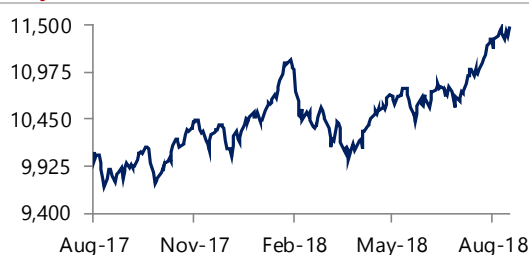


AUGUST 20, 2018

	17-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	37,948	0.8	3.9	8.0	
NIFTY Index	11,471	0.8	4.2	7.4	
NSEBANK Index	28,129	1.1	4.1	7.9	
NIFTY 500 Index	9,770	0.9	4.9	5.0	
CNXMcap Index	19,443	1.2	6.8	1.5	
BSESMCAP Index	16,866	0.9	5.6	(4.2)	
World Indices					
Dow Jones	25,669	0.4	2.4	3.9	
Nasdaq	7,816	0.1	(0.0)	6.3	
FTSE	7,559	0.0	(1.6)	(2.8)	
NIKKEI	22,270	0.4	(2.1)	(3.1)	
Hangseng	22,270	0.4	(2.1)	(3.1)	
Shanghai	27,213	0.4	(2.5)	(11.4)	
Value traded (Rs cr)					
	17-Aug	% Chg Day			
Cash BSE	2,410	(18.3)			
Cash NSE	30,335	(11.2)			
Derivatives	552,874	(68.9)			
Net inflows (Rs cr)					
	16-Aug	MTD	YTD		
FII	(371)	1,505	(1,905)		
Mutual Fund	15	155	72,753		
Nifty Gainers & Losers					
17-Aug	Price (Rs)	Chg (%)	Vol (mn)		
Gainers					
Grasim Industries	1,046	4.6	2.7		
Yes Bank Ltd	393	3.9	16.1		
Lupin Ltd	881	3.7	4.3		
Losers					
Gail India Ltd	388	(1.6)	4.5		
Hero MotoCorp	3,242	(1.2)	0.3		
Eicher Motor	28,476	(1.1)	0.0		
Advances / Declines (BSE)					
17-Aug	A	B	T	Total	% total
Advances	305	633	72	1,010	100
Declines	126	376	72	574	57
Unchanged	1	26	17	44	4
Commodity					
	17-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	71.6	(0.3)	(2.0)	(8.8)	
Gold (US\$/OZ)	1,185	0.9	(3.8)	(8.3)	
Silver (US\$/OZ)	14.8	1.0	(4.8)	(10.2)	
Debt / forex market					
17-Aug	1 Day	1 Mth	3 Mths		
10 yr G-Sec yield %	7.9	7.8	7.9		
Re/US\$	70.2	69.9	67.8		

