Morning Insight

NOVEMBER 16, 2018

	15-Nov	1 Day (% Chg)	1 Mth (% Chg)	3 Mths (% Chg)
Indian Indices				
SENSEX Index	35,261	0.3	0.3	(6.4)
NIFTY Index	10,617	0.4	0.3	(6.7)
NSEBANK Index	26,155	0.9	2.2	(6.0)
NIFTY 500 Index	8,955	0.4	0.7	(7.5)
CNXMcap Index	17,569	0.5	2.4	(8.6)
BSESMCAP Index	14,548	0.0	(0.3)	(12.9)
World Indices				
Dow Jones	25,289	0.8	(2.0)	(1.1)
Nasdaq	7,259	1.7	(5.1)	(7.0)
FTSE	7,038	0.1	(0.3)	(6.9)
NIKKEI	21,804	(0.2)	(3.8)	(2.3)
Hangseng	21,804	(0.2)	(3.8)	(2.3)
Shanghai	26,103	1.7	1.9	(4.3)

Value traded (Rs cr)	15-Nov	% Chg Day
Cash BSE	2,852	(13.8)
Cash NSE	31,608	(12.1)
Derivatives	1,560,702	56.0

Net inflows (Rs cr)	14-Nov	MTD	YTD
FII	177	1,416	(41,269)
Mutual Fund	543	(47)	112,256

Nifty Gainers & Losers 15-Nov	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Adani Ports	346	4.3	5.3
Titan Co	921	3.2	4.7
Eicher Motors	23,945	3.0	0.1
Losers			
Grasim Ind	809	(7.7)	4.5
Yes Bank	206	(7.4)	60.9
Indiabulls hous	805	(4.1)	6.2

Advances / Declines (BSE)

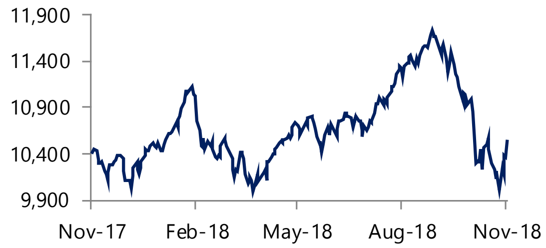
15-Nov	A	B	T	Total	% total
Advances	231	374	43	648	100
Declines	199	654	63	916	141
Unchanged	2	19	12	33	5

Commodity

	15-Nov	1 Day (% Chg)	1 Mth (% Chg)	3 Mths (% Chg)
Crude (US$/BBL)	67.1	0.7	(17.6)	(6.1)
Gold (US$/OZ)	1,213.4	0.2	(0.9)	3.4
Silver (US$/OZ)	14.3	1.1	(2.5)	(2.5)

Debt / forex market	15-Nov	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.7	7.9	7.8
Re/US$	72.0	72.3	73.8	69.9

Nifty



Source: Bloomberg

News Highlights

- India's trade deficit in October widened from a five-month low in September after crude oil imports coupled with a depreciating rupee weighed on the nation's trade books. The gap between exports and imports stood at $17.13 bn, compared with $14.61 bn in the same month last year, according to a release from the Ministry of Commerce. (Mint)
- Fitch yesterday retained its sovereign rating for India at 'BBB-', the lowest investment grade with a stable outlook. The rating agency said that a weak fiscal position continues to constrain the ratings and there were significant risks to macroeconomic outlook. (Mint)
- The government will give employers the salaries for seven of the 26 weeks of maternity leave for women earning more than Rs 15,000 a month as per the Women and Child Development ministry. (BL)
- The government has sought Tata Sons Ltd.'s help to rescue struggling **Jet Airways India Ltd.,** while Tata Sons is discussing a potential haircut to state-run banks on Jet's loans as part of the plan, while Airports Authority of India may forgo some of its dues. (Mint)
- The Dalmia Group moved the Supreme Court challenging the National Company Law Appellate Tribunal's approval for the sale of Binani Cement Ltd. to **UltraTech Cement Ltd.** (Mint)
- Former State Bank of India Chairman Om Prakash Bhatt has stepped down from the panel set up to search for a new chief executive officer for **Yes Bank Ltd.** (ET)
- The **Indian Hotels Company Ltd.** expects its mid-market hotel brand Ginger to help improve margin even as average room rates are at their lowest in a decade. (ET)
- **Infosys Ltd** has appointed Deputy Chief Financial Officer Jayesh Sanghrajka as the interim finance head, effective from 17 November. Sanghrajka has spent 13 years in Infosys over two stints and has performed various leadership roles in the finance function. (ET)
- **Steel Strips Wheels** has received another export order from Europe comprising over 70,000 wheels, a mix of 13" and 14", to be shipped from its Chennai plant over the next three months to the EU Caravan market. (BL)
- **Tata Sponge** board approves issuance of preference shares worth Rs 10 bn to promoter Tata Steel on a private placement basis. (ET)
- **SRF Industries** extends capex estimates from Rs 1.8 bn to Rs 2.57 bn for enhancement and integration of agrochemical plant in Gujarat. (BL)
- **Lemon Tree** signs license agreement for a 76-room property in Odisha. The hotel will be operational by March 2020. (BS)
- **Punjab and Sind Bank** revises MCLR across various tenors with effect from Nov. 16. Overnight MCLR at percent and one-year MCLR at 8.8%. (ET)
- **NHPC** sets Nov. 30 as record date for shares buyback. (ET)
- **Titagarh** share sale in Cimmco subscribed 5 percent for non-retail, while offer for retail investors opens today. (ET)

What's Inside

- **Result Update:** MRPL, VIP Industries, FIEM Industries, NBCC India Ltd

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

Result Update

MRPL

PRICE RS.81 **TARGET RS.100** **BUY**

Stock Details

Market cap (Rs mn)	:	183890
52-wk Hi/Lo (Rs)	:	137 / 61
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	2,377,371
Shares o/s (mn)	:	1753

Source: Bloomberg

Financial Summary - Consolidated

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	490,550	606,286	632,215
Growth (%)	12.1	23.6	4.3
EBITDA	45,020	38,747	44,907
EBITDA margin (%)	9.2	6.4	7.1
PAT	19,926	15,612	19,931
EPS	11.4	8.9	11.4
EPS Growth (%)	-43	-22	28
BV (Rs/share)	58	65	73
Dividend/share (Rs)	3.0	2.3	3.1
ROE (%)	17.7	14.1	16.0
ROCE (%)	12.9	11.6	13.1
P/E (x)	7.1	9.1	7.1
EV/EBITDA (x)	5.4	5.9	4.8
P/BV (x)	1.4	1.2	1.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	88.6	88.6	88.6
FII	1.6	2.8	3.1
DII	3.2	1.9	1.7
Others	6.6	6.7	6.6

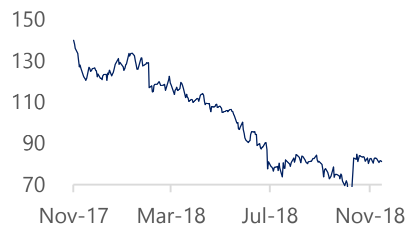
Source: Company

Price Performance (%)

(%)	1M	3M	6M
MRPL	(1.3)	0.4	(23.0)
Nifty	1.0	(7.2)	(1.7)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Earnings volatility continues: Lower GRMs and forex losses drags. Despite lower average realization, MRPL's gross revenue increased 7% qoq to Rs.177 bn (+43% yoy) led by higher crude throughput and weak currency. With the recent correction in crude oil price, we believe the margins should improve in the medium term. The company's management has indicated that it aims to achieve crude throughput of 16 mmtpa in FY19 (in H1FY19 – 7.76 mmt).

In the medium to long term, the key factors to watch out are GRMs, rupee movement, oil prices and petroleum product demand. Further, investors are waiting for an announcement of swap ratio for merger of MRPL with HPCL.

Key Highlights

- Average realization stood lower at US$ 88/bbl, -8% qoq (partly base effect) due to lower product prices. MRPL reported higher crude throughput of 3.91 mmt, 2% qoq and 11% yoy resulting in higher capacity utilization (104%).
- MRPL reported significantly lower GRMs of US$4.41/bbl in Q2FY19 as against US$8.28/bbl in Q1FY19 and US$8.05/bbl in Q2FY18.
- Forex losses jumped meaningfully by 500% yoy and 4% qoq to Rs.4 bn due to currency fluctuations.

