower off-take. However, natural gas sales stood higher at 597 MMSCM, 2% qoq supported by higher volumes from JVs.
- OIL's net crude oil realizations for OINL stood meaningfully higher at $72/bbl, 11% qoq led by increase in international crude oil prices. Similarly, implied gas realization stood higher 8% qoq at US$3.16/mmbtu (+23% yoy).
- LPG realization stood lower at Rs.35233/ton down by 10% qoq and 5% yoy.
- **OINL's subsidy payout:** No subsidy payout to OMCs due to deregulation.
- **Employee cost:** OINL's staff cost for Q1FY19 stands lower at Rs.3.43 bn, 24% qoq (partly due to base effect) and down 16% yoy.
- **Other expenditure:** In Q1FY19, other expenses decreased 23% qoq to Rs.6.65 bn mainly due to lower provision, and lower consumption of materials. However, the benefit got mitigated due to higher exploration cost written off and higher insurance, rent, sundry expenses.
- **Statutory levies:** Statutory levies (Royalty on onshore crude oil production) increased 14% qoq and 54% yoy to Rs.9.7 bn due to higher production.
- **Operating profit:** Meaningful jump in revenue, lower operating cost and low base led to significant jump in operating profit. EBITDA stood higher at Rs.14 bn higher by 76% qoq.
- **Operating margin:** The Company witnessed increase in operating margin. In Q1FY19, the operating margin stood at 41.5% as against 26.7% in Q4FY18 and 37.5% in Q4FY17 on account of better realization, and lower operating expenses.
- **DD&A expenses:** OINL's DD&A expenses increased 12% qoq to Rs.3.4 bn (+16% yoy). Higher DD&A costs in Q1FY19 reflect meaningful jump in depletion charge to Rs.2.4 bn, +47% qoq.
- **Other income:** OIL's other income decreased meaningfully by 84% qoq (partly base effect) to Rs.1.3 bn (-18% yoy) mainly due to lower dividend/interest income.
- Despite meaningful jump in operating profit, OINL reported decrease in PAT to Rs.7 bn (-19% qoq) mainly on account of significantly lower other income.

Operating details

Margins Performance (%)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
EBITDA Margin	41.5	26.7	37.5	4	15
EBIT Margin	31.6	16.7	25.0	7	15
Adj PAT Margin	20.7	28.9	19.3	1	(8)
Other Income/PBT	11.7	66.7	24.1	(12)	(55)
Tax/PBT	35.2	26.5	29.4	6	9

Source: Company

Expenses

(Rs. mn)	Q1FY19	Q4FY18	Q1FY18	YoY (%)	QoQ (%)
Raw Material consumption	341	158	-	-	115.8
Staff costs	3,430	4,497	4,063	(16)	(24)
Statutory Levies	9,676	8,461	6,293	54	14
Other Expenditure	6,654	8,645	4,049	64	(23)
Total	**20,102**	**21,761**	**14,405**	**40**	**(8)**
Expenses Ratio (%)					
Employee to Sales	10.0	15.1	17.6	(8)	(5)
Statutory Levies to VoP	28.3	28.4	27.2	1	(0)
Other Exp. to Sales	19.5	29.0	17.5	2	(10)

Source: Company

Recommend BUY

We expect OINL to report an EPS of Rs. 27.1 FY19E, and Rs.28 in FY20E reflecting higher oil and gas realization, rupee depreciation and higher sales volume. On the basis of our estimates, we believe the stock is now attractively valued at 0.8x P/BV and 7.4x P/E on the basis of FY20E. We now recommend BUY on OINL with an unchanged price target of Rs. 245. Improvement in crude oil/gas prices, production ramp-up and weak rupee due to geo-political risk will be key positives for the company which will improve the earnings going forward.

Key Risk and Concerns:

- Nationalization of foreign assets (like in Venezuela) by the respective government can significantly impact the valuations of the Company.
- Disappointment on production and sales volumes.
- Significant drop in crude prices and sharp rupee appreciation remains the key downside risks to earnings.
- OINL has been producing oil from its Assam discoveries from last few decades with recovery factor more than 50%. We believe incremental crude oil production will be more expensive.
- OINL is initiating significant exploration activity in the NELP blocks, which increases the risks of failures and hence material dry wells write-offs. This can impact earnings and cash flows in the short-run.

Our BUY rating and target price of Rs.245, comprises

- Core business valued at P/E of 8x FY20E core EPS. We value OINL on a PE basis (value per share of Rs.175).
- OINL's investment in E&P assets (value per share of Rs.0)
- Investment in Numaligarh Refinery (value per share of Rs. 6.5)
- Investment in IOC is considered at 20% discount (value per share of Rs.59)
- Other equity investments are valued at Rs.4.

Company background

OINL was incorporated in 1959 as Oil India Private Limited to develop the discovered oil fields located at Naharkatiya and Moran (North East of India). In 1961, it became a joint venture (JV) company between the GOI and Burmah Oil Company Limited, UK. However, later in 1981, it became 100% GOI owned company.