Nifty



Source: Bloomberg

News Highlights

- ▶ The European Union, Russia, China, Japan and eight other countries have backed the US complaint against India's export promotion schemes at the World Trade Organisation (WTO). These countries have joined the dispute as third parties. (ET)
- ▶ **Vedanta Ltd** will be investing \$2.3 billion towards capex on its oil and gas activities in the near term to increase the reserve base by around 375 million barrels.(Mint)
- ▶ Comptroller and Auditor General of India (CAG) has pulled up state-run steel firm **Steel Authority of India Ltd (SAIL)** for being heavily dependent on imported coking coal despite having three mines for captive use.(Mint)
- ▶ **ONGC** repays a third of loan taken to buy HPCL and will not sell its stake in Indian Oil and GAIL. It had in January received government approval to sell its 13.77% stake in Indian Oil and 4.86% stake in GAIL.(Mint)
- ▶ **Coal India** expects 367 mt output from 115 projects in 2018-19. There are 65 projects in pipeline, 27 of which are approved, with a targeted capacity of 247.66 mt per year.(Mint)
- ▶ **Infosys** Chief Financial Officer MD Ranganath, a veteran of nearly two decades has abruptly stepped down from his position marking the second CFO departure at Infosys in three years. (Mint)
- ▶ **Larsen & Toubro** informed the stock exchanges on Saturday that its board will consider a share buyback at its meeting on August 23.(Mint)
- ▶ VE Commercial Vehicles, a joint venture of **Eicher** and Volvo, has earmarked capex of Rs. 5bn for 2018-19 and is working on an affordable range of AC buses to cater to public transit.(Mint)
- ▶ Leading exchanges BSE and NSE will suspend trading in shares of as many as nine firms, including banking fraud accused Mehul Choksi's **Gitanjali Gems**, from September 10 for not complying with listing norms pertaining to submission of financial results. (BS)
- ▶ A new Airbus A320 neo aircraft of carrier **IndiGo**, which was inducted into its fleet barely a couple of weeks ago, has been grounded due to Pratt and Whitney engine issues.(ET)
- ▶ **DLF** and Singapore's sovereign wealth fund GIC will invest about Rs 12.5 bn over the next four years to construct a housing project in the national capital. In September 2015, the GIC had invested Rs 20 bn to buy 50 per cent stake in **DLF's** two upcoming housing projects at Moti Nagar in central Delhi. (BS)
- ▶ An Australian federal court has given a verdict in favour of the **Adani Group**, upholding its indigenous land use agreement with the Wangan and Jagalingou people, which was challenged by the same native communities. The verdict is a big relief for Adani's \$16.5-billion Carmichael coal mine project in Queensland's Galilee Basin which has been marred with controversies. (ET)

What's Inside

- ▶ **Result Update:** Voltamp Ltd, Vascon Engineers 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

VOLTAMP LTD

Stock Details

Market cap (Rs mn)	:	9611
52-wk Hi/Lo (Rs)	:	1318 / 870
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	4,865
Shares o/s (mn)	:	10

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	6,390	7,029	7,732
Growth (%)	4.6	10.0	10.0
EBITDA	660	753	840
EBITDA margin (%)	10.3	10.7	10.9
PAT	735	944	1,025
EPS	72.7	93.5	101.4
EPS Growth (%)	4.3	28.5	8.5
BV (Rs/share)	614	690	774
Dividend/share (Rs)	15.0	15.0	15.0
ROE (%)	12.7	14.3	13.9
ROCE (%)	12.7	14.2	13.8
P/E (x)	13.1	10.2	9.4
EV/EBITDA (x)	8.9	6.8	5.4
P/BV (x)	1.6	1.4	1.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	47.5	47.5	47.5
FII	15.6	16.3	16.3
DII	20.0	18.9	18.9
Others	16.8	17.4	17.3

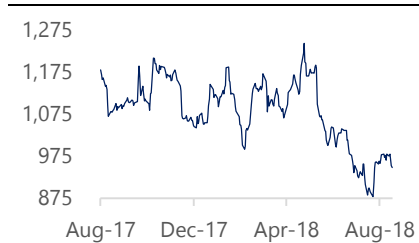
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Voltamp Ltd	5.7	(10.5)	(16.3)
Nifty	4.2	7.4	9.7

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Sanjeev Zarbade

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PRICE Rs.952

TARGET Rs.1320

BUY

Voltamp reported good set of numbers for the quarter revenue and EBITDA topping our estimates. However, lower than expected other income led to profit miss.

Key Highlights

- Order book remains healthy at Rs 4.5 bn.
- The demand scenario for capital goods makers in general remains weak. In this scenario, the company's focus remains on taking good quality orders that are fairly priced and have reasonably good credit profile. This is manifested in the company's balance sheet which has shown continued improvement in cash generation.

Valuation and Outlook

Voltamp is currently trading at 10x and 9x FY19E and FY20E earnings respectively. Valuations are attractive compared to peers and more so considering that management remains prudent and has been able to preserve quality of balance sheet even through years of industry distress. Voltamp remains one of the best stocks to play future upturn in industrial demand. Maintain BUY with marginally revised price target of Rs 1320 (Rs 1350 earlier), valuing the stock at 13x FY20E earnings.