Valuation & outlook

Going ahead, we expect MRPL's profitability to improve on account of i). Improved product mix, ii). Better refining margins iii). Economies of scale, iv). Forward integration - Polypropylene plant and v). Various tax benefits.

We have revised our earnings to reflect H1FY19 results. We now expect MRPL to report an EPS of ~Rs.9/share (earlier Rs.11/share) in FY19E and an EPS of Rs.11/share (earlier Rs.12/share) in FY20E supported by weaker INR/USD, higher GMRs and higher crude throughput. At current price, the stock is trading at 7.1x P/E and 1.1x P/B multiples on FY20E earnings. We maintain BUY on MRPL with a revised price target of Rs.100 (earlier Rs.106), valuing it at 5.5x FY20E EV/EBIDTA. We expect stock to remain in focus on the news flow of merger with HPCL, we opine.

Quarterly performance table - Standalone

Particulars (Rs Mn)	Q2FY19	Q1FY19	Q2FY18	YoY (%)	QoQ (%)
Sales	**177,329**	**165,827**	**124,162**	**43**	**7**
Incr/(Decr) in stock	(318)	15,465	1,672		
Total Expenditure	175,568	173,161	116,752	50	1
EBIDTA	**1,443**	**8,131**	**9,082**	**(84)**	**(82)**
Depreciation	1,824	1,704	1,701	7.2	7.0
EBIT	**(380)**	**6,427**	**7,382**	**(105)**	**(106)**
Other income	381	558	828	(54)	(32)
Interest-net	1,173	1,106	1,053	11	6
PBT	**(1,172)**	**5,879**	**7,156**	**(116)**	**(120)**
Extra ordinary Exp/(Inc)	(251)	262	259		
Tax	(110)	1,998	2,118	(105)	(105)
PAT	**(812)**	**3,620**	**4,780**	**(117)**	**(122)**
EPS (Rs)	**(0.5)**	**2.1**	**2.7**	**(117)**	**(122)**

Source: Company.

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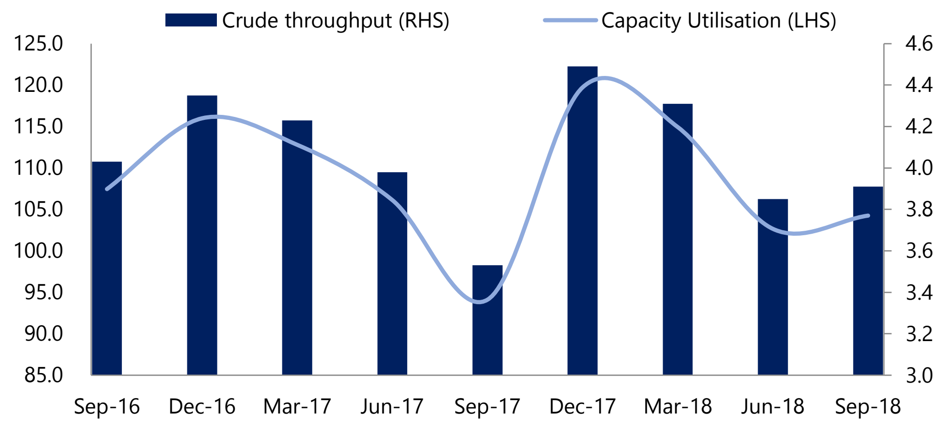
Key Developments

- **Marketing initiatives:** The Company has increased its market presence by way of direct marketing of its products Petcoke, Sulphur and Polypropylene. The company is increasing the product grades of Polypropylene to enhance Polypropylene (PP) market share and thereby fetch higher margins.
- The Company has bagged the prestigious "FieldComm group 2018 Plant of the Year" Global award conferred by FieldComm group. The Company is the first Indian company to receive this International award.
- **New expansion plans in place** – **Growth is a process:** MRPL has set-up the next milestone and is planning to enhance its refining capacity to 25 mmtpa (19% higher than targeted) as against an earlier target of 21 mmtpa and current capacity of 15.5 mmtpa. Additionally, the company is planning to scale up its petrochemical capacity to boost its margins. The company will invest Rs.110 bn for this expansion. We like the sharpened focus of the company towards its growth strategy. The expansion is seen as a major margin driver as it will help the company to process cheaper, heavier crudes into high-value products like diesel, liquefied petroleum gas and propylene.
- **MRPL is venturing into RLNG business:** MRPL has signed a memorandum of understanding (MOU) with new Mangalore Port Trust to study the feasibility of setting up an LNG re-gasification terminal at Mangalore. We believe this is at a preliminary stage and will have a long gestation period. However, if materializes then it will help MRPL to lower its refinery operating cost by replacing costlier liquid fuel with cheaper LNG.
- **Re-commencing retail outlets-** The Company has commissioned COCO (company owned and company operated) retail outlet in Mangalore in Feb'18 and also commissioned its first ever dealer owned dealer operated retail outlet at Mandya in March'18. In Karnataka, this is the sixth RO for MRPL. MRPL has drawn up plans for opening over 100 retail outlets which will improve its overall margins due to addition of marketing margins. The company is in the process of obtaining statutory approvals. MRPL has also taken over retail outlet of ONGC set up near the refinery unit and has now become a part of MRPL retail outlet map.
- **Auto fuel up-gradation:** MRPL is in the process of upgrading its facilities to produce BS-VI grade MS& HSD by April 2020 in-line with the Supreme Court directive and Auto fuel upgradation policy of Govt of India.

Quarterly result analysis – Q2FY19

- **Revenue growth:** Despite lower average realization, MRPL's gross revenue increased 7% qoq (partly base effect) to Rs.177 bn (+43% yoy) led by higher crude throughput and weak currency. Average realization stood lower at US$ 88/bbl, -8% qoq (partly base effect) due to lower product prices.
- **Crude throughput:** MRPL reported higher crude throughput of 3.91 mmt, 2% qoq and 11% yoy resulting in higher capacity utilization (104%).

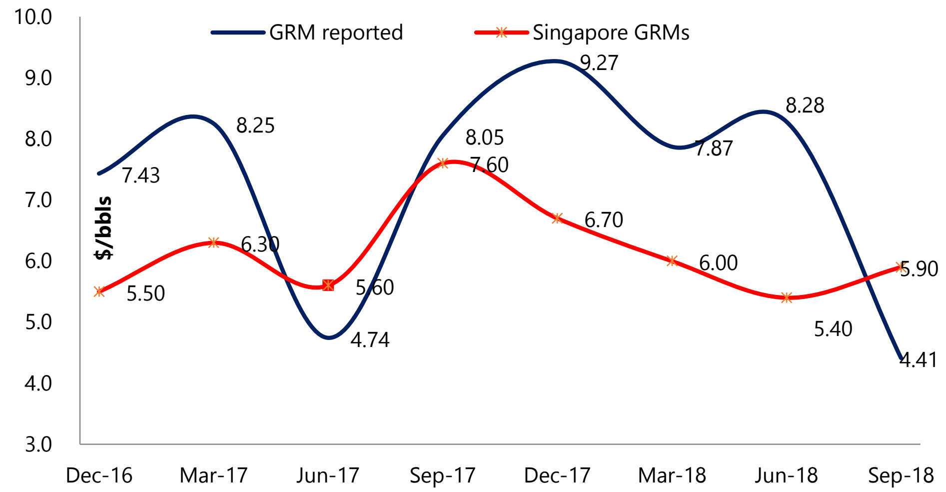
MRPL's crude throughput (mn mt) and capacity utilization (%)



Source: Company

- **Refining margins:** MRPL reported significantly lower GRMs of US$4.41/bbl in Q2FY19 as against US$8.28/bbl in Q1FY19 and US$8.05/bbl in Q2FY18. However, Benchmark Singapore refining margin stood higher at US$5.9/bbl in Q2FY19.