OINL's exploration activities are spread over onshore areas of Ganga Valley and Mahanadi. OINL also has participating interest in NELP exploration blocks in Mahanadi Offshore, Mumbai Deepwater, Krishna Godavari Deepwater, etc, as well as various overseas projects in Libya, Gabon, Iran, Nigeria and Sudan. OINL has been awarded with Navratna status from Ministry of Petroleum & Natural Gas (MOP&NG), delegating more powers and have comparative advantage over other global giants (presently known as Navratna). OIL India Ltd. (OINL) is India's second largest (based on 2P – proven plus probable reserve) government upstream exploration company, engaged in exploration, development & production of oil and gas (O&G), transportation of O&G and production of LPG.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**95,664**	**106,978**	**127,950**	**129,382**
% change YoY	2.0	11.8	19.6	1.1
EBITDA	**31,205**	**39,275**	**49,281**	**50,385**
% change YoY	-10.4	25.9	25.5	2.2
Other Income	7,926	18,119	15,018	15,018
Depreciation	11,804	13,266	14,119	14,523
EBIT	**27,327**	**44,128**	**50,180**	**50,879**
% change YoY	81.6	61.5	13.7	1.4
Net interest	4,406	5,537	4,276	3,416
Profit before tax	22,921	38,591	45,903	47,464
% change YoY	-23.1	68.4	18.9	3.4
Tax	6,955	11,245	15,148	15,663
as % of PBT	30.3	29.1	33.0	33.0
Profit after tax	15,966	27,346	30,755	31,801
Minority interest	0	0	0	0
Share of profit of associates				
Net income	**15,966**	**27,346**	**30,755**	**31,801**
% change YoY	-20.3	71.3	12.5	3.4
Shares outstanding (m)	802	757	1,135	1,135
EPS (reported) (Rs)	**14.1**	**24.1**	**27.1**	**28.0**
CEPS (Rs)	34.6	53.7	39.5	40.8
DPS (Rs)	15.0	15.0	15.0	15.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	66,717	33,200	2,383	2,393
Accounts receivable	10,114	14,138	16,909	17,099
Inventories	10,965	10,783	13,358	13,490
Loans and Adv & Others	10,842	16,565	16,565	16,565
Current assets	98,637	74,685	49,216	49,547
Misc exp.	0	0	0	0
LT investments	274,609	266,567	266,567	266,567
Net fixed assets	124,440	133,085	147,681	167,646
Total assets	**497,686**	**474,337**	**463,464**	**483,761**
Payables	5,934	5,600	6,814	6,887
Others	17,102	26,390	31,625	31,979
Current liabilities	23,036	31,991	38,440	38,866
Provisions	19,277	20,712	35,594	35,734
LT debt	141,838	106,906	64,146	72,491
Others	18,342	24,429	24,774	24,873
Equity	8,015	7,566	11,349	11,349
Reserves	287,179	282,734	289,162	300,448
Total liabilities	**497,686**	**474,337**	**463,464**	**483,761**
BVPS (Rs)	260	256	265	275

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	27,327	44,128	50,180	50,879
Depreciation	11,804	13,266	14,119	14,523
Change in working capital	20,586	6,911	3,922	373
Chgs in other net current assets				
Operating cash flow	59,716	64,305	68,221	65,776
Interest	(4,406)	(5,537)	(4,276)	(3,416)
Tax	(6,955)	(11,245)	(15,148)	(15,663)
CF from operations	**48,355**	**47,524**	**48,797**	**46,697**
Capex	(31,337)	(21,911)	(28,716)	(34,489)
(Inc)/dec in investments	(124,086)	8,042	-	-
CF from investments	**(155,423)**	**(13,869)**	**(28,716)**	**(34,489)**
Others	41,151	(18,581)	0	-
Inc/(dec) in debt	44,623	(34,932)	(42,761)	8,346
Proceeds from share premium				
Dividends	(12,193)	(13,659)	(8,138)	(20,544)
CF from financing	**73,580**	**(67,172)**	**(50,898)**	**(12,198)**
Opening cash	100,205	66,717	33,200	2,383
Closing cash	66,717	33,200	2,383	2,393

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	32.6	36.7	38.5	38.9
EBIT margin (%)	28.6	41.2	39.2	39.3
Net profit margin (%)	16.7	25.6	24.0	24.6
Receivables (days)	38.6	48.2	48.2	48.2
Inventory (days)	53.9	45.4	47.0	47.0
Sales/gross assets(x)	0.2	0.3	0.3	0.3
Interest coverage (x)	7.1	7.1	11.5	14.7
Debt/equity ratio(x)	0.5	0.4	0.2	0.2
ROE (%)	5.6	8.9	9.7	9.7
ROCE (%)	4.8	6.0	8.8	9.1
EV/ Sales	2.4	2.2	1.7	1.8
EV/EBITDA	7.4	5.9	4.4	4.5
Price to earnings (P/E)	14.7	8.6	7.6	7.4
Price to book value (P/B)	0.8	0.8	0.8	0.8

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	6917
52-wk Hi/Lo (Rs)	:	618 / 228
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	86,670
Shares o/s (mn)	:	30