Q1FY19 Results

(Rs mn)	Q1 FY19	Q1 FY18	YoY (%)	Q4 FY18	QoQ (%)
Net Sales	1,659	1,304	27.2	2,196	-24.5
Consumption of Raw Materials	1,304	1,001	30.2	1,752	-25.5
Staff Cost	66	66	-1.0	68	-3.4
Other Expenditure	124	141	-11.5	86	44.4
Operating Expenditures	1,494	1,208	23.7	1,905	-21.6
PBDIT	165	96	71.8	291	-43.3
Depreciation	15	14	6.6	16	-7.6
Other Income	67	110	-38.6	37	82.2
EBIT	218	192	13.3	312	-30.2
Interest & Finance Charges	1.5	0.9	61.1	2.7	-46.3
Profit / (Loss) before tax	216	191	13.1	309	-30.0
Tax provision	66	47	40.3	108	-39.1
Profit / (Loss) after tax	151	145	4.3	202	-25.2
EPS (Rs)	14.9	14.3		19.9	-25.2
Ratios					
EBITDA (%)	9.9	7.4		13.2	
Raw material cost to sales (%)	78.6	76.8		79.8	
Other exp to sales (%)	7.5	10.8		9.0	
Tax rate (%)	30.3	24.4		34.8	

Source: Company

Reported Vs Estimated performance

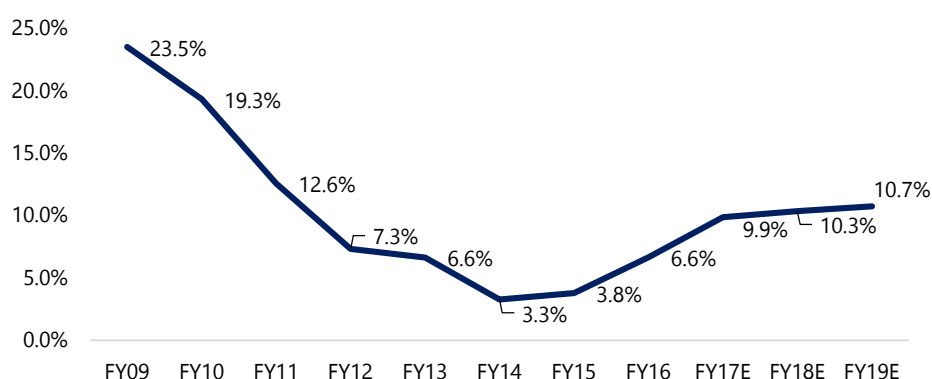
(Rs mn)	Reported	Estimated
Revenue	1659	1574
EBITDA (%)	9.9	8.0
PAT	150	166

Source: Kotak Securities – Private Client Research

Result Highlights

- Net sales rose 27% y-o-y during the quarter to Rs 1.6 bn. Volume sold in terms of (MVA) stood at 2412 MVA as against 1811 MVA in the corresponding quarter of the previous fiscal.
- Revenue growth was strong in the quarter, which could be partly attributed to increase in commodity prices in copper and steel.
- However, we note that it may be early to take this strong revenue growth as a sign of upturn in demand as the private sector investment activity in core sector industries continues to remain weak.
- Emerging demand drivers like the Solar and Wind power sectors have seen a setback during the previous fiscal due to uncertainty on duty structure (Solar) and transition from feed-in tariffs to competitively-bid power (Wind).
- Gross margins contracted to 21.4% in the quarter, a loss of 183 bps on a y-o-y basis, attributed to commodity cost pressures.
- Decline in "other expenditure", offset the commodity cost pressures, thereby leading to EBITDA margin gain of 220 bps on a y-o-y basis.
- Although the company has notched good margin gains in the first quarter, we note that the pricing pressure continues unabated in the transformer industry due to weak demand from the Power sector coupled with excess capacity in the transformer manufacturing industry.

EBITDA margins (%)



Source: Company, Kotak Securities – Private Client Research

- The decline in "Other income" by 39% y-o-y could be mainly due to "Mark to Market" loss on equity/quoted investments.

Order book

Order book at the end of August 2018 stands at Rs 4.5 bn (6534 MVA) as compared to Rs 3.0 bn in the corresponding quarter of the previous fiscal.