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



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

- **Raw material cost including purchases of finished goods:** Higher crude oil prices resulted in higher raw material cost for MRPL. RM cost increased 8% qoq to Rs.144.5 bn (75% yoy) led by higher crude throughput, weak currency and higher cost. In Q2FY19, Crude oil price increased by 3% qoq to US$ 74/bbl. Raw material cost to sales ratio (%) has increased 800 bps to 81.6%.
- **Employee cost:** Staff cost has increased 7% qoq to Rs.1 bn (+2% yoy). Employee cost to sales ratio (%) has increased 5 bps to 0.6%. We believe staff cost is within acceptable range.

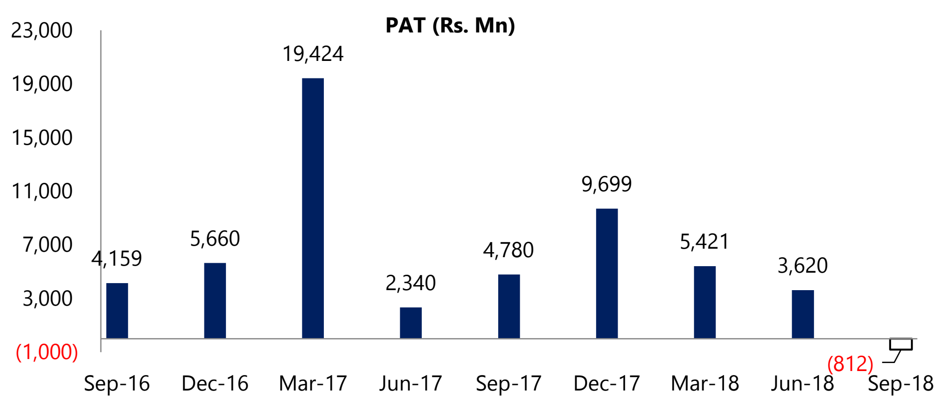
- **Other expenses:** MRPL's other expenditure decreased 21% qoq (partly base effect) to Rs.3.6 bn. Operating cost per unit has decreased substantially to US$2.3/bbl (-21% qoq) due to higher crude throughput and lower other expenses.
- **Forex loss:** Forex losses jumped meaningfully by 500% yoy and 4% qoq to Rs.4 bn due to currency fluctuations.
- **Operating profit:** Lower GRMs, higher raw material cost, and forex losses resulted in significant lower EBIDTA of Rs.1.4 bn in Q2FY19, -82% qoq and -84% yoy.
- **Interest cost:** MRPL's interest cost has increased to Rs.1.2 bn, up 6% qoq and 11% yoy. Higher crude oil price, and weak currency led to higher working capital.
- **Depreciation:** In Q2FY19, depreciation cost increased 7% both qoq/yoy to Rs. 1.8 bn.
- **Other income:** MRPL's other income stands at Rs.381 mn in Q2FY19, decreased 32% qoq and 54% yoy mainly on account of lower dividend/interest income.
- **Loss/ Profit before tax (L/PBT):** MRPL reported a loss of Rs.1.2 bn due to lower operating profit and lower other income.
- **Exceptional gain/(loss):**

  a) The exceptional item for H1FY19 includes - a) Expense of Rs.254.4 mn is on account of estimated cost of purchase of Renewable Energy Certificate (REC) from Indian Energy Exchange (IEX), as per the direction received from Karnataka Electricity Regulatory Commission, for meeting Renewable Energy Purchase Obligation (RPO) from the FY16 to FY18 based on company's captive consumption.

  b) Expense of Rs.177.1 mn is towards contribution to "MRPL Defined Contribution Pension Scheme" for Management Staff (pertaining to the period January 2007 to march 2018) and non-management staff (pertaining to the period April 2007 to March 2018).

  c) Income of Rs.420.5 mn relating to reclaim of input tax credit under Goods and Service Tax Act (GST Act) for FY18.
- **Net Loss:** The Company has reported net loss of Rs.812 mn in Q2FY19 which is partly mitigated by net tax reversal (Rs.110 mn) and extra-ordinary gain (Rs.251 mn).

Quarterly earnings volatility continues



Source: company

Maintain BUY

We have revised our earnings to reflect H1FY19 results. We now expect MRPL to report an EPS of Rs.9/share (earlier Rs.11/share) in FY19E and an EPS of Rs.11.4/share (earlier Rs.12.3/share) in FY20E supported by weaker INR/USD, higher GMRs and higher crude throughput. At current price, the stock is trading at 7.1x P/E and 1.1x P/B multiples on FY20E earnings. We maintain BUY on MRPL with a revised price target of Rs.100 (earlier Rs.106), valuing it at 5.5x FY20E EV/EBIDTA. We expect stock to remain in focus on the news flow of merger with HPCL, we opine.

Valuation

Particulars Unit FY20E	Unit	
EBIDTA	Rs mn	44,907
Multiple EV/EBIDTA	x	5.5
EV		246,988
Less: Net debt		72,456
M.cap		174,532
Fair Value / Share (Rs.)		**100**
CMP		81
Upside/ (Downside) (%)		**23**

Source: Kotak Securities - Private Client Research

Key Risk and Concerns:

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

Company background

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

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**437,548**	**490,550**	**606,286**	**632,215**
% change YoY	10.1	12.1	23.6	4.3
EBITDA	**49,770**	**45,020**	**38,747**	**44,907**
% change YoY	188.6	-9.5	-13.9	15.9
Other Income	20,269	2,480	2,728	2,739
Depreciation	9,841	9,661	10,245	10,619
EBIT	**60,198**	**37,839**	**31,230**	**37,027**
% change YoY		-37.1	-17.5	18.6
Net interest	9,659	9,127	8,927	7,499
Profit before tax	**50,538**	**28,713**	**22,303**	**29,528**
% change YoY		-43.2	-22.3	32.4
Tax	17,606	10,977	6,691	9,597
as % of PBT	34.8	38.2	30.0	32.5
Profit after tax	32,932	17,736	15,612	19,931
Minority interest	-1,794	-2,191	0	0
Share of profit of associates	0	0	0	0
Net income	**34,726**	**19,926**	**15,612**	**19,931**
% change YoY	NM	-42.6	-21.7	27.7
Shares outstanding (m)	1,753	1,753	1,753	1,753
EPS (reported) (Rs)	**19.8**	**11.4**	**8.9**	**11.4**
CEPS (Rs)	24.4	15.6	14.8	17.4
DPS (Rs)	6.0	3.0	2.3	3.1

Source: Company, Kotak Securities – Private Client Research

Balance Sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	21,438	8,330	3,150	3,218
Accounts receivable	26,190	25,768	30,730	31,178
Inventories	44,140	52,404	64,781	65,820
Loans and Adv & Others	20,145	23,710	21,867	21,880
Current assets	111,913	110,211	120,527	122,096
Misc exp.	0	0	0	0
LT investments	419	384	384	384
Net fixed assets	208,383	208,910	209,438	209,965
Total assets	**320,715**	**319,506**	**330,349**	**332,445**
Payables	60,445	47,926	57,789	59,029
Others	4,739	51,270	58,540	59,622
Current liabilities	65,184	99,196	116,330	118,651
Provisions	31,866	4,536	3,078	4,159
LT debt	132,596	107,403	90,972	75,674
Min. int and def tax liabilities	-3,953	6,038	6,038	6,038
Equity	17,527	17,527	17,527	17,527
Reserves	77,496	84,808	96,405	110,397
Total liabilities	**320,715**	**319,506**	**330,349**	**332,445**
BVPS (Rs)	54	58	65	73