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	11,556	11,767	12,290
Growth (%)	8.6%	1.8%	4.4%
EBITDA	1,390	1,177	1,352
EBITDA margin (%)	12.0	10.0	11.0
Net profit	526	376	479
EPS (Rs)	17.5	12.5	15.9
Growth (%)	16.9	-28.5	27.3
BVPS (Rs)	143.5	154.4	168.8
DPS (Rs)	1.3	1.3	1.3
ROE (%)	12.6	8.4	9.9
ROCE (%)	14.1	11.0	12.3
P/E (x)	13.2	18.4	14.4
EV/EBITDA (x)	7.2	8.5	7.3
P/BV (x)	1.6	1.5	1.4

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	32.5	32.5	32.7
FII	4.5	6.4	5.1
DII	7.6	7.4	7.3
Others	55.4	53.6	55.0

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Asian Granito India	(24.0)	(48.6)	(56.4)
Nifty	3.8	5.8	8.9

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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ASIAN GRANITO INDIA LTD

PRICE RS.230 **TARGET RS.255** **ACCUMULATE**

Asian Granito results were lower than our estimates due to sharp decline in realizations and pressure on margins. Sharp decline in realizations continued in Q1Fy19 and is likely to be seen in Q2FY19 too due to commissioning of almost 100 units in Morbi largely from unorganized players. Volume growth was impacted by delays in receivables as well as lower than expected demand growth. Volumes are likely to be impacted in Q2FY19 too owing to truckers strike in July and festivals in August. Near term outlook looks subdued on both demand and pricing front. However, changes in marketing strategies and dealer incentives are likely to yield benefits in long term in terms of volumes and margin improvement.

Key highlights

Revenue growth of 6.1% YoY was led largely by volume growth as realization witnessed sharp declines across categories. Operating margins declined sharply sequentially and on yearly basis to 8.6% due to lower realization, higher gas prices and higher proportion of outsourced tiles. Net profit performance stood lower than our expectations and was impacted by fall in margins.

Consolidated financial highlights

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Sales	**2387**	**2249**	**6.1%**	**3916**	**-39.0%**
Total Expenditure	2183	1963	11.2%	3553	-38.6%
EBITDA	**204**	**286**	**-28.5%**	**363**	**-43.7%**
EBITDA %	8.6%	12.7%		9.3%	
Depreciation	64	73		71	
EBIT	**140**	**213**	**-34.1%**	**292**	**-51.9%**
Interest	72	87		83	
EBT (Exc other income)	**68**	**126**	**-45.8%**	**209**	**-67.3%**
Other Income	3	8		5	
EBT	**71**	**134**	**-46.9%**	**215**	**-66.7%**
Tax	18	33		42	
Tax %	25.6%	24.3%		19.7%	
PAT	53	102	-47.8%	172	-69.2%
Minority Interest After NP	5	8		10	
Profit/Loss of Associate Company	10	8		6	
Extra-ordinary Items					
Net profit	**58**	**102**	**-42.8%**	**168**	**-65.2%**
Equity	300.9	300.9		300.9	
EPS	**1.9**	**3.4**	**-42.8%**	**5.6**	**-65.2%**

Source: Company

Valuation and outlook

Stock is currently trading at valuations of 18.4x and 14.4x on FY19 and FY20 estimates respectively. We revise our estimates to factor in the sharp decline in margins led by lower realization and higher gas prices. Since the challenges in the tile sector are likely to remain for another 1-2 quarters, lower realizations, higher gas prices are likely to have an adverse impact on projected financials as well as valuation multiples. There is still continued higher proportion of unorganized sales even after implementation of GST and e-way Bill. Company has also put on hold its expansion plan in AP which will restrict the volume growth to just 15% going forward. We now value the company at 16x FY20 estimates to factor in these challenges and weak performance during Q1FY19. We arrive at a revised price target of Rs 255 based on 16x FY20 estimated earnings. We downgrade the stock to ACCUMULATE from BUY earlier.

We however believe that the change in the marketing strategies and higher sale of value added products is likely to benefit the company in medium to long term.

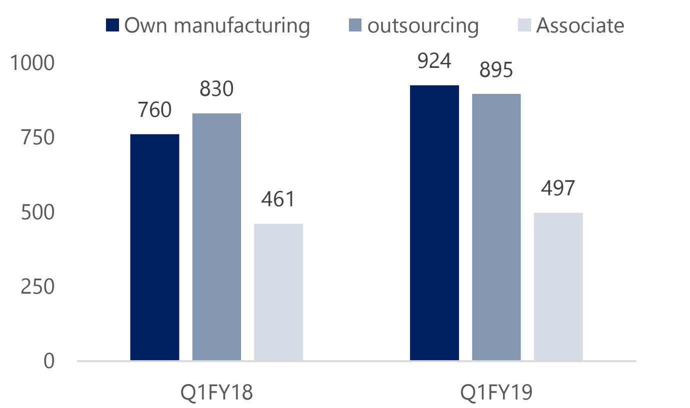
Revenue growth lower than our estimates

Asian Granito revenue for Q1FY19 was lower than our estimates due to sharp pricing decline which continued during Q1FY19 too. Performance was impacted by higher sales from low value outsourced product as well as delays in receivables which impacted volumes. Due to commissioning of nearly 100 new units in Morbi, company witnessed increased competition which resulted in sharp decline in realization.