Industry Outlook

- Although the overall industrial activity remains tepid, demand for the transformers from the solar power sector has enabled the company to mitigate the downtrend. However, dropping prices of solar power tariffs is driving solar power developers to negotiate aggressively with equipment suppliers.
- The management has been sounding cautious on the demand outlook though lately it has noted some improvement in enquiry levels. However, these enquiries are taking a long time to fructify into firm orders.

- The outlook for transformer demand from the Wind power sector is seem improving going into FY19 as the “Solar Energy Corporation of India” and distribution utilities in Gujarat, Maharashtra and Tamil Nadu have issued bids for wind-power capacity of 7.5 GW over the past 14 months.
- On the Solar Energy front, the government is ready with tenders for an addition of 20 gigawatt (20,000 mega watt) solar power, with the successful bidder mandated to have production facility to manufacture nearly half the equipment requirement.
- These developments will support demand for transformers and offset the slack in traditional market like Power and Core sectors.
- However, despite the positives, the overall demand scenario is expected to be modestly better than FY18, given the weak demand from industrial sector.

Valuation and Outlook

Voltamp is currently trading at 10x and 9x FY19E and FY20E earnings respectively. Valuations are attractive compared to peers and more so considering that management remains prudent and has been able to preserve quality of balance sheet even through years of industry distress. Voltamp remains one of the best stocks to play future upturn in industrial demand. Maintain BUY with marginally revised target price of Rs 1320.

Company background

Voltamp Transformers Ltd was established in the year 1963 by Mr. Lalitkumar H. Patel along with Mr. Babubhai H. Patel and Mr. Navinchandra R. Patel to manufacture transformers in Baroda city. The main promoter is, Mr Kunjalbhai Patel (VC and MD) and is a technocrat. Havell’s has a manufacturing capacity of 13000 MVA capable of making transformers upto 160 MVA, 220 KV, class for many applications covering most segments of users including industrial, utility and buildings. The company caters to cater to a wide spectrum of transformer users in various industries like: petrochemical, oil refining, cement, paper and pulp, pharmaceuticals, automobiles, steel, power plant, building, metro rail applications, mining and minerals and many others.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	6,109	6,390	7,029	7,732
% change yoy	8.5	4.6	10.0	10.0
EBITDA	602	660	753	840
% change yoy	60.8	9.6	14.1	11.5
Depreciation	58	60	70	78
EBIT	944	1,007	1,193	1,302
% change yoy	58.0	6.7	18.5	9.1
Net Interest	5	6	5	5
Earnings Before Tax	939	1,001	1,188	1,297
% change yoy	58.3	6.6	18.7	9.2
Provisions and amortisations	-	-	-	-
Tax	235	267	244	273
as % of EBT	25.0	26.6	20.6	21.0
Net Income adj	704	735	944	1,025
% change yoy	60.1	4.3	28.5	8.5
Preference dividend	0.0	0.0	0.0	0.0
Adjusted Net income	704	735	944	1,025
Shares outstanding (m)	10.1	10.1	10.1	10.1
EPS (Rs)	69.7	72.7	93.5	101.4
DPS (Rs)	15.0	15.0	15.0	15.0
CEPS	75.5	78.7	100.4	109.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	602	660	753	840
Tax and adjustments	(108)	33	(244)	(273)
Cash flow from operations	494	694	509	568
Net Change in Working Capital	127	(125)	(1)	(229)
Net Cash from Operations	622	569	508	338
Capital Expenditure	(58)	(126)	(100)	(100)
Cash from investing	(349)	(296)	510	540
Net Cash from Investing	(406)	(422)	410	440
Interest paid	(5)	(6)	(5)	(5)
Issue of Shares	-	-	-	-
Dividends Paid	(152)	(177)	(177)	(177)
Debt Raised	-	-	-	-
Net cash from financing	(157)	(183)	(182)	(182)
Net change in cash	58	(36)	736	596
Free cash flow	564	443	408	238
cash at end	42	83	819	1,414