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	60,198	37,839	31,230	37,027
Depreciation	9,841	9,661	10,245	10,619
Chg in working capital	(174,772)	7,530	180	1,902
Chgs in other net current assets	-	-	-	-
Operating cash flow	(104,734)	55,030	41,656	49,548
Interest	(9,659)	(9,127)	(8,927)	(7,499)
Tax	(17,606)	(10,977)	(6,691)	(9,597)
CF from operations	**(131,999)**	**34,926**	**26,038**	**32,453**
Capex	6,360	(10,188)	(10,772)	(11,146)
(Inc)/dec in investments	(414)	34	-	-
CF from investments	**5,947**	**(10,154)**	**(10,772)**	**(11,146)**
Others	4,429	43	2,304	(1,054)
Increase/(decrease) in debt	4,496	(25,193)	(16,431)	(15,298)
Proceeds from share premium	-	-	-	-
Dividends	(28)	(12,731)	(6,318)	(4,886)
CF from financing	**8,897**	**(37,881)**	**(20,446)**	**(21,238)**
Opening cash	138,594	21,438	8,330	3,150
Closing cash	**21,438**	**8,330**	**3,150**	**3,218**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	11.4	9.2	6.4	7.1
EBIT margin (%)	13.8	7.7	5.2	5.9
Net profit margin (%)	7.9	4.1	2.6	3.2
Receivables (days)	22	19	19	18
Inventory (days)	37	39	39	38
Sales/gross assets(x)	2.0	2.2	2.9	3.0
Interest coverage (x)	4.1	3.9	3.2	4.6
Debt/equity ratio(x)	1.4	1.2	0.9	0.7
ROE (%)	20.0	17.7	14.1	16.0
ROCE (%)	20.5	12.9	11.6	13.1
EV/ Sales	0.6	0.5	0.4	0.3
EV/EBITDA	5.1	5.4	5.9	4.8
Price to earnings (P/E)	4.1	7.1	9.1	7.1
Price to book value (P/B)	1.5	1.4	1.2	1.1

Source: Company, Kotak Securities – Private Client Research

Result Update

Stock Details

Market cap (Rs mn)	:	66179
52-wk Hi/Lo (Rs)	:	647 / 287
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	350,455
Shares o/s (mn)	:	141

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	14,095	17,513	19,482
Growth (%)	10.5	24.3	11.2
EBITDA	1,917	2,456	2,755
EBITDA margin (%)	13.6	14.0	14.1
Net profit	1,277	1,673	1,863
EPS (Rs)	9.0	11.8	13.2
Growth (%)	50.4	31.0	11.4
Book value (Rs/share)	34.0	41.6	49.9
Dividend per share (Rs)	3.0	3.5	4.0
ROE (%)	26.5	28.4	26.4
ROCE (%)	37.3	39.2	36.8
EV/EBITDA (x)	32.3	25.5	22.8
P/E (x)	51.6	39.4	35.4
P/BV (x)	13.7	11.2	9.3

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	53.5	53.5	52.5
FII	12.1	11.0	10.3
DII	7.3	8.5	10.7
Others	27.1	27.1	26.5

Source: Company

Price Performance (%)

(%)	1M	3M	6M
VIP Industries	6.0	(19.2)	16.6
Nifty	1.0	(7.2)	(1.7)

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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VIP INDUSTRIES LTD (VIP)

PRICE RS.466 **TARGET RS.515** **ACCUMULATE**

VIP Industries has reported a moderate Q2FY19 despite weak macro environment and raw material price inflation. The strength of the performance indicates strong volume growth in a seasonally weak quarter for the company, stable realisations and sustained efforts by the company to improve its performance.

Key Highlights

- VIP has reported strong sales of Rs 4.02 bn (+30% YoY) in a seasonally weak quarter for the company. Management indicated that the domestic segment remains strong for the company. Reduction in GST rate from the peak of 28% to 18%, increased air travel and demand for branded luggage propelled the demand.
- Stable realisations, strong volume growth and raw material inflation resulted in an EBIDTA of Rs 511 mn with EBIDTA margin of 12.7 % (+140 bps YoY). It is commendable that the margins have improved YoY despite an inflationary cost environment.
- Consequently, PAT was reported at Rs 329 mn, marginally below our expectation. We interpret the results as moderate for the company.

Valuation & Outlook

We estimate the company to be a major beneficiary of increasing penetration of luggage bags and back packs in the country, improving living standards leading to increased air and rail travel and also the desire for travellers to have branded luggage. Under current circumstances, for VIP, we estimate a revenue CAGR of 18% and earnings CAGR of 21% over FY18 to FY20E with strong operating margins and return ratios. The stock has run-up by more than 13% since our last update of October 4th, 2018. Recommend Accumulate (from BUY) with an unchanged price target of Rs 515 valuing the stock at 39X FY20E earnings.

Quarterly performance.

Rs mn	Q2FY18	Q1FY19	Q2FY19	YoY (%)	QoQ (%)
Net sales	**3092**	**5,178**	**4,018**	**29.9**	**-22.4**
Raw material cost	1626	2669	2020	24.2	-24.3
Employee cost	385	408	490	27.3	20.1
Other expenses	732	1190	997	36.2	-16.2
Total Expd	2743	4267	3507	27.9	-17.8
EBIDTA	**349**	**911**	**511**	**46.4**	**-43.9**
EBIDTA %	11.3	17.6	12.7	12.7	-27.7
Depreciation	25	30	39	56.0	30.0
Other income	38	23	20		
Interest cost	0	0	0		
PBT	**362**	**904**	**492**	**35.9**	**-45.6**
Taxes	120	305	163	35.8	-46.6
PAT	**242**	**599**	**329**	**36.0**	**-45.1**

Source: Company

Currents quarter's performance was propelled by volume growth across segments by the company including VIP, Aristocrat, Alfa, Skybags, Caprese and Carlton attributed to:

1. Increasing penetration of luggage bags
2. Customer preference for branded products
3. Substantial brand availability with wide distribution network
4. Diversified product portfolio
5. Implementation of GST
6. Healthy domestic air traffic

Performance across Brands

Management of VIP indicated that each of its 5 brand have done well in Q2FY19 and share the same margins at net level.

Skybags continues to do very well for the company and is now the largest luggage and backpack brand in the country. VIP claims to have more than 50% market-share in the backpack market with Skybags.

Aristocrat: Aristocrat is the value brand of the company which saw an extremely good year and was the fastest growing brand. As per the management, there is a huge scope in the value segment of the market and the company is well poised to capture the same in value segment. VIP is also focusing on Aristocrat to face competition.

VIP brand still enjoys a healthy market share and is on top of the mind brand when it comes to family travel. Management is focusing on reinventing the brand through campaigns.

Premium Brands: Caprese and Carlton are high-margin brands and continue to grow well, though they are still a small proportion of revenues.

Performance across channels

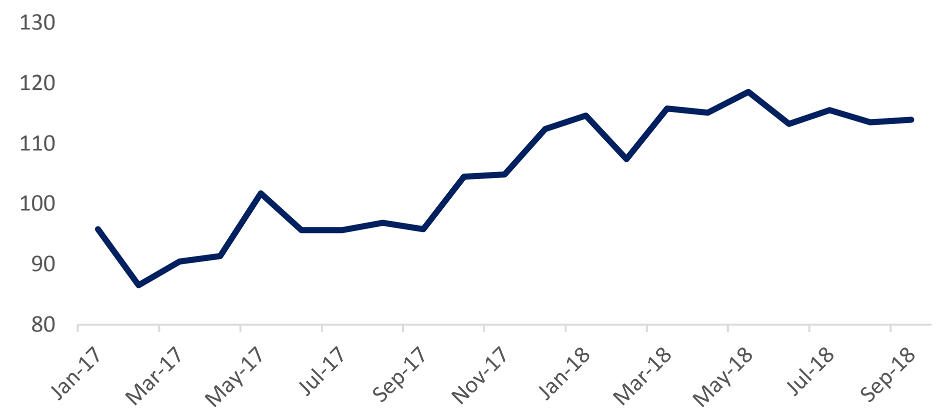
The **Hypermarket channel** continues to witness the strongest growth amongst all channels suggesting that Indian consumers are showing preference towards affordable luggage and convenience of modern shopping formats which are clean and air conditioned. Management indicated that VIP enjoys market leadership in modern trade**. E-commerce** is another channel which is slowly picking-up for the company with Indian consumers not only in metros but also in tier 2 and 3 towns hooking on to e-com. General Trade channel has registered very good sales growth during the quarter due to focused efforts on each segment including distribution and direct dealers. The **Company-owned stores** and **exclusive franchise stores** also continue to do well. **Canteen Stores Department (CSD)** channel remain stable for the company.

Aviation industry is in bad shape

The domestic passenger traffic remains strong due to conducive factors like relatively low penetration levels, lower yields, support from regulatory environment (i.e. regional connectivity scheme) and development of new airports. However, the recent spurt in crude prices, global increase in interest rates and depreciation in rupee can hurt the growth of the sector going forward. If the macro environment remains in bad shape for some more time, in H2FY19 we can see aviation companies deferring their capacity addition and also resorting to increase in ticket prices. This could hurt passenger air traffic going forward, which is already exhibiting flattening trend YTD.