Growth was largely led by volume gains. Overall volumes during the quarter including tiles and marbles grew by 23% YoY but blended realizations witnessed a decline of 8.3% YoY. Own manufactured tile realizations witnessed a decline of 5.4% YoY while outsourced tiles realization were down by 13.7% YoY. This was also due to pressure on the GVT realizations owing to commissioning of large number of plants as well as decline in cost of production of GVT. Realizations from associate plants were also down by 4.2% YoY.

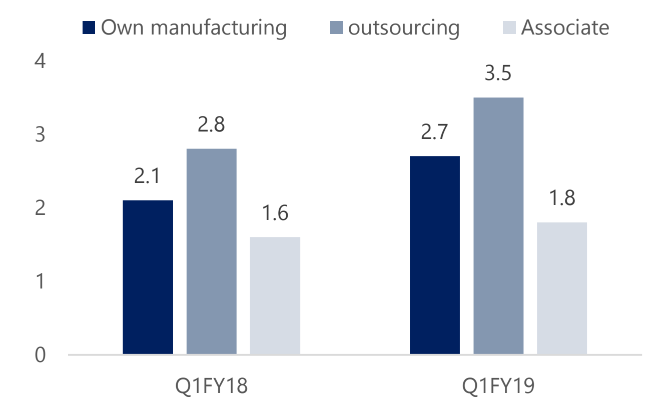
However, volumes witnessed an improvement of 23% YoY led by 29% increase in own-manufactured tiles, 25% YoY increase in outsourced tile volume and 12.5% YoY increase from Associate companies. Though volumes registered a growth of 23% YoY during Q1FY19, volumes are likely to be impacted in Q2FY19 owing to truckers strike in July and festivals in August. From Q3FY19, company expects volumes and pricing to improve.

Segmental details on revenue (Rs mn)



Source: Company

Segmental details on volumes (MSM)



Source Company

Marble and quartz segment revenues stood at Rs.300mn for Q1FY19 as against Rs.240mn in Q1FY18. Volumes for marble have gone down but have increased from quartz with more lines being operational.

Company has also taken various initiatives in last 3 months to improve the retail sales mix, focus on value added high margin products, dealer incentives, targeted project sales such as big developers or government projects, cost rationalization which are likely to yield benefits in long run. We highlight below the details-

- **Enhance the retail share** – Company plans to take the retail share to 44% in FY19 and 50% in FY20. In order to achieve this, they have launched a scheme for enhancing the retail share and have enrolled 800 dealers for the same with incentives. This will help them in reaching the targeted retail share and effects of which will start getting reflected from Q3FY19.
- **Discount scheme** – In order to protect margins, company has mentioned that the maximum allowable discount is 30%/28%/25% in three slabs for various categories of tiles. This will help in preventing sharp erosion in realizations and help in protecting margins.
- **Dedicated work for large clients** – AGL is targeting large accounts in a dedicated way such as builders or big projects or government projects so that volume growth is maintained. For government projects, it is very difficult for the unorganized to tap the demand due to various specifications by the government and hence AGL is going to target this segment aggressively to tap the upcoming demand from government projects. Every month, company is getting 15-20 approvals from government projects.
- **Increasing exclusive dealer base** – AGL plans to take the exclusive dealer count from 240 to 300 going forward which will help in promoting the exclusive sales from AGL products as well as tapping the retail segment. It also plans to increase the sales of high value added products through exclusive showrooms and hence the realizations and margins will be protected.

We expect the results of these initiatives to start getting reflected from Q3FY19 onwards.

With these initiatives, AGL has also put the AP expansion plan on hold and will try to improve volumes by these measures along with improved capacity utilisation. We thus reduce our volume estimates downwards and expect revenues to grow at a CAGR of 3% between FY18-20.

Operating margins and net profits impacted by price decline and higher gas prices

Operating margins have witnessed a decline due to higher employee cost along with increased branding and promotional activities and higher gas prices. Gas prices have moved up by 16% during the quarter in comparison with last year. Realizations were also under pressure thereby putting pressure on overall margins. Due to higher sales from low value added products too, margins were impacted in the quarter.

AGIL is continuously putting efforts to improve margins such as increasing the B2C sales from the current level 39% in FY18 to 50% in next 2-3 years via strengthening distribution network, opening exclusive brand showrooms, trade incentives on high value products, participation in key trade exhibitions etc. Along with this, with increased capacity in Quartz over next 2-3 years on its own and JVs is also likely to help in margin growth. This will help in increasing margins.

However with continued pressure on realization and higher gas prices, performance may remain impacted in Q2FY19 too. We thus revise our estimates downwards to factor in lower realization and higher gas prices and expect margins of 10%/11% for FY19/20 respectively. (as against earlier estimate of 12.5%).