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	42	83	819	1,414
Accounts receivable	1,538	1,446	1,348	1,483
Stocks	825	970	1,021	1,123
Loans and Advances	85	97	114	135
Others	-	-	-	-
Current Assets	2,490	2,595	3,301	4,155
LT investments	2,945	3,647	3,647	3,647
Net fixed assets	372	422	452	474
Deferred tax assets	22	-	-	-
CWIP	23	38	38	38
Total Assets	5,851	6,703	7,439	8,314
Payables	330	349	312	333
Others	146	65	72	79
Current liabilities	476	414	384	412
LT debt	-	-	-	-
Other liabilities	-	84	84	84
Equity & reserves	5,375	6,201	6,968	7,815
Total Liabilities	5,851	6,703	7,439	8,314
BVPS (Rs)	532.2	614.0	689.9	773.8

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	9.9	10.3	10.7	10.9
EBIT margin (%)	15.5	15.8	17.0	16.8
Net profit margin (%)	11.5	11.5	13.4	13.3
Adjusted EPS growth (%)	60.1	4.3	28.5	8.5
Receivables (days)	91.9	82.6	70.0	70.0
Inventory (days)	49.3	55.4	53.0	53.0
Sales / Net Fixed Assets (x)	16.4	15.1	15.5	16.3
ROE (%)	14.0	12.7	14.3	13.9
ROCE (%)	14.0	12.7	14.2	13.8
EV/ Sales	1.1	0.9	0.7	0.6
EV/EBITDA	11.0	8.9	6.8	5.4
Price to earnings (P/E)	13.7	13.1	10.2	9.4
Price to book value (P/B)	1.8	1.6	1.4	1.2
Price to cash earnings	12.6	12.1	9.5	8.7

Source: Company, Kotak Securities – Private Client Research

Result Update

VASCON ENGINEERS LTD (VEL)

Stock Details

Market cap (Rs mn)	:	4702
52-wk Hi/Lo (Rs)	:	52 / 25
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	464,769
Shares o/s (mn)	:	174

Source: Bloomberg

Financial Summary (consolidated)

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	5,298	7,052	8,149
Growth (%)	10.1	33.1	15.6
EBITDA	(26)	596	836
EBITDA margin (%)	(0.5)	8.4	10.3
PAT	46	382	577
AEPS	0.3	2.4	3.6
AEPS Growth (%)	299.4	722.4	50.9
Book value (Rs/share)	38.4	40.6	43.9
Dividend per share (Rs)	0	0	0
ROE (%)	0.7	5.6	7.9
Adj ROCE (%)	(1.8)	4.5	6.8
P/E (x)	93.7	11.4	7.5
EV/EBITDA (x)	(262.2)	11.0	7.6
P/BV (x)	0.7	0.7	0.6

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	35.0	35.0	36.4
FII	0.1	0.0	0.0
DII	0.3	0.6	0.4
Others	64.1	64.3	63.2

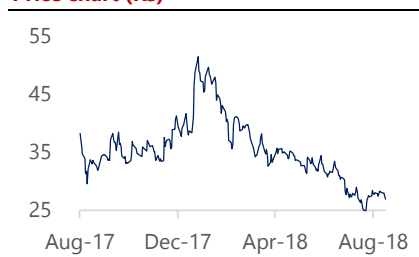
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Vascon Engineers	0.7	(20.7)	(30.1)
Nifty	4.2	7.4	9.7

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Pankaj Kumar

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PRICE Rs.27

TARGET Rs.48

BUY

VEL Q1FY19 reported strong growth in EPC business while real estate segment reported loss due to lower revenue recognition, increased fixed cost and unfavorable project mix. The real estate revenue also got impacted due to adoption of new Ind AS 115.

Key Highlights

- Net revenue for the quarter grew at 15.4% yoy to Rs 939 mn driven by 19.8% yoy growth in EPC business at Rs 835 mn while real estate revenue declined by 11.2% yoy to Rs 104 mn. Adjusted for Ind AS 115 impact, the revenue from real estate segment grew by 78% yoy to Rs 208.5 mn.
- EBITDA margins for the quarter also declined by 110 bps yoy on account of loss reported in the real estate segment due to higher fixed cost to market launch pipeline, lower revenue recognition due to accounting changes and losses recognized in Windermere sale.
- VEL witnessed strong external EPC order inflows of Rs 1.9 bn which took its external order book to Rs 7.87 bn. VEL targets to add Rs 5 bn of new orders in FY19E based on current BG limits which seems to be achievable based on Q1FY19 order inflows and future pipeline.
- The company has achieved new sales bookings of Rs 1.64 bn which includes Rs 1.02 bn from new launch of affordable housing project at Katvi, Pune. Its premium project, 'Windermere' in Pune has got new bookings of ~Rs 500 mn.