There is strong correlation between air traffic, air travel and demand for branded luggage and we would want to be cautious here given the current precarious state of the aviation industry.

Passengers flown by Indian airlines (in lakhs)



Source: DGCA

Raw material situation is currently not healthy

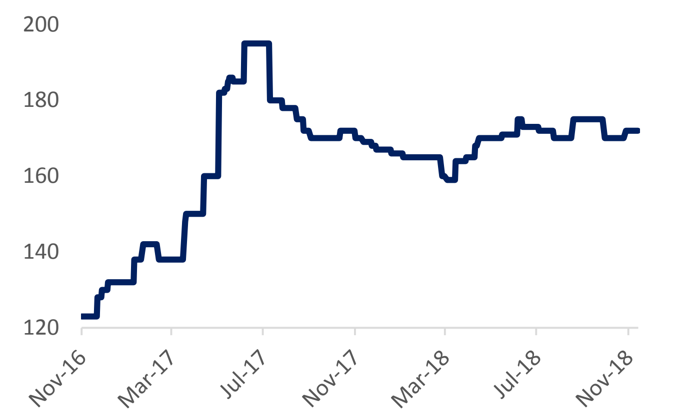
Management indicated that the company has been experiencing increasing raw material trend (since Q4FY18) in both the 2 major categories of inputs - polypropylene (for hard luggage) and polycarbonate. Other raw material like polyester, canvas, denim, PU leather, copper, aluminum, zipper head and hardware accessories have also shown an inflationary trend.

VIP sources more than 70% of its soft luggage from China and its sourcing cost increases if Yuan appreciates against the rupee. YTD the Chinese Yuan has appreciated by 6% vs. the INR which has also contributed to cost inflation for VIP. VIP is trying to contain its margins under these adverse circumstance by increasing prices and also by reducing other cost.

Rupee depreciation vs. the Yuan

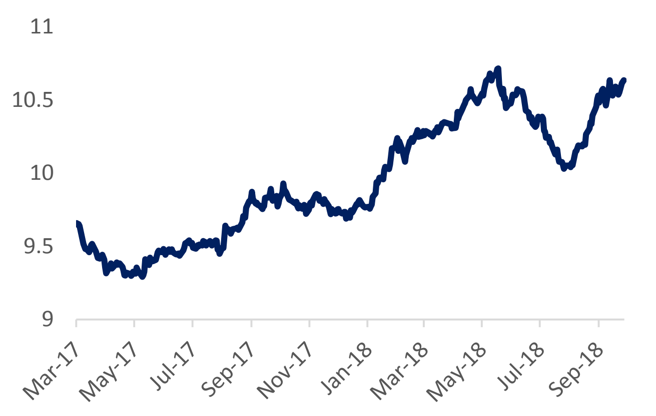
Further depreciation of rupee, increase in raw material prices and increase in operational expenditure in china have the potential to impact the margins for VIP over FY18-FY20E. However, we believe this would be off-setted by strong volume growth leading to operating leverage and economies of scale. We expect the sustainable EBIDTA of ~14% in a strong volume growth and high cost inflation environment.

Chinese Yuan versus INR



Source: Bloomberg

Polypropylene prices imported from China



Source: Bloomberg

Sourcing from China gradually shifting to Bangladesh

Due to increasing labour costs and other reasons such as strengthening of the Yuan vs. INR, the company is gradually reducing its dependency on China and increasing its sourcing from Bangladesh through its wholly owned subsidiaries (total 3 subsidiaries) in Bangladesh set-up with an investment of Rs 150 mn. VIP has flexibility in increasing the capacities with minimum capex and within a short time-frame.

Going forward by FY20, we expect the sourcing of soft luggage to fall from China to 90% and with share of Bangladesh increasing to 10% (currently negligible) which would aid margins going forward. Bangladesh operations reported a PAT of Rs 27 mn in Q2FY19 (versus 0.2 mn in Q2FY18)

Valuation and outlook

In recent years in India, luggage and handbags have managed to shed their traditional utilitarian tag and have now evolved as lifestyle products. Increasing business and leisure travels coupled with rising disposable income and organized retailing have led to increased demand for luggage. Within this category, the demand for brand names has grown, as consumers aspire for goods that are branded, durable and count as status symbol. We expect VIP to be one of the largest beneficiaries of this change in the country. However, the macro-economic variables can play spoilsport for the company.

Under current circumstances, for VIP, we estimate a revenue CAGR of 18% and earnings CAGR of 21% over FY18 to FY20E with strong operating margins and return ratios. The stock has run-up by more than 13% since our last update of October 4th, 2018. Maintain estimates and recommend ACCUMULATE (from BUY) with an unchanged price target of Rs 515 valuing the stock at 39X FY20E earnings.

Company background

VIP Industries, established in the year 1971, is a leading luggage maker in India offering a wide range of products in hard luggage and soft luggage segments including school bags, trolleys, backpacks, suitcases, executive cases, duffels and overnight travel solutions. Some of its brands include VIP, Caprese, Alfa, Aristocrat, Buddy and Carlton. The company is Asia's No.1 luggage manufacturer and transforming its business strategy from time to time. The company has manufacturing facilities located at Haridwar in Uttarakhand, Jalgaon, Nagpur and Nashik in Maharashtra. The company has set up a subsidiary in Bangladesh to manufacture and market luggage and bags. The company is maintaining its market share of 50% in the organized luggage industry by offering wide range of product mix like Carlton and VIP catering to high-end segment, Aristocrat caters to mid-segment, Skybags cater to mid and sub-mid segment and Alfa for lower-end price segment.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	**12,752**	**14,095**	**17,513**	**19,482**
% change YoY	4.8	10.5	24.3	11.2
Raw material cost	6,759	7,140	8,695	9,672
Employee cost	1,415	1,582	1,821	2,026
Other expenses	3,259	3,456	4,542	5,028
Total Operating expd	11,433	12,178	15,058	16,727
EBITDA	**1,319**	**1,917**	**2,456**	**2,755**
Depreciation	128	124	147	157
EBIT	**1,191**	**1,793**	**2,308**	**2,598**
Other income	59	104	100	100
Interest expense	6	0	0	0
Profit before tax	1,244	1,897	2,408	2,698
Tax	395.0	620.0	735.2	834.7
ETR (%)	31.8	32.7	30.5	30.9
Profit after tax	849	1,277	1,673	1,863
Minorities& Associates	0	0	0	0
Net income	**849**	**1,277**	**1,673**	**1,863**
% change YoY	25.2	50.4	31.0	11.4
Shares outstanding (m)	142	142	142	142
EPS	**6.0**	**9.0**	**11.8**	**13.2**
DPS	2.2	3.0	3.5	4.0

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	849	1,277	1,673	1,863
Depreciation	128	124	147	157
Changes in working capital	12	(372)	(732)	(396)
Cash flow from operations	**989**	**1,029**	**1,089**	**1,624**
Capex	(65)	(228)	(250)	(250)
Investments	(679)	79	100	-
Cash flow from investments	**(744)**	**(149)**	**(150)**	**(250)**
Equity issuance	-	-	-	-
Debt raised	(145)	(10)	(3)	-
Dividend Paid	(371)	(514)	(599)	(685)
Miscellanous items	-	-	-	-
Cash flow from financing	**(516)**	**(524)**	**(602)**	**(685)**
Net cash flow	(271)	356	336	690
Opening cash	345	73	430	766
Closing cash	73	430	766	1,456