Net profit performance came lower than our expectation and was impacted by lower margins.

What went wrong from our initial assumptions -

A) Volumes: Volumes were expected to witness an improvement led by shift of unorganized to organized players post GST implementation along with capacity expansion in AP and Crystal ceramics. With Delays in e-way bill implementation, unorganized players continue to evade taxes and continuously reduced prices. This resulted in putting pressure on volume growth of organized players and also resulted in declining realizations drastically. We believe that this pain is likely to continue for few more quarters or till elections.

B) Value added products to aid margins: Earlier due to high price differential, companies were increasing the proportion of GVT tiles in the overall mix. Due to commissioning of large number of capacities in GVT category or conversion of ceramic plants to GVT plants, GVT realizations declined sharply. Thus, instead of improving margins, this segment resulted in declining margins for players. Also, the demand for high margin large sized tiles was low thus the product was not accepted fully in market.

C) Gas price increase: With increase in Brent crude prices, gas prices have also moved up sharply for the tile players thereby impacting margins as it was difficult to pass on the increase in gas prices in current scenario.

D) Valuation multiple: Valuation multiple re-rating which was seen in last year has contracted in the absence of shift of market share and volumes of unorganized players towards organized players, margin decline, lack of earnings growth. Thus we believe that re-rating would happen only once we see significant shift of volumes from unorganized to organized, pricing improvement and earnings improvement.

Valuation and recommendation

Stock is currently trading at valuations of 18.4x and 14.4x on FY19 and FY20 estimates respectively. We revise our estimates to factor in the sharp decline in margins led by lower realization and higher gas prices. Since the challenges in the tile sector are likely to remain for another 1-2 quarters, lower realizations, higher gas prices are likely to have an adverse impact on projected financials as well as valuation multiples. There is still continued higher proportion of unorganized sales even after implementation of GST and e-way Bill. Company has also put on hold its expansion plan in AP which will restrict the volume growth to just 15% going forward. We now value the company at 16x FY20 estimates to factor in these challenges and weak performance during Q1FY19. We arrive at a revised price target of Rs 255 based on 16x FY20 estimated earnings (Rs 610 earlier based on 22x FY20 estimates). We downgrade the stock to ACCUMULATE from BUY earlier.

We however believe that the change in the marketing strategies and higher sale of value added products is likely to benefit the company in medium to long term.

Company background

Asian Granito India Limited (AGL) was established in 2000 by Mr. Kamlesh Patel and Mr. Mukesh Patel. AGL is one of the top three Indian Ceramic Companies engaged in the business of manufacturing, and trading of Ceramic Wall, Floor, Vitrified Tiles, Marble & Quartz Headquartered in Gujarat. AGL has 8 manufacturing facilities in Gujarat. AGL has production of 1,00,000 sqm per day including outsourcing. Pan India marketing & distribution network of more than 6000 dealers and sub-dealers and over 231+ showrooms with global footprint with exports to over 55+ countries.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**10,639**	**11,556**	**11,767**	**12,290**
% change YoY	7.0	8.6	1.8	4.4
EBITDA	**1,271**	**1,390**	**1,177**	**1,352**
% change YoY	36.0	9.4	(15.3)	14.9
Other Income	35	29	42	40
Depreciation	242	254	273	290
EBIT	**1,064**	**1,166**	**945**	**1,101**
% change YoY	44.0	9.5	(18.9)	16.5
Net interest	396	365	375	370
Profit before tax	668	800	570	731
% change YoY	52.0	19.8	(28.8)	28.3
Tax	190	256	188	241
as % of PBT	28.4	32.0	33.0	33.0
Profit after tax	478	544	382	490
Minority interest	43	43	43	48
Share of profit of associates	15	25	37	37
Net income	**450**	**526**	**376**	**479**
% change YoY	61.0	16.9	(28.5)	27.3
Shares outstanding (m)	30.1	30.1	30.1	30.1
EPS (reported) (Rs)	**15.0**	**17.5**	**12.5**	**15.9**
CEPS (Rs)	23.0	25.9	21.6	25.6
DPS (Rs)	1.30	1.30	1.30	1.30

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	186	208	242	287
Accounts receivable	3,110	4,005	3,623	3,784
Inventories	2,734	2,759	2,797	2,921
Loans and Adv & Others	763	259	468	483
Current assets	6,793	7,230	7,129	7,475
Other non current assets	-	74	74	74
LT investments	165	227	227	227
Net fixed assets	4,064	4,338	4,565	4,675
Total assets	**11,022**	**11,870**	**11,996**	**12,451**
Payables	2,456	2,965	2,760	2,883
Others	354	335	335	335
Current liabilities	2,810	3,299	3,095	3,217
Provisions	144	113	114	114
LT debt	3,501	3,574	3,574	3,474
Min. int and def tax liabilities	557	566	566	566
Equity	301	301	301	301
Reserves	3,710	4,016	4,345	4,777
Total liabilities	**11,022**	**11,870**	**11,996**	**12,451**
BVPS (Rs)	133.3	143.5	154.4	168.8