Valuation & outlook

The company is positive on its business segments and expects new sales booking from the next phase of launches in Katvi, Forest Edge, Coimbatore, etc. Further, strong EPC order book would drive revenue for EPC segment. We have revised our estimates lower for FY19E and FY20E factoring in lower revenue from real estate segment and lower order inflows guidance for EPC segment. The stock is trading at FY19E and FY20E PE of 11.4x and 7.5x based on revised EPS of Rs 2.4 and Rs 3.6 respectively. We maintain Buy on VEL with revised SOTP based target price of Rs 48 (Vs Rs 52 earlier).

Quarterly performance table (standalone)

Year to March (INR Mn.)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Net Revenues	939	814	15.4	1,059	(11.3)
Raw Materials Cost	697	628	10.9	840	(17.0)
Gross Profit	242	186	30.4	219	10.5
Employee Expenses	119	85	39.4	138	(14.2)
Other Expenses	80	54	48.7	108	(26.3)
Operating Expenses	895	767	16.7	1,086	(17.6)
EBITDA	44	47	(6.8)	(27)	NA
EBITDA margin	4.7%	5.8%		-2.6%	
Depreciation	18	17	10.2	21	(11.1)
Other income	41	42	(1.9)	151	(72.7)
Net finance expense	52	58	(10.1)	43	20.0
Profit before tax	15	15	0.7	60	(75.0)
Provision for taxes	-	-	-	-	-
Reported net profit	15	15	0.7	59	(75.0)
Net profit margin	1.6	1.8		5.6	

Source: Company

EPC revenue witnessed robust growth

The standalone net revenue for the quarter grew at 15.4% yoy to Rs 939 mn driven by 19.8% yoy growth in EPC business at Rs 835 mn (Vs estimates of Rs 754 mn). But real estate revenue declined by 11.2% yoy to Rs 104 mn (Vs estimates of Rs 115 mn). Adjusted for Ind AS 115 impact, the revenue from real estate segment grew by 78% yoy to Rs 208.5 mn and was ahead of our estimates.

The EPC (external) segment witnessed decent growth in revenue as its projects picked up pace in terms of execution. We expect the execution in the EPC segment to remain strong based on robust order book and order inflows. Its subsidiary, GMP is also doing well (after exiting services business) with Rs 500 mn revenue (in Q1FY19) and made profits. As per management, GMP is on track in terms of meeting its revenue guidance of Rs 2-2.5 bn.

EBITDA Margin declined due to losses reported in real estate

EBITDA for the quarter declined by 6.8% yoy on account of Rs 20.3 mn loss reported by real estate segment. EBITDA margin was at 4.7% Vs estimates of 7.9% due to loss in the real estate segment while EPC EBIT margins at 22.5% was ahead of estimates of 10%. EBITDA margins for the quarter declined by 110 bps yoy on account of loss reported in the real estate segment due to higher fixed cost pertaining to market new launches, lower revenue recognition due to accounting changes and losses recognized in Windermere sale. In Windermere project the revenue recognition was also contributed by past inventory sold at lower price and thus contributed to the loss. As per the management, the current inventory is being sold at much higher realization and expects profits to be back on track. Employee expenses in the real estate segment also increased as it has added new employees for sales and marketing of real estate division. The higher margins in EPC business is due to contribution of JV project under Ajanta Enterprise which is expected to continue for next 4 quarters. Post that the margins would normalize to estimated level of ~12%.