Source: Company, Kotak Securities – Private Client Research

Balance Sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	73	430	766	1,456
Debtors	1,209	1,520	1,900	2,020
Inventory	2,874	3,168	3,984	4,400
Loans and advances	558	666	833	900
Other current assets	46	56	66	76
Total current assets	*4,687*	*5,409*	*6,783*	*7,396*
LT investments	679	600	500	500
Net fixed assets	615	719	822	914
Total assets	**6,054**	**7,158**	**8,871**	**10,266**
Creditors	1,457	1,692	2,139	2,315
Provisions	113	257	304	289
Other current liabilities	425	397	544	601
Total current liabilities	*1,995*	*2,345*	*2,987*	*3,204*
LT debt	13	3	0	0
Minority Interest	0	0	0	0
Equity	283	283	283	283
Reserves	3,763	4,527	5,600	6,779
Networth	4,046	4,810	5,883	7,062
Total liabilities	**6,054**	**7,158**	**8,871**	**10,266**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	10.3	13.6	14.0	14.1
EBIT margin (%)	9.3	12.7	13.2	13.3
Net profit margin (%)	6.7	9.1	9.6	9.6
ROE (%)	21.0	26.5	28.4	26.4
ROCE (%)	29.3	37.3	39.2	36.8
Dividend payout (%)	43.8	40.2	35.8	36.8
BVPS (Rs)	28.6	34.0	41.6	49.9
Working capital turnover (days)	77.2	65.0	62.0	62.0
Debt Equity (x)	0.0	0.0	-	-
PER (x)	77.7	51.6	39.4	35.4
P/C (x)	67.5	47.1	36.2	32.6
Dividend yield (%)	0.5	0.6	0.8	0.9
P/B (x)	16.3	13.7	11.2	9.3
EV/Sales (x)	5.1	4.6	3.7	3.3
EV/ EBITDA (x)	47.3	32.3	25.5	22.8

Source: Company, Kotak Securities – Private Client Research

Result Update

FIEM INDUSTRIES LTD (FIEM)

PRICE RS.604 **TARGET RS.902** **BUY**

FIEM reported another quarter of strong revenue growth. However due to raw material increase; EBITDA margin remained under pressure and led to muted growth in net profit.

Stock Details

Market cap (Rs mn)	:	7951
52-wk Hi/Lo (Rs)	:	1065 / 471
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	14,856
Shares o/s (mn)	:	13

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	12,384	14,947	16,880
Growth (%)	22.1	20.7	12.9
EBITDA	1,407	1,517	1,808
EBITDA margin (%)	11.4	10.2	10.7
Adjusted Net profit	491	543	698
Adjusted EPS (Rs)	37.3	41.2	53.0
Growth (%)	4.5	10.4	28.7
Book value (Rs/share)	341	372	414
Dividend per share (Rs)	9.0	9.0	9.0
ROE (%)	11.4	11.6	13.5
ROCE (%)	15.3	15.1	17.4
P/E (x)	16.2	14.7	11.4
EV/EBITDA (x)	6.6	6.3	5.1
P/BV (x)	1.8	1.6	1.5

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	63.6	63.6	63.6
FII	14.4	14.3	14.3
DII	7.8	8.0	8.3
Others	14.2	14.1	13.9

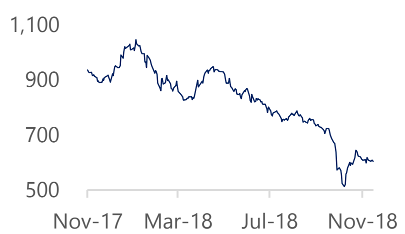
Source: Company

Price Performance (%)

(%)	1M	3M	6M
FIEM Industries	0.6	(19.1)	(29.9)
Nifty	1.0	(7.2)	(1.7)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Key result highlights

FIEM's revenue in 2QFY19 grew by 21% YoY to Rs3,945mn. Growth in revenues came in much ahead of 6% production growth witnessed in two wheeler segment. FIEM generates ~95% of revenues by selling auto lamps, rear view mirrors, plastic moulded parts, etc. to the two wheeler segment. EBITDA margin declined YoY from 11.5% to 10.1% due to increase in commodity cost. FIEM reported PAT of Rs148mn, 3% growth YoY.

Outlook and Valuation

Despite lower two wheeler production growth, the company reported strong growth in revenues – led by increased business with some customer and introduction of LED lighting in certain models. FIEM's key customers are expected to grow at a healthy rate over medium to long term. Further, increased adoption of LED lights by two wheeler manufacturers would translate into higher sales for the company. Given rising raw material prices, company's margins has been impacted in 1HFY19 as price negotiations with customers happens with a 3-6 months lag. We thereby expect the margins to stay under pressure in the near term and is expected to improve post cost increase pass through that is likely to happen in 2HFY19. We retain BUY on the stock with revised price target of Rs902 (earlier Rs1,030).

Quarterly performance

(Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)
Revenues	**3,945**	**3,265**	**20.8**	**3,604**	**9.5**
Total expenditure	3,548	2,890	22.8	3,242	9.5
RM consumed	2,522	1,982	27.2	2,252	12.0
Employee cost	526	482	9.0	495	6.1
Other expenses	501	425	17.7	494	1.3
EBITDA	**396**	**375**	**5.6**	**362**	**9.5**
EBITDA margin (%)	10.1	11.5	-	10.0	-
Depreciation	122	111	9.9	119	2.3
Interest cost	55	59	(7.0)	54	2
Other Income	2	13	(81.1)	3	(20.7)
Exceptional gain / (loss)					
PBT	**222**	**218**	**1.8**	**192**	**15.6**
PBT margins (%)	5.6	6.7		5.3	
Tax	74	74	(0.5)	65	13.2
Tax rate (%)	33.4	34.2	-	34.1	-
Reported PAT	**148**	**143**	**3.0**	**126**	**16.8**
PAT margins (%)	3.7	4.4	-	3.5	-
EPS (Rs)	**11.2**	**10.9**		**9.6**	**16.8**

Source: Company

FIEM reported revenue of Rs3,945mn in 2QFY19 and the same was ahead of our estimate. In 2QFY19, revenue grew by 21% YoY as against 6% YoY growth in two wheeler production. TVSM's top two clients (accounting for ~70% revenues) – Honda Motorcycle and Scooters India and TVS Motors reported 6% YoY increase

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in production. FIEM outperformed industry growth on the back of increased business with some customer and introduction of LED lighting in certain models. LED luminaries segment (non-auto) revenue increased YoY from Rs29mn to Rs69mn.

EBITDA growth for the quarter was impacted by increase in raw material cost. Gross margins in the quarter declined from 39.3% in 2QFY18 and 37.5% in 1QFY19 to 36.1% in 2QFY19; impacted by rise in commodity prices and INR depreciation. As a result of fall in gross margins, EBITDA margin declined from 11.5% in 2QFY18 to 10.1% in 2QFY19.

PAT for the quarter came in at Rs148mn, growth of 3% over corresponding quarter last year. Lower other income in the quarter impacted PAT growth to some extent. PAT was above our estimate on account of strong growth in revenue.

Outlook and Valuation

Domestic two wheeler industry growth in 2QFY19 slowed down on account of various headwinds. Despite lower two wheeler production growth, the company reported strong growth in revenues – led by increased business with some customer and introduction of LED lighting in certain models. FIEM has been increasing its business with Yamaha India. In the past two years, Yamaha India's contribution to FIEM's automotive revenue has increased from 3.5% to 5.5%. HMSI introduced LED headlamps in Activa (mass model category) and that too supported revenue growth in the quarter. Going ahead, we expect more high selling models to shift towards LED headlamps. Increased adoption of LED lights by two wheeler manufacturers would translate into higher sales for the company.

Given rising raw material prices, company's margins has been impacted in 1HFY19 as price negotiations with customers happens with a 3-6 months lag. We thereby expect the margins to stay under pressure in the near term and is expected to improve post cost increase pass through that is likely to happen in 2HFY19. Due to commodity cost pressure, we marginally revise our FY19/20 estimates lower.

We retain BUY on the stock with revised price target of Rs902 (earlier Rs1,030). We value the stock at a PE of 17x (earlier 19x) on FY20E earnings. We cut our assigned PE multiple on the back of near term margin pressure and cut in earnings growth estimate.

Change in estimates

	FY19			FY20		
Rs mn	**Old**	**New**	**% chg**	**Old**	**New**	**% chg**
Revenues	14,675	14,947	1.9	16,610	16,880	1.6
EBITDA margin (%)	10.5	10.2	-	11.0	10.7	-
Adjusted PAT	568	543	(4.6)	713	698	(2.1)

Source: Kotak Securities – Private Client Research

Risk and Concerns

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.

Increase in input cost – In the event of rising input cost, company's earnings gets impacted. While the company has raw material cost pass through with the clients; the same happens with a lag of 3-6 months.