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	1,036	1,148	940	1,090
Depreciation	242	254	273	290
Change in working capital	(567)	93	(69)	(177)
Chg in other net current assets	127	(84)	17	16
Operating cash flow	838	1,410	1,161	1,219
Interest	(396)	(365)	(375)	(370)
Tax	(190)	(287)	(204)	(257)
Cash flow from operations	**252**	**758**	**581**	**592**
Capex	(329)	(528)	(500)	(400)
(Inc)/dec in investments	(35)	(62)	-	-
Cash flow from investments	**(364)**	**(590)**	**(500)**	**(400)**
Proceeds from issue of equity	75	-	-	-
Increase/(decrease) in debt	149	73	-	(100)
Proceeds from share premium	(99)	(173)	-	-
Dividends	-	(46.9)	(46.9)	(46.9)
Cash flow from financing	**125**	**(147)**	**(47)**	**(147)**
Opening cash	173	186	208	242
Closing cash	186	207	242	287

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	11.9	12.0	10.0	11.0
EBIT margin (%)	10.0	10.1	8.0	9.0
Net profit margin (%)	4.2	4.6	3.2	3.9
Receivables (days)	87.1	112.4	112.4	112.4
Inventory (days)	88.9	86.7	86.7	86.7
Sales/assets(x)	2.6	2.7	2.6	2.6
Interest coverage (x)	2.7	3.2	2.5	3.0
Debt/equity ratio(x)	0.9	0.8	0.8	0.7
ROE (%)	10.2	12.6	8.4	9.9
ROCE (%)	11.9	14.1	11.0	12.3
EV/ Sales (x)	0.9	0.9	0.9	0.8
EV/EBITDA (x)	7.9	7.2	8.5	7.3
Price to earnings (x)	15.4	13.2	18.4	14.4
Price to book value (x)	1.7	1.6	1.5	1.4
Price to Cash Earnings (x)	10.0	8.9	10.7	9.0

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	36204
52-wk Hi/Lo (Rs)	:	160 / 112
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	750,701
Shares o/s (mn)	:	244

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	17,981	19,517	21,182
Growth (%)	9.9	8.5	8.5
EBITDA	2,613	2,940	3,218
EBITDA margin (%)	14.5	15.1	15.2
PAT	1,667	2,284	2,511
EPS	6.8	9.4	10.3
EPS Growth (%)	(6.3)	37.0	9.9
BV (Rs/share)	38.1	41.0	44.9
Dividend/share (Rs)	5.5	5.5	5.5
ROE (%)	17.6	22.5	22.9
ROCE (%)	17.2	20.5	20.9
P/E (x)	21.7	15.8	14.4
EV/EBITDA (x)	11.8	10.2	9.1
P/BV (x)	3.9	3.6	3.3

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	51.0	51.0	51.0
FII	6.9	7.3	7.3
DII	19.9	13.8	16.9
Others	22.2	27.9	24.8

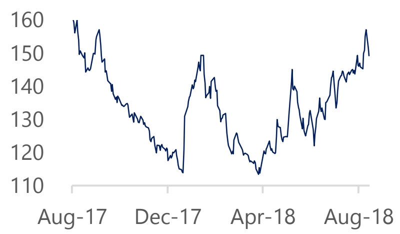
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Greaves Cotton	3.6	7.1	17.8
Nifty	3.8	5.8	8.9

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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GREAVES COTTON LTD

PRICE RS.148 TARGET RS.156 ACCUMULATE

Greaves Cotton (GCL) reported good numbers, a tad below our estimates. Commodity cost pressures and employee costs erased margin gains arising out of healthy revenue growth.

Key Highlights

- After multiple quarters of sedate or no growth, this was the third consecutive quarter of double digit topline growth.
- The company's foray into retailing of spare parts has now gained momentum. It has 74 outlets now, servicing 6000 vehicles per month.

Valuation and Outlook

- GCL is currently trading at 16x and 14x FY18 and FY19 earnings respectively. We recommend "Accumulate" (BUY earlier) with a revised target price of Rs 156 (Rs 153 earlier), valuing the stock at 15x FY20 earnings. Although, valuation is at a discount to engineering peer stocks, it is mainly due to the tepid profit growth in the past. We would take a favourable view of the stock at lower price points as the dividend yield of the stock is attractive.

Q1FY19 Results

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net Revenues	**4582**	**4063**	**12.8**	**4862**	**-5.8**
Expenditure	3972	3509	13.2	4163	-4.6
Raw Material costs	2873	2590	11.0	3130	-8.2
Purchase of traded goods	219	130	68.0	192	13.8
Staff costs	466	416	12.0	380	22.6
Other costs	414	373	11.0	461	-10.2
Operating profit	609	554	10.0	699	-12.8
Depreciation	125	120	4.9	131	-4.6
Other income	103	103	-0.1	150	-31.2
EBIT	**587**	**538**	**9.2**	**718**	**-18.2**
Interest	5	2	133.3	6	-18.3
PBT	**582**	**536**	**8.7**	**712**	**-18.2**
Tax	184	184	0.0	278	-33.8
PAT before exc items	398.4	351.9	13.2	433.9	-8.2
Exceptional items	-	60	-	133	-
Reported PAT	**398.4**	**412**	**-3.3**	**567**	**-29.7**
EBITDA (%)	13.3	13.6		14.4	
RM costs to sales (%)	67.5	66.9		68.3	
Other exp to sales (%)	9.0	9.2		9.5	
Tax rate (%)	31.6	34.3		39.0	
EPS Rs	**1.6**	**1.4**		**1.8**	