Segmental Breakup (standalone)

(Rs Mn)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
Revenue					
EPC	835	697	19.8	917	(8.9)
Real Estate	104	117	(11.2)	142	(26.7)
EBIT					
EPC	188	83	126.3	214	(12.4)
Real Estate	(20)	47	-	(63)	-

Source: Company

Robust order book and future pipeline, reduced inflows guidance

VEL has robust external order backlog of Rs 7.87 bn and internal order book of Rs 1.8 bn at the end of Q1FY19 which takes total order backlog at Rs 10.7 bn. VEL has added Rs 1.9 bn of new orders in Q1FY19 and has pipeline of new orders based on that it is targeting to add Rs 5 bn of projects in FY19E. This is lower than its previous target of Rs 7 bn due to constraints related to Bank Guarantee (BG) limit. The company expects increase in BG limit in future based on improvement in ratings. This would help it in bidding for larger projects in future. Based on current gross block, VEL can execute Rs 10 bn of EPC work in a year and hence current balance sheet has strength to achieve growth in next two years.

Update real estate projects

The company has achieved new sales bookings of Rs 1.64 bn which includes Rs 1.02 bn from new launch of affordable housing project at Katvi, Pune. The company launched phase 1 & 2 of Katvi project where it sold 550 units out of total 700 launched in May 2018. The company is expecting approval for launch of phase 3 in next month. The company would also be launching phase 2 of Forest Edge and Forest County. It will be launching projects in Madurai also.

In its premium project 'Windermere' in Pune, it has got new bookings of Rs 500 mn and expects OC in Tower-2 in current year. Post that, the company would be looking at refinancing/ repayment of high cost debt of Rs 900 mn related to the project. It is also targeting to launch phase three of Coimbatore project 'Tulip'. The company is expecting strong response to these projects.

Other highlights

- VEL's has 45% stake in 145 acres of land in Thane. The company needs to invest in the land to make its contiguous for development. As per management, the project will take more than 2 years before coming on drawing board.
- The company aims to reduce its consolidated debt which stood at Rs 2.7 bn at the end of the quarter. It also targets to reduce/refinance the high cost debt related to Windermere which it got financed from Edelweiss.
- GMP has received order from Tata steel for the supply of steel doors. As per management this order would contribute Rs 500 mn of revenue in FY19E and has potential to contribute upto Rs 1 bn revenue in FY20E.

Outlook and valuation

VEL is positive on its business segments and expects new sales booking from next phase of launches in Katvi, Forest Edge, Coimbatore, etc. Strong EPC order book to drive revenue for EPC segment. We believe that the current order book, future pipeline and strong response to its real estate projects, would help VEL to turnaround its business. We have revised our estimates for FY19E and FY20E factoring in lower revenue from real estate segment due to new Ind AS 115, higher fixed cost and lower order inflows guidance for EPC segment. The stock is trading at FY19E and FY20E PE of 11.4x and 7.5x based on revised EPS of Rs 2.4 and Rs 3.6 respectively. We maintain Buy on VEL with revised SOTP based target price of Rs 48 (Vs Rs 52 earlier).

Valuation Table

Segment	Multiple	Per Share
EPC Business	8	25
Real Estate	1	19
GMP	9	14
Net Debt		10
Total Value		48

Source: Kotak Securities - Private Client Research

Revision in consolidated earnings estimates

	Previous		Revised		% Chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	7171	8817	7052	8149	(1.7)	(7.6)
EBITDA margin (%)	8.8	10.3	8.4	10.3	(35.5) bps	(4.1) bps
APAT	418	659	382	577	(8.5)	(12.4)
AEPS	2.6	4.1	2.4	3.6	(8.8)	(12.7)