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 ~99% of its revenues from the automotive business and small revenue comes from the LED segment. Within the automotive space, FIEM is largely an OEM focused company with 93% 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	**10,141**	**12,384**	**14,947**	**16,880**
% change YoY	2.8	22.1	20.7	12.9
EBITDA	**1,173**	**1,407**	**1,517**	**1,808**
% change YoY	(7.6)	19.9	7.9	19.2
Depreciation	392	443	492	545
EBIT	**781**	**963**	**1,025**	**1,263**
% change YoY	(16.9)	23.3	6.4	23.2
Net interest	232	227	211	217
Other Income	47	45	28	38
Exceptional income/(loss)	(142)	34	-	-
Profit before tax	454	816	842	1,084
% change YoY	(42.7)	79.7	3.3	28.7
Tax	126	290	300	386
as % of PBT	27.7	35.6	35.6	35.6
Profit after tax	328	526	543	698
Adjusted PAT	470	491	543	698
% change YoY	(17.8)	4.5	10.4	28.7
Shares OS (mn)	13.2	13.2	13.2	13.2
Adjusted EPS (Rs)	**35.7**	**37.3**	**41.2**	**53.0**
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	1,089	206	488	498
Accounts receivable	1,294	1,452	1,843	2,081
Inventories	1,024	1,403	1,634	1,846
Loans and Adv & Others	430	674	449	487
Current assets	3,838	3,735	4,414	4,912
LT investments	7	9	269	269
Net fixed assets	4,848	5,607	5,715	5,770
Total assets	**8,693**	**9,351**	**10,398**	**10,951**
Payables	1,507	2,197	2,334	2,636
Other liabilities	448	571	604	640
Current Liabilities	1,955	2,768	2,938	3,276
Provisions	65	64	75	85
Deferred Tax Liability	325	438	438	438
Debt	2,250	1,590	2,057	1,707
Equity	132	132	132	132
Reserves	3,967	4,358	4,758	5,313
Total liabilities	**8,693**	**9,351**	**10,398**	**10,951**
BVPS (Rs)	311	341	372	414

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	781	963	1,025	1,263
Depreciation	392	443	492	545
Change in working capital	(471)	153	(485)	(148)
Chg in other net current asset	(143)	(121)	268	8
Operating cash flow	**559**	**1,439**	**1,300**	**1,668**
Interest	(232)	(227)	(211)	(217)
Tax	(97)	(177)	(300)	(386)
Other Income	47	45	28	38
EO income	(142)	34	-	-
Others	(91)	(7)	-	-
Cash flow from operations	**44**	**1,108**	**818**	**1,103**
Capex	(971)	(1,202)	(600)	(600)
(Increase)/dec in investments	(861)	667	(260)	-
Cash flow from investments	**(1,832)**	**(535)**	**(860)**	**(600)**
Proceeds from issue of equities	12	-	-	-
Increase/(decrease) in debt	850	(659)	466	(350)
Proceeds from share premium	1,162	(0)	-	-
Dividends	(43)	(127)	(143)	(143)
Cash flow from financing	**1,981**	**(786)**	**324**	**(493)**
Opening cash	37	228	15	297
Closing cash	228	15	297	307

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	11.6	11.4	10.2	10.7
EBIT margin (%)	7.7	7.8	6.9	7.5
Adj. net profit margin (%)	4.6	4.0	3.6	4.1
Working capital days				
Inventory (days)	37	41	40	40
Receivable (days)	47	43	45	45
Payable (days)	54	65	57	57
Ratios				
Debt/equity ratio (x)	0.5	0.4	0.4	0.3
ROE (%)	13.8	11.4	11.6	13.5
ROCE (%)	14.9	15.3	15.1	17.4
Valuations				
EV/ Sales	0.9	0.8	0.6	0.5
EV/EBITDA	7.8	6.6	6.3	5.1
Price to earnings (P/E)	17.0	16.2	14.7	11.4
Price to book value (P/B)	1.9	1.8	1.6	1.5

Source: Company, Kotak Securities – Private Client Research

NBCC (INDIA) LTD (NBCC)

Result Update

PRICE RS.60 **TARGET RS.83** **BUY**

NBCC Q2FY19 results was below our estimates at PAT level due to lower margins in PMC segment on account of adoption of new Accounting standard AS-115. However, the revenue for the quarter was above our estimates due to strong growth in PMC segment.

Key Highlights

- The standalone net revenue for the quarter grew by 39.7% yoy to Rs 15.8 bn (Vs our estimates of 17% yoy growth to Rs 13.3 bn) on strong revenue from PMC and real estate segment. PMC segment which contributes the largest pie, reported 39% yoy growth as against our estimates of 20% yoy growth.
- EBITDA for the quarter was Rs 591 mn, declined by 30% yoy despite strong execution, due to decline in EBIT margin in PMC segment. The adoption of new Ind AS 115 resulted into change in accounting treatment of advance payment of PMC margins. PAT for the quarter grew by 16% yoy to Rs 860 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.

Valuation & outlook

The company has maintained guidance of 30%-35% yoy growth in FY19E revenue despite delay in clearance of redevelopment project at Nauroji Nagar. We have cut our earnings estimates for FY19E and FY20E factoring in impact of delay in clearance of redevelopment of colonies in Delhi due to legal hurdles and lower margins reported by the company. The stock is presently trading at PE of 29x and 22.7x based on FY19E & FY20E revised EPS of Rs 2.1 (vs 2.3 earlier) and Rs 2.6 (vs Rs 2.9 earlier) respectively. We maintain Buy on the stock with a revised SOTP based target price of Rs 83 (Vs Rs 95 earlier).

Quarterly performance table (standalone)

Year to March (INR mn)	Q2FY19	Q2FY18	% Change	Q1FY19	% Change
Net Revenues	**15,821**	**11,327**	**40**	**16,335**	**(3)**
Materials/Work consultancy Cost	14,160	9,289	52	14,484	-2
Gross Profit	1,661	2,039	-19	1,850	-10
Employee Expenses	676	856	-21	724	-7
Other Expenses	394	339	16	497	(21)
Operating Expenses	15,229	10,484	45	15,706	-3
EBITDA	**591**	**843**	**-30**	**629**	**-6**
EBITDA margin	3.7%	7.4%		3.9%	
Depreciation	6	7	-7	7	-3
Other income	644	210	207	379	70
Net finance expense	0	2		1	
Profit before tax	1,229	1,045	18	1,001	23
Provision for taxes	369	303	22	324	14
Reported net profit	**860**	**741**	**16.0**	**677**	**27**
Net profit margin (%)	5.4	6.5		4.1	
Tax rate (% of PBT)	30.1	29.1		32.4	

Source: Company

Stock Details

Market cap (Rs mn)	:	108900
52-wk Hi/Lo (Rs)	:	139 / 51
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	6,710,935
Shares o/s (mn)	:	1800

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	59050	73367	95472
Growth (%)	(6.0)	24.2	30.1
EBITDA	3994	4427	5852
EBITDA margin (%)	6.8	6.0	6.1
PAT	3336	3729	4761
EPS	1.9	2.1	2.6
EPS Growth (%)	(5.0)	11.8	27.7
Book value (Rs/share)	10.1	11.1	12.3
Dividend per share (Rs)	1.0	1.1	1.4
ROE (%)	19.1	19.5	22.6
ROCE (%)	24.2	24.5	29.2
P/E (x)	32.4	29.0	22.7
EV/EBITDA (x)	22.7	19.9	14.3
P/BV (x)	5.9	5.4	4.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	73.8	74.3	74.5
FII	4.5	4.4	5.8
DII	9.9	10.6	9.9
Others	11.8	10.7	9.8

Source: Company

Price Performance (%)

(%)	1M	3M	6M
NBCC India Ltd	11.5	(16.4)	(38.3)
Nifty	1.0	(7.2)	(1.7)

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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Revenue grew by 40%

The standalone net revenue for the quarter grew by 40% yoy to Rs 15.8 bn (Vs our estimates of 20% yoy growth) on strong execution in PMC and Real estate segment. PMC segment which contributes the largest pie, reported 37% yoy growth as against our estimates of 20% yoy growth. Real estate business reported strong revenue in the quarter at Rs 533 mn driven by sale of commercial inventory. EPC segment witnessed decline in revenue in the quarter and was below our estimates. The company expects revenue to grow at over 30%-35% in FY19E. There was also an impact of change in accounting policy on revenue as the company adopted new Ind AS 115.