Source: Company

Reported Vs Estimated performance

(Rs mn)	Reported	Estimated
Revenue	4582	4469
EBITDA (%)	13.3	13.8
PAT	398	421

Source: Kotak Securities – Private Client Research

Result Highlights

Revenue growth showing signs of upturn

- The company's revenue mix comprises of automotive engines for 3W and 4W Light commercial vehicles (~70%), DG sets (15%) and Agriculture products (15%).
- In terms of product mix, engines/spares/others accounted for 48%/24%/28% of revenues in Q1FY19.
- The company had been posting tepid/contraction in revenue in the past several quarters mainly due to stagnation in domestic three-wheeler market.
- However, in recent quarters, there has been some signs of upturn in demand for 3W. During the Q1FY19, 3W engines volumes grew to 75000 units, growth of 19% on y-o-y basis.
- This product segment is bouncing back from the twin effects of demonetization and GST implementation.
- The demand for 3W has a correlation with the Commercial Vehicles (CV) segment due to the need for last mile connectivity. In recent months, the monthly volumes of CVs has shown a strong upturn, which has started to reflect on the demand for 3W.

Table – Client OEMs of GCL in 3W

Corporate	Brand	Fuel	Engine
Piaggio	Ape Xtra and City	CNG, Diesel, LPG	4 stroke single cylinder
M&M	Alfa and Champion	Diesel and CNG	4 stroke single cylinder
TVS	King	Diesel	4 stroke single cylinder
Atul Auto	Shakti, Gem and Gemini	Diesel	4 stroke single cylinder

Source: Company

EBITDA margins declined 30 bps y-o-y

- EBITDA margins contracted on a y-o-y basis to 13.3%, mainly due to 12% y-o-y increase in employee costs and steep increase in purchase of finished goods.
- The company's margins also have been impacted by increase in material costs like Steel and 2) Transition into BSIV engine which entailed cost increase of 8-10% on engine upgradation.
- Although the company had taken price hikes to accommodate the commodity price inflation, it has not been able to completely offset the cost increase.
- The company also paid out annual increments during the quarter which has resulted in higher than normal increase in employee costs.

PAT rose 13% y-o-y

- PAT rose 13% on a y-o-y basis led by healthy growth in revenues partly offset by minor contraction in margins.

Other highlights

- GCL is an established name in the LCV diesel engine segment but has now also extended its capabilities to make multi-cylinder engines for Small Commercial Vehicles of up to 3-3.5 tons, which opens up a significant market for the company. The company is in talks with various OEMs to partner with them for their existing as well as future engine requirements in the multi-cylinder engine segment.
- The company's sales have stagnated for past several years due to factors like contraction in 1) 3W cargo market 2) faltering of 4W engine sales of Ace-zip and Magic-Iris 3) Lull in addition of new OEMs for engine supplies 4) Discontinuation of construction equipment division. The company is working on several fronts to address the stagnation in revenue growth. Some of the initiatives include 1) extending its product offering into multi-cylinder engines 2) transitioning from a primarily diesel engine offering to include petrol, CNG as well. 3) Exploring electric mobility technology 4) introducing tiller variants.
- In view of the increasing preference from the government for electric mobility for light urban transportation, the company is working on developing an electric engine variant. The company is positioning itself as a fuel-agnostic engine manufacturer.
- The company has signed technology agreement with Pinnacle Engines to launch 3W engines meeting BS IV norms. These engines score higher in terms of emission standards and fuel efficiency. The tie-up will also allow Greaves to access export markets where three-wheeler vehicle are popular. The partnership also enables it to cater to the larger three-wheeler market for petrol and CNG space.
- Greaves's existing large OEM's like Piaggio and Atul have tied-up for sourcing of BS-IV engines.

Conference call highlights

- The company continues to be debt free and had cash and equivalents of Rs 6.0 bn at the end of Q1FY19 (16% of market cap).
- In the current fiscal, the company has planned for capex of Rs 1.0, which will be mainly aimed at R&D on its existing product portfolio.
- The company expects employee costs to rise 6% in the current fiscal.
- The company's foray into retailing of spare parts as now gained momentum. It has 74 outlets now, seriving 6000 vehicles per month.

Valuation and Target price

GCL is currently trading at 16x and 14x FY18 and FY19 earnings respectively. We recommend "Accumulate" with a revised target price of Rs 156 (Rs 153 earlier), valuing the stock at 15x FY20 earnings. Although, valuation is at a discount to engineering peers stocks, it is mainly due to the tepid profit growth in the past. We would take a favourable view of the stock at lower price points as the dividend yield of the stock is attractive.