Source: Kotak Securities - Private Client Research

Company background

Vascon Engineers Ltd (VEL) has presence in construction and development of residential and commercial real estate projects with a history of over 25 years. VEL through its EPC and real estate verticals is active in multiple sectors including residential, industrial, IT parks, malls, multiplexes, hospitality and community. The company has presence in more than 10 states and has completed over 200 contracts of approx 50 mn sqft. In EPC, VEL has expertise across various types of buildings and has capability to execute 8 mn sqft of projects (or Rs 10 bn in value) per annum. In real estate, its land current portfolio includes 30.9 mn sqft of saleable area with VEL's share of 16.2 mn sqft. Its 85% subsidiary, GMP Technicals Solutions is one of the leading players in clean room partitioning systems and turnkey solution provider in India having manufacturing facilities in Baddi, Himachal Pradesh and in Bhiwandi, Thane that is engaged in making fibre doors, aluminum doors & windows, clean room partition & windows, aluminum sections, etc.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	4,812	5,298	7,052	8,149
% change yoy	(18.1)	10.1	33.1	15.6
EBITDA	(158)	(26)	596	836
% change yoy	(143.0)	(83.5)	(2381.7)	40.4
Depreciation	156	143	174	181
EBIT	(315)	(169)	422	656
Other Income	580	379	250	250
Interest	327	253	275	242
Profit Before Tax	(62)	(43)	397	664
% change yoy	(178.0)	(31.1)	-	67.2
Tax	15	4	107	179
as % of EBT	(24.2)	(8.2)	27.0	27.0
PAT	12	46	382	577
% change yoy	(85.8)	284.3	722.4	50.9
Shares outstanding (mn)	168	174	174	174
AEPS (Rs)	0.1	0.3	2.4	3.6
DPS (Rs)	0.0	0.0	0.0	0.0
CEPS (Rs)	1.0	1.1	3.2	4.4
BVPS (Rs)	38.7	38.4	40.6	43.9

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	(62)	(43)	397	664
Depreciation	156	143	174	181
Change in WC	(871)	68	(167)	(447)
Other operating activities	533	(456)	(14)	(86)
Operating Cash Flow	(243)	(288)	389	311
Capex	(230)	(107)	(100)	(100)
Free Cash Flow	(473)	(395)	289	211
Change in Investments	173	194	-	-
Investment cash flow	(56)	87	(100)	(100)
Equity Raised	64	65	-	-
Debt Raised	50	(44)	(400)	(200)
Dividend & others	148	85	-	-
CF from Financing	262	105	(400)	(200)
Change in Cash	(38)	(97)	(111)	11
Opening Cash	702	655	558	447
Closing Cash	665	558	447	458

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	1,677	1,741	1,741	1,741
Reserves	4,808	4,939	5,322	5,899
Net worth	6,485	6,681	7,063	7,640
Borrowings	2,744	2,700	2,300	2,100
Net Deferred tax	(84)	(72)	(72)	(72)
Total Liabilities	9,348	9,490	9,472	9,850
Net block	1,235	1,199	1,125	1,044
Capital work in progress	-	-	-	-
Total fixed assets	1,235	1,199	1,125	1,044
Investments	1,050	856	856	856
Inventories	4,512	4,715	5,313	6,140
Sundry debtors	2,241	2,056	2,860	3,305
Cash and equivalents	665	558	447	458
Loans and advances & Others	1,780	2,173	2,282	2,304
Total current assets	9,197	9,502	10,902	12,207
Sundry creditors and others	3,543	4,007	5,334	6,164
Provisions	149	164	180	198
Total CL & provisions	3,691	4,171	5,514	6,362
Net current assets	5,505	5,331	5,387	5,845
Total Assets	9,348	9,490	9,472	9,850

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	(3.3)	(0.5)	8.4	10.3
EBIT margin (%)	(6.5)	(3.2)	6.0	8.0
Net profit margin (%)	0.3	0.9	5.4	7.1
Adjusted EPS growth (%)	(85.8)	299.4	722.4	50.9
Balance Sheet Ratios				
Receivables (days)	176	148	148	148
Inventory (days)	342	325	275	275
Loans & Advances	85	104	84	74
Payable (days)	269	276	276	276
Cash Conversion Cycle (days)	335	301	231	221
Asset Turnover (x)	0.5	0.6	0.8	0.8
Net Debt/ Equity (x)	0.3	0.3	0.3	0.2
Return Ratios				
RoCE (%)	(3.4)	(1.8)	4.5	6.8
RoE (%)	0.2	0.7	5.6	7.9
Valuation Ratios				
P/E (x)	374.1	93.7	11.4	7.5
P/BV (x)	0.7	0.7	0.7	0.6
EV/EBITDA (x)	(41.7)	(262.2)	11.0	7.6
EV/Sales (x)	1.4	1.3	0.9	0.8

Source: Company, Kotak Securities – Private Client Research

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- 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
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