EBITDA margins below estimates due to change in accounting standard

EBITDA for the quarter was Rs 591 mn, declined by 30% yoy despite strong execution, due to decline in EBIT margin in PMC segment. The adoption of new Ind AS 115 resulted into change in accounting treatment of advance payment of PMC margins. The margins in PMC division was below our estimates at 7.7%, declined by 900 bps yoy due to accounting changes and quarterly variations. As per the management, EBIT margins in PMC segment is expected to be maintained at previous levels on full year basis in the longer run. PAT for the quarter grew by 16% yoy to Rs 860 mn due to higher other income.

Segmental Performance

Year to March (INR mn)	Q2FY19	Q2FY18	% Change	Q1FY19	% Change
Segmental Sales					
Real Estate	533	146	266	1297	-59
EPC	953	1103	-14	1028	-7
PMC	13924	10035	38.8	13928	0
Total Sales	**15411**	**11284**	**37**	**16252**	**-5**
Segmental EBIT					
Real Estate	240.6	2.9	8104	681	-65
EPC	27.3	98.3	-72	15	86
PMC	1072	1677	-36	682	57
Unallocated	-111	-732		-376	
Total EBIT	**1229**	**1046**	**17**	**1001**	
Segmental Margins (%)					
Real Estate	45.1	2.0		52.5	
EPC	2.9	8.9		1.4	
PMC	7.7	16.7		4.9	

Source: Company

Maintained 30%-35% revenue growth guidance for FY19E

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's management has targeted for over 30-35% revenue growth in FY19E despite its large size project of redevelopment of government colonies stuck due to NGT raising issue related to tree cutting. The Delhi High court has cleared two colonies Netaji Nagar and Sarojini Nagar and decision on Naruroji Nagar is expected to come in next hearing expected by month end (November 18). The company expects contribution from these projects (if cleared) by Q4FY19. 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 not awarded work on Rs.380-400 bn. It targets to award Rs 110 bn of work in FY19E of which it has already awarded Rs 70 bn of work and another Rs 40-45 bn of work is expected to be awarded in H2FY19. 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 has strong pipeline of new orders. NBCC is awarded to complete real estate projects of Amrapali group which has ~Rs 80 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

- NBCC intends to consolidate revenue from HSCL and new acquisition of HSCC from Q3FY19. The consolidation of these two companies will strengthen its consolidated revenue.
- The company has already secured Rs 100 bn of work FY19 till date and is well positioned in 2-3 projects of value Rs 100-150 bn in H2FY19.
- The company is targeting to acquire Jaypee Infratech (which is under NCLT) and is expected to submit proposal by year end. The deal would go through only if the proposal submitted by the company gets accepted and if it is profitable to them. As per the company, there is huge real estate development potential associated with Jaypee Infratech which will make the deal profitable in the longer run.

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 related to redevelopment of government colonies in Delhi is under litigation. The company has maintained guidance of 30%-35% yoy growth in FY19E revenue despite delay in clearance of redevelopment project at Nauroji Nagar. We have cut our earnings estimates for FY19E and FY20E factoring in impact of delay in clearance of redevelopment of colonies in Delhi due to legal hurdles and lower margins reported by the company. The stock is presently trading at PE of 29x and 22.7x based on FY19E & FY20E revised EPS of Rs 2.1 (vs 2.3 earlier) and Rs 2.6 (vs Rs 2.9 earlier) respectively. We maintain Buy on the stock with a revised SOTP based target price of Rs 83 (Vs Rs 95 earlier)

SoTP valuation

SOTP	Basis	Per share
PMC Other	DCF	27
PMC Redevelopment	DCF	45
Real estate	1x Capital	9
EPC	8x EBIT	2
Total Value		**83**

Source: Kotak Securities PCG Research

Change in Estimates

Particulars	Revised		Previous		% Chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	73,367	95,472	75,867	100,972	(3.3)	(5.4)
EBITDA	4,427	5,852	5,073	6,576	(12.7)	(11.0)
EBITDA margin (%)	6.0	6.1	6.7	6.5	(65) bps	(38) bps
PAT	3,729	4,761	4,161	5,247	(10.4)	(9.3)
EPS	2.1	2.6	2.3	2.9	(10.4)	(9.3)

Source: Kotak Securities PCG 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**	**73,367**	**95,472**
% change yoy	8.0	(6.0)	24.2	30.1
EBITDA	**4,024**	**3,994**	**4,427**	**5,852**
% change yoy	31.1	(0.7)	10.8	32.2
Depreciation	26	27	27	27
EBIT	**3,998**	**3,967**	**4,400**	**5,824**
Other Income	886	1,061	1,167	1,284
Interest	7	2	2	3
Profit Before Tax	4,877	5,026	5,565	7,106
% change yoy	20.7	3.1	10.7	27.7
Tax	1,366	1,690	1,837	2,345
as % of EBT	28.0	33.6	33.0	33.0
PAT	**3,511**	**3,336**	**3,729**	**4,761**
% change yoy	22.3	(5.0)	11.8	27.7
Shares outstanding (mn)	1,800	1,800	1,800	1,800
EPS (Rs)	2.0	1.9	2.1	2.6
DPS (Rs)	1.0	1.0	1.1	1.4
CEPS (Rs)	2.0	1.9	2.1	2.7
BVPS (Rs)	9.3	10.1	11.1	12.3

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	18,177	20,428
Net worth	16,736	18,214	19,977	22,228
Borrowings	-	-	-	-
Total Liabilities	**16,736**	**18,214**	**19,977**	**22,228**
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	20,594	26,799
Sundry debtors	21,866	22,585	28,060	36,515
Cash and equivalents	15,530	17,135	19,694	24,372
Loans and advances & Others	9,039	17,400	20,879	25,055
Total current assets	62,138	73,695	89,227	112,740
Sundry creditors and others	47,453	56,781	70,548	91,804
Provisions	1,040	1,505	1,581	1,660
Total CL & provisions	48,493	58,287	72,129	93,464
Net current assets	13,645	15,408	17,098	19,277
Net Deferred tax	995	1,157	1,157	1,157
Total Assets	**16,736**	**18,214**	**19,977**	**22,228**

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	4877	5026	5565	7106
Depreciation	26	27	27	27
Change in WC	1901	(157)	868	2500
Other operating activities	(1745)	(1882)	(1837)	(2345)
Operating Cash Flow	**5059**	**3014**	**4624**	**7288**
Capex	(58)	(12)	(100)	(100)
Free Cash Flow	5001	3002	4524	7188
Change in Investments	1259	462	0	0
Investment cash flow	**1201**	**450**	**(100)**	**(100)**
Equity Raised	0	0	0	0
Debt Raised/Repaid	(116)	0	0	0
Dividend & Others	(2021)	(1858)	(1965)	(2510)
CF from Financing	**(2137)**	**(1858)**	**(1965)**	**(2510)**
Change in Cash	4123	1606	2558	4678
Opening Cash	11406	15530	17135	19694
Closing Cash	**15530**	**17135**	**19694**	**24372**

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	6.4	6.8	6.0	6.1
EBIT margin (%)	6.4	6.7	6.0	6.1
Net profit margin (%)	5.6	5.6	5.1	5.0
EPS growth (%)	22.3	(5.0)	11.8	27.7
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	3.9	4.5
Net Debt/ Equity (x)	(0.9)	(0.9)	(1.0)	(1.1)
Return Ratios:				
RoCE (%)	26.5	24.2	24.5	29.2
RoE (%)	22.0	19.1	19.5	22.6
Valuation Ratios:				
P/E (x)	30.8	32.4	29.0	22.7
P/BV (x)	6.5	5.9	5.4	4.9
EV/EBITDA (x)	23.0	22.7	19.9	14.3
EV/Sales (x)	1.5	1.5	1.2	0.9

Source: Company, Kotak Securities – Private Client Research

Rating Scale

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
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SUBSCRIBE	-	We advise investor to subscribe to the IPO.
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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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