Company background

Greaves Cotton Limited, established in 1859, is into manufacturing of Diesel / Petrol Engines, Gensets and Pumpsets. Greaves has a strong knowledge base in single cylinder diesel engines used for low cost transportation and its engines are extensively used in the three wheeler segment. Mr. Karan Thapar, who is Non-Executive Chairman of the company. The day-to-day management is vested with Mr. Mr. Nagesh Basavanhalli, Managing Director and CEO of the company, who is a professional and has joined the company in 2016.

The Business Divisions are

Business Division	Product Lines
Agricultural Equipment	Petrol / Kerosene Engines: 1 to 5 HP, Pumpsets and Power Tillers
Automotive	Light Diesel Engines:
Auxiliary Power	Large Diesel Generating Sets Range: 2.5 KVA to 500 kVA single unit and upto 2500 kVA in parallel running
Industrial Engines	Diesel Engines: 1.4 to 1000 HP range

Source: Company

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**16,356**	**17,981**	**19,517**	**21,182**
% change YoY	1.2	9.9	8.5	8.5
EBITDA	**2,446**	**2,613**	**2,940**	**3,218**
% change YoY	-8.9	6.9	12.5	9.5
Other Income	493.1	452.9	558.3	618.3
Depreciation	466.6	523.5	270.5	288.8
EBIT	**2,472**	**2,543**	**3,227**	**3,547**
% change YoY	-11.3	5.6	27.7	9.7
Net interest	8.1	8.1	11.0	11.0
Profit before tax	2,464	2,535	3,216	3,536
% change YoY	-7.6	2.9	26.9	9.9
Tax	684	867	933	1,025
as % of PBT	27.8	34.2	29.0	29.0
PAT before exceptional items	1,780.3	1,667.3	2,283.7	2,510.6
% change YoY	2.3	-6.3	37.0	9.9
Exceptional items	59.8	481.7	0	0
Reported PAT	**1,840.1**	**2,149.0**	**2,283.7**	**2,510.6**
Shares outstanding (m)	244.2	244.2	244.2	244.2
EPS (before exp items) (Rs)	7.3	6.8	9.4	10.3
CEPS (Rs)	9.2	9.0	10.5	11.5
DPS (Rs)	5.5	5.5	5.5	5.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	100	1,207	2,012	2,912
Accounts receivable	2,702	2,956	3,208	3,482
Inventories	1,294	1,227	1,333	1,447
Loans and Adv & Others	346	346	346	346
Current assets	4,443	5,736	6,900	8,187
Intangible assets	446	446	446	446
Other assets	692	692	692	692
LT investments	4,228	4,228	4,228	4,228
Net fixed assets	2,583	2,309	2,288	2,250
Def tax assets	0	0	0	0
Total assets	**6,187**	**7,396**	**8,502**	**9,651**
Payables	2,755	3,197	3,627	3,936
Others	0	0	0	0
Current liabilities	2,755	3,197	3,627	3,936
Provisions	110	110	110	110
LT debt	0	0	0	0
Other liabilities	317	317	317	317
Equity	488	488	488	488
Reserves	8,721	9,299	10,012	10,951
Total liabilities	**6,187**	**7,396**	**8,502**	**9,651**
BVPS (Rs)	36	38	41	45

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	2,446	2,613	2,940	3,218
Direct tax paid	(736)	(867)	(933)	(1,025)
Adjustments	232	-	-	-
Cash flow from operations	1,942	1,746	2,007	2,192
Net Change in Working Capital	403	255	73	(78)
Net Cash from Operations	**2,345**	**2,001**	**2,080**	**2,114**
Capital Expenditure	(271)	(250)	(250)	(250)
Cash from investing	**(588)**	**935**	**558**	**618**
Net Cash from Investing	(860)	685	308	368
Interest paid	(8)	(8)	(11)	(11)
Issue of Shares/(buyback)	-	-	-	-
Dividends Paid	(1,472)	(1,571)	(1,571)	(1,571)
Debt Raised	22	-	-	-
Net cash from financing	**(1,458)**	**(1,579)**	**(1,582)**	**(1,582)**
Net change in cash	27	1,106	806	900
Free cash flow	2,074	1,751	1,830	1,864
cash at end	100	1,207	2,012	2,912

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	15.0	14.5	15.1	15.2
EBIT margin (%)	12.1	11.6	13.7	13.8
Net profit margin (%)	10.9	9.3	11.7	11.9
Receivables (days)	60.3	60.0	60.0	60.0
Inventory (days)	28.9	24.9	24.9	24.9
Sales/gross assets(x)	4.9	5.0	5.1	5.2
Interest coverage (x)	302.0	322.6	267.2	292.5
Debt/equity ratio(x)	-	-	-	-
ROE (%)	20.0	17.6	22.5	22.9
ROCE (%)	17.9	17.2	20.5	20.9
EV/ Sales	2.0	1.7	1.5	1.4
EV/EBITDA	13.1	11.8	10.2	9.1
Price to earnings (P/E)	20.3	21.7	15.8	14.4
Price to book value (P/B)	4.1	3.9	3.6	3.3

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.

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